



ANNUAL REPORT 2016



OUR VALUE PROMISE

GREATER BENEFITS, LOWER COSTS, MEMBER FOCUSED

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We all want healthier and happier lives for our families and ourselves and CBHS Health Fund Limited (CBHS) takes pride in delivering high-quality health and wellbeing services which offer peace of mind at every stage of life.

About CBHS

CBHS was set up in 1951 by the Commonwealth Bank of Australia (CBA Group) to provide its employees with access to affordable health insurance. We have now been serving current and former employees of the CBA Group and their families for 65 years.

We all want healthier and happier lives for our families and ourselves and CBHS Health Fund Limited (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 (CBA Group) to provide its employees with access to affordable and quality health insurance. We have now been serving current and former employees of the CBA Group and their families for 65 years.

At CBHS we know that the service we provide is far more important than how big we are. Today, approximately 92,647 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.

Fundamentally, our insurance products offer members financial security. Our services and programs, however, not only help members

when they become sick, but assist them to improve and maintain 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.

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 claim payout ratios in the industry. In addition to our premiums being competitive, when you do have to make claims, we have a reputation of generally giving 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.

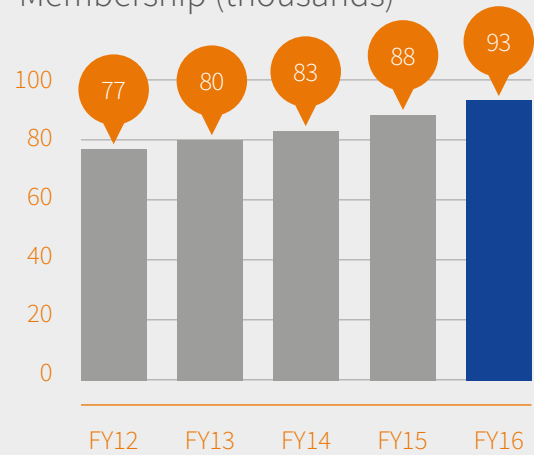
For whatever stage of life you and your family are at, CBHS is there ready to help.



Highlights

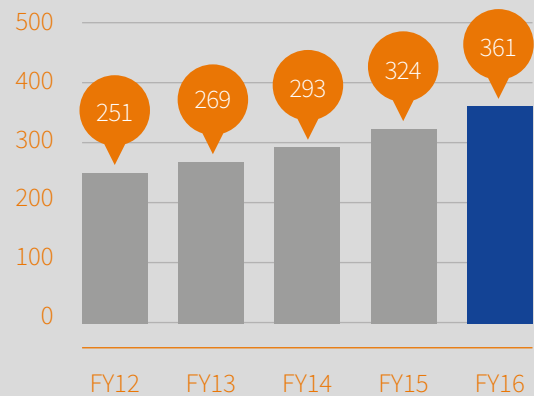
CBHS continues to provide more members with peace of mind, with 93 thousand members covered.

5.1% increase in membership
Membership (thousands)

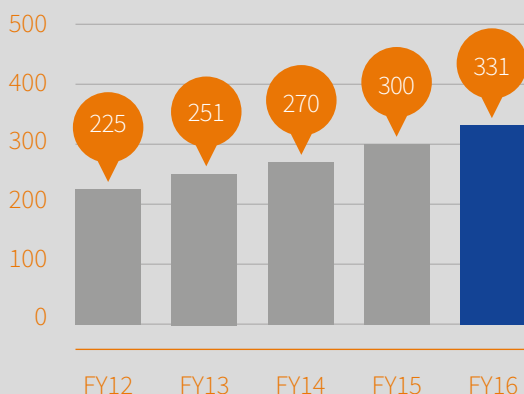


Growth in our membership is better than the industry average and reflects CBHS' compelling value proposition. Increase in premium revenue reflects membership growth, members upgrading to more comprehensive policies and premium increases.

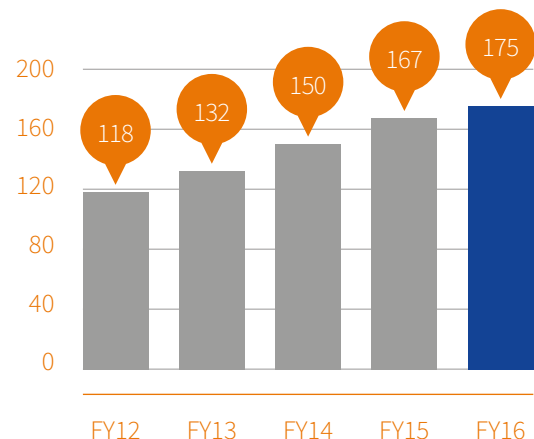
11.3% Increase in premium revenue
Premium revenue (millions)



10.4% Increase in net claims incurred
Net claims incurred (millions)



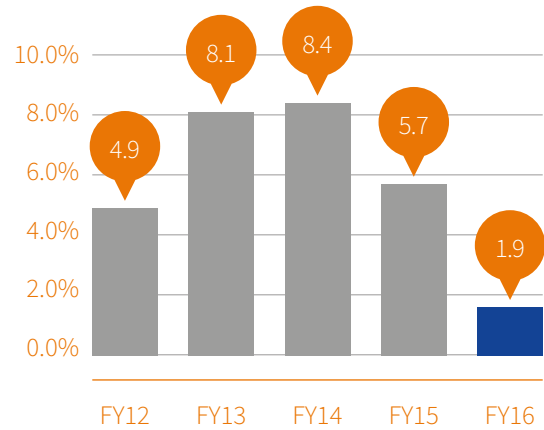
4.6% increase in net assets
Net assets (millions)



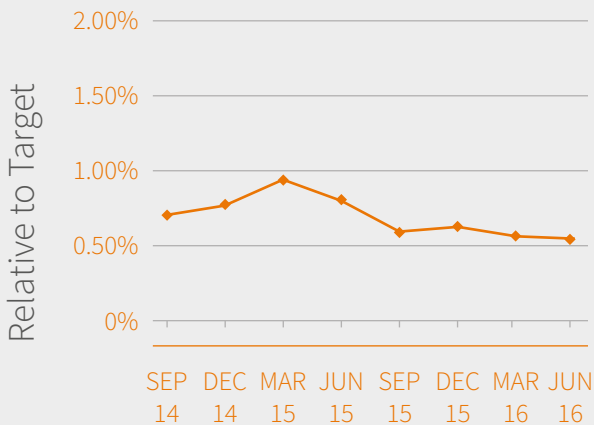


Investment returns for FY16 were impacted by volatility in the equity markets (including “Brexit”) and an overall global shift to a lower interest / yield environment.

1.9% Investment returns in 2016

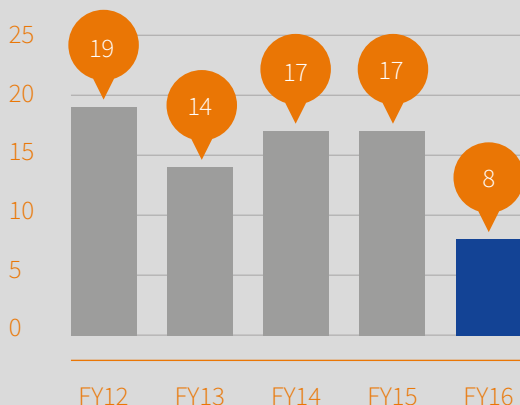


Investment returns relative to target over rolling measurement quarters. As measured over rolling 10 year periods.



The Fund has generated a return in excess of its long-term real return objective. It is not expected that the objective will be met at all times, although the Board believes it is achievable over the long-term.

Surplus decreased by 55.0%
Surplus (millions)



The lower surplus for FY16 comes off the back of two good investment return years. In FY16 we incurred additional costs for strategic initiatives which will deliver better outcomes for our members in the long term.

Five Year History

(in \$'000 unless otherwise indicated)

	2016	2015	2014	2013	2012
INCOME STATEMENT					
Direct premium revenue	360,713	324,147	293,044	269,044	251,488
Benefits incurred	(286,669)	(258,315)	(233,018)	(215,098)	(191,212)
Health benefits risk equalisation trust fund	(39,610)	(37,222)	(33,038)	(32,141)	(30,651)
Government levies	(4,465)	(4,064)	(3,790)	(3,513)	(3,339)
Net claims incurred	(330,744)	(299,601)	(269,846)	(250,752)	(225,202)
Net movement in unexpired risk liability	-	2,154	(2,154)	1,165	200
Management expenses	(26,043)	(21,074)	(19,139)	(18,078)	(14,106)
Underwriting surplus	3,926	5,626	1,905	1,379	12,380
Investment and other income	4,300	12,087	15,858	13,464	7,233
Depreciation and amortisation	(471)	(495)	(500)	(472)	(396)
Operating surplus attributable to members of CBHS	7,755	17,218	17,263	14,371	19,217
BALANCE SHEET					
Current assets	142,713	104,581	88,197	113,009	129,179
Non current assets	116,257	135,437	131,770	85,138	58,543
Total assets	258,970	240,018	219,967	198,147	187,722
Current liabilities	83,665	72,536	69,773	65,132	69,214
Non current liabilities	674	606	537	621	485
Total liabilities	84,339	73,142	70,310	65,753	69,699
Net assets	174,631	166,876	149,657	132,394	118,023
Reserves					
Retained surpluses	174,631	166,876	149,657	132,394	118,023
Total reserves	174,631	166,876	149,657	132,394	118,023



Delivering Value to Members and their Families

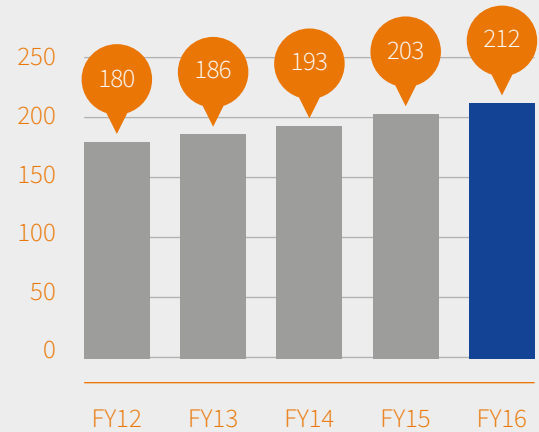
CBHS' member focus ensures we give back more to members than the industry average. In 2016 we paid out over 91 cents in claims* for every premium dollar received.

*Standard industry basis including payment to government Risk Equalisation pool.

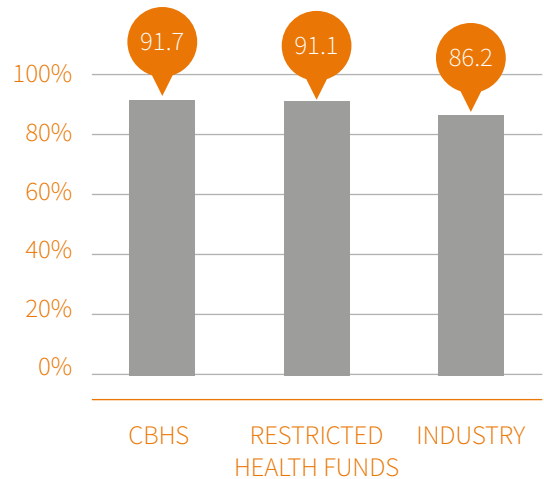
In keeping with our philosophy, we continually look to improve the way we operate. This allows CBHS to maintain one of the lowest cost bases in the industry.

More Members and their Families with peace of mind and experiencing CBHS benefits.

Insured persons (thousands)

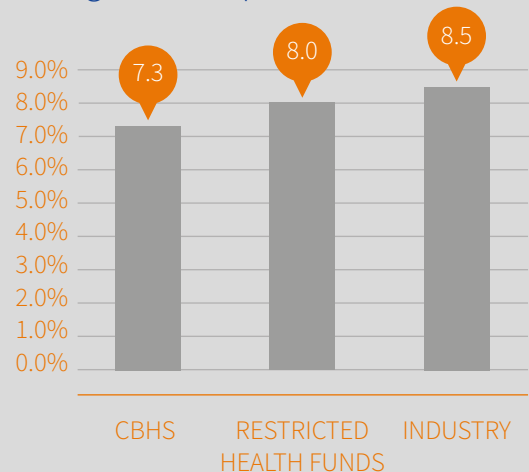


Claims Ratio



Note: Industry data source APRA Private Health Insurance Quarterly Statistical Report

Management Expense Ratio



Note: Industry data source APRA Private Health Insurance Quarterly Statistical Report

Message from the Chairman



It is a privilege to write this, my first report as Chairman of CBHS.

Having been a member of CBHS for almost 50 years, I have seen a great deal of change. What hasn't changed is our determined commitment to provide the very best services and care for fellow members.

Over recent years, we have continued to improve the range of services we offer, to limit our operational costs, and invest in new technology.

Financially, 2015/2016 was quite satisfactory, with revenue of \$360.7 million (up 11.3%), net member assets of \$174.6 million (up 4.6%), and a surplus of \$7.8 million (down 55%). Benefits incurred were \$330.7m (up 10.4%).

Our underwriting result was sound, being only slightly below the very fine margin we, as a “not for profit” member owned fund, target. Investment results show the biggest variation from recent (favourable) years and reflect the unrelenting global move to a lower interest rate and lower yield environment, as well as market volatility (including the Brexit decision that temporarily impacted markets at the end of the financial year). Investments are, however, made with a long-term focus, and our portfolio continues to remain highly defensive in its structure.

We continue to grow – both in policy numbers, and in revenue. We now enjoy the support of 92,647 members – an increase year-on-year of 5.1%. At the same time, we have kept our management expense ratio (7.3%) well below the industry average (8.5%).

Strategically, the year has been a highly successful watershed:

- From 1 July 2015 the regulatory supervision of CBHS (and all other private health insurers) was transferred from the Private Health Insurance Administration Council (PHIAC) to the Australian Prudential Regulation Authority (APRA). This has required us to establish new working relationships and during 2015 we successfully participated in an APRA review of our risk management policies and practices.
- We have recruited a new CEO, after our former CEO (Paul Gladman) decided to spend more time with his family. Paul contributed to improving so many aspects of CBHS over his five years at the helm and I would like to take this opportunity to again thank him.
- Our recruitment process was both lengthy and rigorous, with many quality candidates. Our new CEO, Andrew Smith, joined us in March 2016 with a background working for some of Australia’s well-known consumer brands. His immediate focus is to improve service levels, being more competitive with benefits and opening up the option for many more interactions with members on a digital basis. The Board and I look forward to supporting Andrew in his vision over the coming years, as he looks to further grow CBHS.

- In June, we obtained a new Private Health Insurance (PHI) licence to enable a subsidiary company (CBHS Corporate Health Pty Ltd) to enter the PHI market on an “open” fund basis (ie, without any membership eligibility restrictions). This initiative is aimed at extending the service and product values of CBHS to employees of select corporate customers, in a way that strengthens the role of CBHS while growing the returns to CBHS members, but without reducing the exclusivity of our traditional membership. Please refer to the page 13 for more information.
- We have become a far more active participant in industry and government debate over the many challenges facing the PHI industry. We know that the cost of health insurance, and the confusion that surrounds hospital, doctor and medical services charging in the private health industry are very real issues. They underlie our resolve to always view them through a member’s eyes.

With our strong capital position, sound operating results and watershed strategic initiatives now unfolding I believe, CBHS is in its best position in a decade both financially and strategically to meet the challenges facing the industry. Our recently launched new open PHI fund, CBHS Corporate Health

Pty Ltd, is just one example of such exciting initiatives being worked on and planned for the coming years. Our relationships with regulators, industry associations and other private health insurance industry stakeholders have been further enhanced to ensure that we are more effective in lobbying for the ongoing benefits of our members. Your Board has worked tirelessly to guide and support the management team in these endeavours.

I know the team at CBHS has a well-developed vision, and many plans in place to take CBHS to the next level. As Chairman I am proud to lead the Board and management teams’ dedication to the achievement of member service and value.

I hope you will join me in thanking them for the year that has gone, and for their efforts in the year ahead. In doing so I would also welcome Peter MacCuspie, who was elected to the Board on the 5th November 2015 and acknowledge and thank my predecessor, Ms Kerry Brinkley, for her long time commitment and dedication to CBHS.



Leslie Moth
Chairman



CBHS Corporate Health Pty Ltd

Over the years, CBHS has expanded its membership eligibility to cover ex-employees (in 1996), immediate family members (in 2007), and contractors and franchisees (in 2014).

As from 1st July 2016, CBHS is proud to announce the launch of a new initiative – CBHS Corporate Health Pty Ltd (CBHS Corporate). It is a new ‘open’ health fund operating under its own licence. The concept was seeded by many CBHS members seeking each year an appropriate alternative to family and friends who did not qualify for the exclusive CBHS Health Fund.

CBHS has been careful to protect the exclusivity of its traditional membership by ensuring that the CBHS members’ will continue to receive the best value through the core CBHS Health Fund. CBHS Corporate still remains however, very competitive in the ‘open’ market and uses the same great people, resources and skills that have been so successful in building award-winning products and services for CBHS.

Should CBHS members have family and friends who do not qualify to join CBHS; please encourage them to contact Member Care on 1300 586 462. CBHS Corporate is now a competitive option available to them.

The core focus however, of CBHS Corporate, as its name subtly suggests, involves leveraging our strong relationships with the CBA Group. CBHS Corporate will provide

private health insurance and wellness solutions to business-to-business partners of the CBA Group who value their employee health and well-being.

CBHS has embarked on this important initiative to generate greater scale for CBHS and provide greater opportunity for growth for the CBHS Group. Through this new fund, CBHS will be able to expand into new markets whilst in the medium to longer term produce independent returns that can be used to either lower annual premium increases or provide greater CBHS member benefits.

CBHS Corporate is an investment like any investment of CBHS and the strategic costs of its development have been reflected in this year’s results. Like any investment of CBHS, CBHS Corporate will be required to perform over the long term and will be measured accordingly.

CBHS Corporate is led by Mr Dario Molina the former CFO of CBHS. He is supported by a cross functional team from CBHS who supply services to CBHS Corporate via a managed service agreement.

CBHS is looking forward to the contribution of CBHS Corporate to the growth of the CBHS Group in the years to come.



Message from the Group CEO



I joined CBHS at a time when we have been doing so much right. The work of my predecessors has laid the groundwork for a strong, effective, yet caring organisation with its members' interests at heart.

We should be proud of the quality, the depth and the commitment of the support we provide to the CBA Group employees, past employees, contractors, their families and close relatives.

Everything we do is for our members: whether it is providing peace of mind health cover or for some members providing quality services to improve their health outcomes. Whilst we need a healthy, commercially-oriented business, being a ‘not for profit’ organisation allows us to reinvest any operational surpluses for the benefits of our members, either in the form of lower annual premium increases and/or greater benefits.

My congratulations to all who work at this wonderful organisation. We deliver very high standards of service – something supported by surveys and research. In fact, in June, Choice Magazine recommended CBHS as the best performer nationally in both the Comprehensive Hospital in the Top Hospital with Nil Excess Category, and Top Extras in the Comprehensive Extras Category, for restricted health funds.

Of course, there is always more to be done.

Over the next 12 months, a number of exciting initiatives will be implemented to grow our membership, deliver competitive cover and services, plus align ourselves digitally to meet the growing demand of our members. Just a few are explained below:

1. Working in partnership with the management of the CBA Group to ensure we:
 - a. provide an appropriate ‘on boarding’ experience to new CBA Group employees and their qualifying family.
 - b. proactively engaging all areas of the CBA Group to promote the benefits of CBHS, using Face-to-Face teams, Member Care and digital as key channels.
 - c. support well-being initiatives providing good health outcomes for our membership more broadly.
2. We have listened to our member feedback about providing an alternative option to friends and family who do not qualify for the exclusive CBHS Health Fund. Each year we receive over two thousand requests for such an option. CBHS Corporate Health now gives these people an avenue to receive competitive private health insurance with access to the same award-winning service as CBHS. Core to this new fund is that it leverages our outstanding partnership with the CBA Group and allows us to leverage their corporate partnerships with employers who have a reputation for looking after their employees’ well-being.

Ultimately CBHS Corporate is an investment by CBHS, and over the long-term, we aim to ensure that CBHS members receive returns on that investment, which we in turn can use to either lower annual premium increases or provide greater benefits.

3. Promote better healthcare outcomes for members, by being their trusted health advisor. Already we have successfully trialled CBHS' Recovery at Home Service for some members in 2016, who overall reported a better recovery experience – faster recovery times, less instances of secondary infection and a lower need for further surgery. In 2017, we look to expand this service benefits offering more broadly.
4. Make access to our support and services even easier. In August 2016 we launched our web chat facility which has been well received by members. Moving forward, a mobile, web-based app is planned for release in two phases in late 2016 and early-mid 2017. Ultimately, the app will provide a wealth of information and member services from the convenience of a mobile phone. Not just claims processes or tracking your limits, but access to a library of tips, tailored articles and resources to improve your overall wellbeing. This app – and our website – is part of our broader digital commitment to supporting members before they become ill or injured. Indeed, we will provide the resources and insights to help members prevent illnesses such as diabetes, heart problems, obesity and mental health issues.

Behind the scenes, we continue to build alliances, lobby on behalf of our members and the broader industry, and bolster our marketing efforts – especially to CBA Group employees, and to younger audiences.

I'm excited about a future – and the near future – where we play a role that's more than just providing passive peace of mind; or claims processing. We become part of our members' daily lives – a key partner in their mental, physical and emotional health and well-being.

I thank the team and the Board for their commitment and hard work, I also thank many of our members who have written expressing their personal and sincere appreciation for the support CBHS has provided them and their families. This is what makes us even more determined to help all our members, for whom we exist.



Andrew Smith

Group Chief Executive Officer

Corporate Governance Statement

For the year ended 30 June 2016.

This Corporate Governance Statement for CBHS sets out details of CBHS' corporate governance practices for the year ended 30 June 2016.

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. The Board Charter was last updated in January 2016 and is reviewed no less often than annually. 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, but are not limited to:

- Overseeing and monitoring performance against the CBHS' "corporate strategy;
- Oversight of Executive Management and other appointments;

- Oversight of financial and capital management and reporting requirements;
- The establishment of a Risk Management Framework which assesses, monitors and manages CBHS' key risks;
- Ensuring effective communication with members and other key stakeholders.

The functions performed by the Board are exercised within an appropriate Risk Management Framework. To ensure that decisions are taken quickly and effectively, the Group Chief Executive Officer (Group CEO) and his Executive Management team have been delegated various authorities. These authorities are exercised within an internal control framework.

For the purpose of the Corporate Governance Statement, any reference to a prudential standard is a reference to an Australian Prudential Regulation Authority (APRA) prudential standard.



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 and where in the best interests of CBHS, to adopt the ASX Corporate Governance Principles and Recommendations.

CBHS is committed to keeping its members informed about general developments in corporate governance and the practical impact of those developments for CBHS.

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 Directors' experience, qualifications and attendance at meetings are set out in the Directors' Report. The Constitution allows for up to two non-members of CBHS who were

non-members at their time of appointment to be appointed to the Board. As at 30 June 2016, both of these non-member positions had been filled.

The Board appointed a Non-Director Committee Member to the Asset and Liability Committee on 17 December 2015 as a specialist to assist the Committee with investment decisions.

The Board meets regularly in accordance with an agreed schedule which is finalised prior to the commencement of each calendar year. The Board's meeting agenda is designed to allow appropriate time and consideration to be given to items such as, strategy, governance, risk and operations. In addition to scheduled meetings, special purpose or ad-hoc meetings are held when required and the Board, in addition to considering strategy at each Board meeting attends an annual stand-alone strategy day.

A Director is required to disclose a conflict of interest immediately on becoming aware of the interest to the Group Company Secretary who will notify the other Directors of the conflict as soon as practical. This information is then recorded in the Standing Notice of Interest register which is provided to Directors in their Board papers.

Where a conflict exists the Board will evaluate whether a Director should participate in the consideration of a matter, in accordance with s191 of the Corporations Act 2001.

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



Committees 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 Executive Management in running the business. External 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.

The Constitution was amended in 2003 to provide that the maximum aggregate term of a Director be twelve years. For Directors in office at the time of this amendment, the commencement of the twelve-year period took effect from the close of the Annual General Meeting in November 2003. The Board in line with its Board Performance and Assessment Policy annually assesses its performance, policies and practices along with the skills, experience and expertise that are required to competently discharge the Board's duties.

Directors participate in an induction program upon appointment and receive 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.

Board Relationship with Executive Management

The Board has delegated to the Group CEO and his direct reports the authorities and powers necessary to run the day to day business of CBHS.

The Group CEO may further delegate to the Executive Management team in accordance with the Group Delegations and Guidelines Policy. The Group CEO remains accountable for all authority delegated to Executive Management.



Board Committees

As at 30 June 2016, the Board is supported by three Committees. Each Committee operates under a Charter, approved by the Board, which is reviewed no less often than annually. 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 the Committee meeting.

In November 2015, the Board reviewed the existing committee structure and the requirements for each of these Committees. The review consisted of a review of the skills of the Board and the overall requirements of CBHS, prior to making the following changes:

- The Nomination Committee and the People and Remuneration Committee was replaced with one Committee called the HR Strategy and Governance Committee.
 - The responsibilities of the Nominations Committee were given to the HR Strategy and Governance Committee and to the Board; and
 - The responsibilities of the People and Remuneration Committee were given to the HR Strategy and Governance Committee.

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

Group Audit and Risk Committee

The Group Audit and Risk Committee must have at least three members, all of whom must be non-executive Directors. In accordance with the Governance Standard, the Chairman of the Group Audit and Risk Committee is an independent Director. The Chairman of the Board is not permitted to be Chairman of the Group Audit and Risk Committee. The Group CEO, Executive Management, Appointed Actuary, Internal Auditor and External Auditor attend by invitation.

This Committee became a Group Audit and Risk Committee in April 2016 and undertook the Audit and Risk functions of CBHS Health Fund Limited and CBHS Corporate Health Pty Ltd (CBHS Corporate).

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

In practice, the Group Audit and Risk Committee provides an objective non-executive review of the effectiveness of the external reporting of financial information, the strength of systems, process and control frameworks (including outsourced functions) and the strength and reliability of management practice and internal and external audit services.

The Charter of the Group Audit and Risk Committee meets the requirements for the responsibilities of a Group Audit and Risk Committee set out in the Governance Standard. The Group Audit and Risk



Committee's responsibilities include but are not limited to:

- Review and oversight of Regulatory and Legal Compliance obligations;
- Review and oversight of Financial Reporting, policies and standards;
- Review and management of the External Auditors;
- Review and management of the Internal Auditors; and
- Review and oversight of the Board approved Risk Management Framework.

During the 2016 financial year, the Group Audit and Risk Committee reviewed and engaged with Executive Management to continue to embed the Risk Management Framework into CBHS' culture.

In December 2015 APRA conducted a Risk Management review of CBHS which formed part of a broader 18-month thematic program of risk management reviews within the private health industry. The review conducted as part of this program was intended to provide high level insights about the risk management framework and systems employed by private health insurers, as measured against a range of risk management standards and best practice.

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 the approved annual audit plan. Grant Thornton has a direct reporting line to the Chair of the Group Audit and Risk Committee.

The Internal Audit Charter which is reviewed no less often than annually, sets out the responsibilities of the Internal Auditors which include but are not limited to:

- The development and implementation of an annual audit plan using appropriate risk based methodology;
- Evaluating the effectiveness and contribution to the improvement of risk management processes;
- Assisting the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement;
- Establishing a quality assurance and improvement program for the Internal Audit function; and
- Ensuring the Group Audit and Risk Committee are informed of emerging trends and successful practices in internal auditing.

The Group Audit and Risk Committee relies on the information provided by Executive Management, the Internal Auditor and the External Auditor. A critical part of its oversight function includes meeting separately and on a regular basis with both the External and the Internal Auditors without Executive Management.

The existing External Audit Partner from PwC Australia, Mr Rod Balding will complete his seven year rotation at the end of the 2016 financial year. Preparation has been underway over the last financial year for CBHS to transition to a new External Audit Partner for the 2017 financial year.

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



Asset and Liability Committee

The Board has an Asset and Liability Committee which reflects their responsibility for oversight of Capital Management for CBHS. The Asset and 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 this function by investment advisor, Willis Towers Watson and in the Capital Management function by CBHS' Appointed Actuary, Bevan Damm, from Ernst & Young. As a result of the changes to the PHIAC prudential standards during the 2014 financial year, the Asset and Liability Committee devoted a significant amount of time to the harmonisation of the Capital Management, Investment Management and Liquidity Management Policies. The objective of the exercise was to ensure each of these policies were aligned with each other and the Risk Appetite Statement. This exercise had also included a review of the Capital Management Framework which

had been originally developed during the 2014 financial year. The 2016 financial year saw continued work centred on the Capital Management Framework and a revised Capital Management Framework was completed in April 2016.

HR Strategy and Governance Committee

The Board established a People and Remuneration Committee which was renamed the HR Strategy and Governance Committee in November 2015.

The Charter for the HR Strategy and Governance Committee outlines the Committee responsibilities which include, but are not limited to:

- Ensuring that appropriate people strategies and effective systems, policies and practices are in place;
- Ensuring that key strategic people risks have been identified and are built into the CBHS risk management system;
- Reviewing annually and making recommendations to the Board in relation to the remuneration package, the annual incentive payment and the KPI's of the Group CEO;
- Ensuring the annual remuneration review process for employees is fair, transparent and appropriate;
- Supporting the Board in meeting its Governance Standard obligations; and
- Ensuring that there is an effective succession plan in place for the roles of the Group CEO, each of the Executive Management team and other key roles.



Meetings of the HR Strategy and Governance Committee may also include the Group CEO, Executive Management and other key personnel by invitation.

People and Remuneration Committee (In operation up to 5 November 2015)

Whilst the People and Remuneration Committee was not in operation at 30 June 2016, the principal responsibilities of the People and Remuneration Committee were to:

- Consider and recommend to the Board the remuneration, annual incentive payment and KPI's of the Group CEO;
- Be informed of leadership performance, legislative compliance in employment issues, industrial agreements and workplace health and safety;
- Approve the aggregate of the remuneration adjustments and the performance payment structure for Executive Management;
- Review succession plans for Executive Management;
- Review the remuneration process for general staff; and
- Review internal people related policies.

Meetings of the People and Remuneration Committee included the Group CEO, Executive Management and other key personnel by invitation.

Nomination Committee (In operation up to 5 November 2015)

Whilst the Nomination Committee was not in operation as at 30 June 2016, the principal responsibility had been to review 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 had oversight responsibility with respect to:

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

Meetings of the Nomination Committee included the Group CEO, Executive Management and other key personnel by invitation.



Board and Committee Performance Assessment

In accordance with the Governance Standard, CBHS has a Board Renewal and Assessment Performance Policy to assess (on an annual basis) the performance of the Board, Committees and individual Directors against each of their performance objectives. This Policy was revised in April 2016 and an assessment was undertaken to assist with the identification of any potential skill gaps and to review the two existing Directors who, having retired and being eligible for re-election submitted a nomination for re-election to the Board as part of the 2016 Board election process.

Directors' Remuneration

The aggregate remuneration of independent non-executive Directors is determined by members at the Annual General Meeting, as specified in the Constitution. The Board's aim when recommending an aggregate amount to members, is to recommend an amount which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. Member approval was last received at the Annual General Meeting held on 28 October 2010, where members approved an aggregate remuneration of \$300,000 per annum. The aggregate sum is divided between the Directors as agreed by the Board.

Details of Directors' remuneration are set out in note 20a). A review of the appropriateness of this level of remuneration in light of increased regulations and increased business complexities has resulted in the

Board agreeing to seek member approval for an increase at the 2016 Annual General Meeting. More information with respect to the process undertaken, the rationale and the revised quantum sought is outlined in the Explanatory Memorandum contained in the notice of Annual General Meeting for 2016.

Group Chief Executive Officer Remuneration

The Board, pursuant to the Constitution, establishes the remuneration of the Group CEO as part of the terms and conditions of appointment. Remuneration is reviewed on an annual basis by the Board. The Group 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 Group 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 Executive Managers and promote a high performing culture. 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 HR Strategy and Governance Committee reviews remuneration annually through a process that also considers relevant comparative remuneration in the market.



Executive Management Performance Assessment

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

A performance payment potential is established for each executive and Executive Manager at the commencement of the financial year. A performance payment, where applicable, is an annual payment that relates to performance against a range of targets. Performance payments were made to Executive Managers in October 2015. These payments related to the performance of each employee for the 2015 financial year.

Deed of Indemnity for Directors & Officers

At the 2015 Annual General Meeting, members approved CBHS entering into a revised Deed of Indemnity ("Deed") (in the form tabled at the meeting) with respect to Mr Peter MacCuspie and any future appointed Directors. Deeds 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 clarifies 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. A revised version of the Deed applicable to Officers of CBHS (Officers Deed) 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. An Officers Deed was also entered into with the Group CEO upon his appointment in March 2016.

Risk Management

The Board and Executive Management views risk management as an essential component of CBHS' ability to deliver on its business objectives. To this end the Board and Executive 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. CBHS' risk management approach also allows CBHS to explore the opportunities that can be pursued whilst mitigating the risk.

CBHS also has a comprehensive system of operational risk management and internal control mechanisms. This risk management framework is critical to the safety, reputation and sustainability of the operations of 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 that CBHS takes to ensure risks are appropriately handled. CBHS' Risk Management Framework is based on a "three lines of defence" model. This framework encourages risk ownership by employees and fosters an inclusive risk culture. Independent review of the way in which Executive Management has assessed risks and implemented internal controls within the risk management framework is carried out by Internal Audit.

Both the Board and the Group Audit and Risk Committee receive frequent updates about the management of operational and strategic risk. The Group Audit and Risk Committee also reviews business risks on a regular basis, with Executive Management advising the Committee about the emerging risk environment and management practices during each Group Audit and Risk Committee meeting.

As part of the sign-off for the financial reports, Executive 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 Group 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, a Chief Risk Officer was appointed in September 2014 on secondment from the Commonwealth Bank of Australia for a minimum period of 12 months. This secondment ended in April 2016 and a replacement was appointed in June 2016. The Chief Risk Officer continues to work with the Board, the Group CEO and the Executive Management team to update CBHS' Risk Management Framework, including an updated Risk Appetite Statement approved by the Board in June 2016, and to promote a performance enhancing risk culture across CBHS.

To assist with the continual improvement of CBHS' assurance framework a Compliance Manager was appointed in January 2016.



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.

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.

CBHS reports to the Workplace Gender Equity Agency on an annual basis in order to comply with the Workplace Gender Equality Act 2012 (Report). A copy of this Report was provided to the HR Strategy and Governance Committee in June 2016. The Report confirms that CBHS has formal strategies in place to specifically support gender equality in the areas of recruitment, retention, performance management, promotions,

succession planning, training and development. Three out of seven members of the CBHS Board of Directors are female. Of the twenty-six Management personnel referenced in the Report, forty-two percent are female. With respect to the number of Management Personnel appointed in the last twelve months seventeen percent were female and of the Non-Management Personnel sixty percent were female.

Monitoring

The financial performance of CBHS is monitored through regular Executive Management reporting of performance against budgets. These budgets have been established by Executive 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 financial 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 Executive Management or the Board. These controls have been established by Executive Management and are reviewed by the Group 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 Private Healthcare Australia (PHA). 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 Group CEO and the Chairman and is then submitted to the PHA Code Compliance Committee. CBHS remains compliant with the Code and submitted the necessary certification documentation to the PHA Code Compliance Committee for the 2016 financial year.

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 2016.

Board of Directors

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

- Kerry Maree Brinkley (retired from the Board with effect from 5 November 2015)
- Leslie George Moth (Chairman from 5 November 2015)
- John Eric Matthews (Deputy Chairman from 5 November 2015)
- Terri Anne Benson
- Michelene Hart
- Marielle Desiree Latour
- Peter Andrew MacCuspie (appointed to the Board on 5 November 2015)
- Fintan Benedict Thornton

Information on Directors

Kerry Maree Brinkley

Ms Brinkley has been a member of CBHS since February 1973. Ms Brinkley had been a Director of CBHS since January 1993 and was elected Chairman on 25 November 2008. Ms Brinkley retired from the Board on 5 November 2015 after serving 22 years as a Director of CBHS.

During Ms Brinkley's time as a Director, she served on a number of Committees and at the time of retiring, she held the position of Chairman of the Board and the Nominations Committee and was also a member of the People and Remuneration Committee.



Leslie George Moth

Mr Moth has been a member of CBHS since February 1968. He has been a Director of CBHS since December 2006, was elected Chairman on 5 November 2015 and remains a member of the Asset and Liability Committee. Mr Moth retired from the Commonwealth 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 CBA 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.

John Eric Matthews

Mr Matthews has been a member of CBHS since 1964, a Director since September 2008 and was elected Deputy Chairman on 5th November 2015. He is Chairman of the HR Strategy and Governance Committee (formally known as the People and Remuneration Committee). Mr Matthews retired from the Commonwealth Bank in 2004 after a career of 40 years, during which time he held senior executive positions in Australia and overseas. Mr Matthews has extensive experience in treasury management and human resources and holds several company directorships/committee memberships. Mr Matthews 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.

Terri Anne Benson

Ms Benson was appointed to the Board in May 2015, was elected as the Chairman of the Audit and Risk Committee and is a member of the HR Strategy and Governance Committee (formerly known as the People and Remuneration Committee). Ms Benson has significant experience across the utility sector in both executive and non-executive roles. Ms Benson is currently the Managing Director of Birdon Holdings Pty Ltd (a marine engineering company based in Port Macquarie) and has previously held a number of senior executive positions (including Managing Director at Essential Energy in New South Wales and CEO of Seqwater in Queensland). 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 Company Pty Ltd. Ms Benson brings to CBHS extensive experience in regulated businesses, organisational strategy, business improvement strategy 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. Ms Benson is a member of the Australian Society of Certified Practising Accountants and a graduate of the Australian Institute of Company Directors.



Michelene Hart

Ms Hart has been a Director of CBHS since December 2006, is a member of the Audit and Risk Committee and Chairman of CBHS Corporate. Ms Hart served as the Chair of the Audit and Risk Committee from November 2011 to November 2015 and was a founding member of the Asset and Liability Committee serving on that Committee until January 2016. With over 30 years' experience in financial services and corporate advisory including 15 years spent in senior executive positions with Colonial Limited and Commonwealth Bank, Ms Hart has operated extensively as a Director, Senior Executive and Advisor to boards of numerous companies in the APRA, ASIC (AFSL) and ASX regulated environments.

Ms Hart has broad expertise across strategy, governance, risk management and finance. Ms Hart is currently a co-founder and principal of Yorkway Partners, an independent private investment and advisory firm. In this context Ms Hart represents investors on the board and committees of investee companies. 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 Director since May 2010, is a member of the HR Strategy and Governance Committee (formerly known as the People and Remuneration Committee) and has also been a member of the Audit and Risk and Asset and Liability Committees.

With over 30 years' experience in financial services Ms Latour's professional experience is in consulting, marketing and distribution, strategy, stakeholder management and managing businesses, all gained holding senior executive positions at Commonwealth Bank, Colonial Group, TAL and numerous consulting assignments.

Ms Latour is currently a non-executive Director of My Credit Union Limited, where she is also a member of the Audit and Risk Committees. She holds an Executive MBA, a Bachelor of Economics and is a graduate of the Australian Institute of Company Directors.

Peter Andrew MacCusprie

Mr MacCusprie was elected to the Board in November 2015 and is a member of the audit and Risk Committee. Mr MacCusprie is a professional Director who brings over 20 years' experience as a company Director, having experience in a wide range of industries including finance, information technology, professional services, Agribusiness and the not for profit sector. Some of those former directorships include Big Sky Financial Services, Big Sky Credit Union, Big Sky Building Society and the Australian Medic Alert Foundation. Mr MacCusprie has held a mix of Chair, Deputy Chair and Committee Chair positions. Mr MacCusprie is currently an independent Director on the Boards of each of Dodgshun Medlin Advisory, Strategic Data and Intelomatics Europe Limited. Mr MacCusprie holds a Bachelor of Science (Hons) from the University of Melbourne, a Graduate Diploma of Management and a Fellow of the Australian Institute of Company Directors.



Fintan Benedict Thornton

Mr Thornton was appointed to the Board in November 2012 and is the Chairman of the Asset and Liability Committee. Mr Thornton has over 15 years' financial services experience. Mr Thornton's current role is Head of Strategy & Implementation in Colonial First State's Distribution team. Mr Thornton was previously the Head of Employee Superannuation at the Commonwealth Bank of Australia Group. Prior to joining CBA, Mr Thornton worked as a consulting actuary for Towers Watson and Russell Investments. Mr Thornton's consulting experience is predominantly in superannuation (including complex defined benefit arrangements) where he advised companies and superannuation 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.

Information on Non-Directors Committee Members

Gerard Parlevliet

Mr Parlevliet was appointed to the Asset & Liability Committee in December 2015.

Mr Parlevliet is the Chief Investment Officer of Commonwealth Bank Group Super (Group Super), the \$9.9 billion staff fund for employees of the Commonwealth Bank. Mr Parlevliet leads a small investment team of 5 and in his role, he is responsible for the performance, future strategy and overall management of Group Super's investments. The role is also responsible for monitoring market, competitive, industry, accounting and legal trends that may impact on the investment activities of the Fund.

Mr Parlevliet is also a Company Secretary of the Trustee Company for Group Super and a Responsible Officer for the purposes of the Trustee's AFS license and APRA license. Mr Parlevliet has been involved in the Australian superannuation industry for over 27 years, the last 22 years in senior executive management roles within Group Super. In 2013, Mr Parlevliet was awarded a National Achievement Award as Chief Investment Officer of the Year. Mr Parlevliet holds a Bachelor of Business degree, Diploma of Superannuation Management and Diploma of Financial Planning and is a CPA and a Trustee Fellow of the Association of Superannuation Funds of Australia (ASFA).



Directors' Meetings

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

Directors	Board		Audit & Risk Committee		People & Remuneration Committee	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
K.M Brinkley	2	2	-	1*	1	1
L.G Moth	9	9	1	1	-	-
J.E Matthews	9	9	-	1*	1	1
T.A Benson	9	9	2	3*	1	-
M. Hart	9	9	3	3	-	-
M.D Latour	9	9	1	1	-	-
P.A MacCusprie	7	6	2	2	-	-
F.B Thornton	9	9	1	1	-	-
G. Parlevliet ²	-	-	-	-	-	-

*Attended 1 Audit and Risk Committee meeting as an observer.

Directors	Nominations Committee		HR Strategy & Governance Committee ¹		Asset & Liability Committee	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
K.M Brinkley	1	1	-	-	-	-
L.G Moth	1	1	-	-	4	4
J.E Matthews	1	1	2	2	-	-
T.A Benson	-	-	2	2	-	-
M. Hart	1	1	-	-	2	2
M.D Latour	-	-	2	2	1	1
P.A MacCusprie	-	-	-	-	-	-
F.B Thornton	-	-	-	-	3	3
G. Parlevliet ²	-	-	-	-	2	3**

** Attended 1 Asset & Liability Committee meeting as an observer.

Note: In addition to the Board and Committee meetings a working group was created to assist Management with the establishment of a new Private Health Fund. Various Directors were involved in the working group which met 5 times prior to the formation of a subsidiary Board, which then met 2 times during the financial year ending 20 June 2016

¹ The HR Strategy & Governance Committee was created on 5 November 2015, previously responsibilities of this Committee were held by the Nominations Committee and the People & Remuneration Committee.

² Mr Parlevliet was appointed as a Committee Member to the Asset & Liability Committee on 17 December 2015.

Company Secretary

Ms Belinda Flatters was appointed Company Secretary of CBHS on 18 December 2014 and was subsequently appointed to the dual role of Company Secretary and General Counsel in December 2015. 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 \$7,754,522 (2015: \$17,218,420). 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 Group CEO's message.

Changes in state of affairs

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

Subsequent events

On 1 July 2016 APRA granted approval to operate a new open health fund (Fund) called CBHS Corporate Health Pty Ltd. CBHS has 100% equity interest in the Fund and has subscribed to all shares issued for \$8,100,000, paid up to 54%. The Fund will share some of the resources of CBHS management and infrastructure which will be based on a shared service agreement.

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 external 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 (19) to the accounts.

The Board has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor 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 38 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.



L. G. Moth
Chairman



T. A. Benson
Director

Dated at Sydney 25th day of August 2016



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.



Auditor's Independence Declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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



R Balding
Partner
PricewaterhouseCoopers

Sydney
25 August 2016

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Liability limited by a scheme approved under Professional Standards Legislation.

Statement of Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Direct premium revenue	(3)	360,713	324,147
Direct claims expense		(280,478)	(254,908)
Net movement in outstanding claims liability (claims & other component)		(5,396)	(2,766)
Net movement in outstanding claims liability (risk equalisation component)		(795)	(641)
Health benefits risk equalisation trust fund		(39,610)	(37,222)
Government levies	(5)	(4,465)	(4,064)
Net claims incurred	(2)	(330,744)	(299,601)
Net movement in unexpired risk liability	(16)a)	-	2,154
Salaries and employee benefit expense	(6)	(13,487)	(12,302)
Other underwriting expenses	(6)	(12,556)	(8,772)
Underwriting result		3,926	5,626
Investment income	(3)	8,863	7,146
Fair value (losses)/gains on financial assets at fair value through profit or loss	(4)	(4,652)	4,813
Other income	(3)	89	128
Depreciation and amortisation expense	(6)	(471)	(495)
Operating surplus attributable to members of CBHS		7,755	17,218
Other comprehensive income		-	-
Surplus for the period		7,755	17,218
Total comprehensive income for the year		7,755	17,218

Statement of Financial Position

As at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	(7)	45,560	11,098
Trade and other receivables	(8)	13,153	13,183
Financial assets at fair value through profit or loss	(9)	84,000	80,300
Total current assets		142,713	104,581
Non-current assets			
Financial assets at fair value through profit or loss	(9)	114,723	134,223
Fixture, fittings and equipment	(10)	1,211	1,214
Intangible assets	(11)	323	-
Total non-current assets		116,257	135,437
Total assets		258,970	240,018
Current liabilities			
Trade and other payables	(12)	13,966	10,479
Outstanding claims liability	(14)	38,098	31,907
Unearned premium liability	(15)	29,859	28,443
Provisions	(13)	1,742	1,707
Total current liabilities		83,665	72,536
Non-current liabilities			
Provisions	(13)	674	606
Total non-current liabilities		674	606
Total liabilities		84,339	73,142
Net assets		174,631	166,876
Reserves			
Retained surpluses		174,631	166,876
Total reserves	(17)	174,631	166,876

Statement of Cash Flows

For the year ended 30 June 2016

		2016 \$'000	2015 \$'000
	Notes	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		362,310	325,658
Payments to members, employees and suppliers		(347,142)	(317,812)
Net cash flow provided by operating activities	(7)b	15,168	7,846
Cash flows from investing activities			
Payments for fixture, fittings, equipment and intangibles		(791)	(99)
Interest and investment income received		8,908	7,266
Payments for investments		(10,858)	(19,552)
Redemption from managed fund		22,035	-
Net cash flow used in investing activities		19,294	(12,385)
Increase/(decrease) in cash and cash equivalents		34,462	(4,539)
Cash and cash equivalents at beginning of financial year		11,098	15,637
Cash and cash equivalents at the end of financial year	(7)a	45,560	11,098

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 25 August 2016. The Directors have the power to amend and reissue the financial statements.

Basis of preparation

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

All amounts are presented in Australian dollars. The company is a kind referred to in the ASIC Corporations (rounding in Financial/Directors' Reports) Instrument 2016/191. Amounts have been rounded off in the Financial Report to the nearest thousand dollars or, in certain cases, to the nearest dollar in accordance with that instrument.

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



New Accounting Standards and Interpretations

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

Significant accounting policies

Insurance policies

a. Insurance contracts

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

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

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

b. 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.
- iii. 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.

c. 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.



d. Critical accounting judgements and estimates

In the application of CBHS' accounting policies, management is required to make judgements, 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
14	Outstanding claim liability	60
16	Unexpired risk liability	63

e. 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.



2) Net claims incurred

	2016 Current Year		2015 Prior Year		2016 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	-	255,677	24,801	-	24,801	255,677
Outstanding claims provided for	(32,072)	32,072	1,875	(1,875)	(30,197)	30,197
Risk equalisation and gov't levies paid	-	39,212	4,863	-	4,863	39,212
Risk equalisation and gov't levies provided for	(6,026)	6,026	368	(368)	(5,658)	5,658
Net claims incurred	(38,098)	332,987	31,907	(2,243)	(6,191)	330,744



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.

	2015 Current Year		2014 Prior Year		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 gov't levies paid	-	37,499	3,786	-	3,786	37,499
Risk equalisation and gov't 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



Outstanding claims liability movements are as follows:

	2016 \$'000	2015 \$'000
Opening balance	(31,907)	(28,500)
Prior year claims, risk equalisation and levies paid	29,664	23,511
Write back to profit and loss	(2,243)	(4,989)
Provision established for claims, risk equalisation and levies paid	(38,098)	(31,907)
Closing balance	(38,098)	(31,907)
Net movement	(6,191)	(3,407)

See note 14 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

	2016	2015
	\$'000	\$'000
Direct premium revenue	360,713	324,147
Investment income		
Interest revenue:		
Cash and cash equivalents	448	369
Term deposits	3,228	3,226
Distributions	5,159	3,551
Realised gain on disposal of investments	28	-
Total investment income	8,863	7,146
Other income		
Licence fee & other revenue	89	128
Total other income	89	128

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.

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/(losses) on financial assets

	2016 \$'000	2015 \$'000
Managed share funds gains (a)	(3,510)	4,899
Managed bond fund gains (a)	(510)	(299)
Managed multi assets fund gains (a)	(632)	213
Net (losses)/gains	(4,652)	4,813

a. Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2016.

Recognition and measurement

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

5) Government levies

	2016 \$'000	2015 \$'000
NSW, ACT ambulance levies	4,465	4,064
Total government levies	4,465	4,064



6) Expenses

	2016	2015
	\$'000	\$'000
Salaries and employee benefit expenses		
Salaries, bonuses and other costs	12,483	11,362
Superannuation expense	1,004	940
Total salaries and employee benefit expenses	13,487	12,302
Other underwriting expenses		
Consultant, actuarial, audit and legal fees	3,121	1,488
Information technology	1,863	1,065
Aggregator commissions	1,806	804
Other expenses	807	695
Electronic claims processing fees	928	832
Research, advertising and publicity	910	1,215
Property expense	832	751
Subscriptions for industry and purchasing associations	560	542
Mailing and communication costs	559	509
Staff recruitment fees	465	151
Financial charges and taxes	405	354
Printing and stationery	194	260
Insurance	106	106
Total other underwriting expenses	12,556	8,772
Depreciation and amortisation expenses		
Fixtures, fittings and equipment	471	495
Total depreciation and amortisation expenses	471	495



Recognition and measurement

Employee benefits expense

The accounting policy for liabilities associated with employee benefits is set out in note 13.

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.

7) Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	2,867	2,467
Cash deposits – “24 hour At-Call”	42,692	8,630
Cash on hand	1	1
Total	45,560	11,098

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 unpresented cheques and outstanding remittances from 30 June 2016. 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;

	2016 \$'000	2015 \$'000
Cash and cash equivalents	45,560	11,098
Total cash and cash equivalents	45,560	11,098

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

	2016 \$'000	2015 \$'000
Operating surplus	7,755	17,218
Interest and investment income received & receivable	(8,863)	(7,146)
Depreciation and amortisation	471	495
Net decrement/(increment) arising from the revaluation of current and non-current financial assets	4,652	(4,813)
(Increase)/decrease in current receivables	(44)	(740)
Increase/(decrease) in amount payable for HBREE*	2,769	(972)
Increase/(decrease) in accounts payable and accruals	718	183
Increase in unearned premium liability	1,416	2,067
Increase in outstanding claim liability	6,191	3,407
(Decrease) in unexpired risk liability	-	(2,154)
Increase in current provisions	35	232
Increase/(decrease) in non-current provisions	68	69
Net cash flow from operating activities	15,168	7,846

* 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

	2016 \$'000	2015 \$'000
Premium receivable (a)	11,187	11,369
Investment income receivable	1,309	1,383
Prepayments	320	178
GST recoverable	114	89
Sundry debtors	223	164
Total	13,153	13,183



- a. Premium receivable comprises two components, the Federal Government's Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$8,363,814 (2015: \$8,211,028) and members who pay for their contributions in arrears or who are non-financial \$2,822,496 (2015: \$3,158,655).
- 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. 10% of CBHS' members pay for their contributions in arrears while the other 90% 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.

Premium receivable for members in arrears at year end is made up of approximately 9,355 (2015: 9,983) 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 2016 the amount owing to CBHS from Medicare Australia was \$8,363,814. This amount is guaranteed by the Federal Government.

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

	2016	2015
	\$'000	\$'000
Current assets		
Term deposits (a)	84,000	80,300
Total current assets	84,000	80,300
Non-current assets		
Term deposits (b)	-	9,000
Managed multi assets fund at market value (c)	22,128	10,751
Managed bond funds at market value (d)	41,725	63,205
Managed share funds at market value (e)	50,870	51,267
Total non-current assets	114,723	134,223
Total financial assets at fair value through profit or loss	198,723	214,523

- a. These term deposits have maturity dates ranging from 18 July 2016 to 29 May 2016. The weighted average interest rate on these term deposits is 3.40% (2015: 3.35%).
- b. As at 30 June 2016 CBHS did not hold any term deposits that were classified as non-current assets. The weighted average interest rate on these term deposits is Nil (2015: 6.70%).
- c. As at 30 June 2016 CBHS had \$22,127,661 (2015: \$10,751,495) invested in an externally managed multi asset fund. The funds are managed by a professional fund manager.
- d. As at 30 June 2016 CBHS had \$41,725,345 (2015: \$63,205,449) invested in three externally managed bond funds. The funds are managed by professional fund managers.
- e. As at 30 June 2016 CBHS had \$50,869,778 (2015: \$51,266,987) invested in externally managed share funds. This balance is comprised of one managed Australian share fund (\$15,525,396) (2015: \$15,385,628) and three managed international share funds (\$35,344,382) (2015: \$35,880,359). The funds are managed by professional fund managers.

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.

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).

10) Fixture, fittings and equipment

	2016	2015
	\$'000	\$'000
Gross carrying amount		
Balance as at 1 July	3,045	3,220
Additions	468	99
Disposals	(138)	(273)
Balance as at 30 June	3,375	3,045
Accumulated depreciation		
Balance as at 1 July	1,831	1,609
Disposals	(138)	(273)
Depreciation expense	471	495
Balance as at 30 June	2,164	1,831
Net book value		
Balance as at 30 June	1,211	1,214

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



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) Intangible assets

	2016 \$'000	2015 \$'000
Software		
Gross carrying amount		
Balance as at 1 July	-	-
Additions	323	-
Disposals	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	323	-
Accumulated amortisation		
Balance as at 1 July	-	-
Disposals	-	-
Amortisation expense	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	-	-
Net book value		
Balance as at 30 June 2015	-	-
Balance as at 30 June 2016	323	-

Intangible assets

Software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in the accounting estimate being accounted for on a prospective basis.

Description	Useful life
Software	2-5 years



12) Trade & other payables

	2016	2015
	\$'000	\$'000
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	11,640	8,871
Accruals (b)	1,565	1,169
Trade payables (b)	761	439
Total	13,966	10,479

- a. The credit period provided to CBHS by APRA 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 Risk Equalisation Trust Fund (RETF).

The RETF is an estimated provision 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 final amount payable to the RETF are determined by APRA after the end of each calendar quarter. Estimated provisions for amounts payable are recognised on an accruals basis.

13) Provisions

	2016 \$'000	2015 \$'000
Current provision		
Employee benefits (a)	780	727
Provision for employee performance payments (b)	962	980
Total current provision	1,742	1,707
Non-Current provision		
Employee benefits (c)	674	606
Total non-current provision	674	606
Total provisions	2,416	2,313

- a. The current provision for employee benefits is annual leave accrued and is 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.

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.

14) Outstanding claims provision

a. Outstanding claims liability

	2016	2015
	\$'000	\$'000
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	29,205	24,249
Claims handling costs	881	764
Risk equalisation	6,026	5,231
Risk margin (ii)	1,986	1,663
Gross outstanding claims liability	38,098	31,907

- 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% (2015: 5.50%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2015: 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 0.20% to 0.50% 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.

	2016	2015
Risk margin	5.50%	5.50%

c. Reconciliation of movement

	2016	2015
	\$'000	\$'000
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	31,907	28,500
Claims incurred during the year	330,744	299,600
Claims paid during the year	(324,553)	(296,193)
As at 30 June	38,098	31,907

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:



- 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 24(a).

15) Unearned premium liability

	2016	2015
	\$'000	\$'000
Unearned premium liability as at 1 July	28,443	26,376
Deferral of premiums on contracts written in the period	29,859	28,443
Earning of premiums written in previous periods	(28,443)	(26,376)
Unearned premium liability as at 30 June	29,859	28,443

16) 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 as at 30 June 2016 and it was determined that there was no deficiency to recognised. (2015: no deficiency recognised).



a. Movement recognised in the statement of comprehensive income

	2016 \$'000	2015 \$'000
Gross movement in unexpired risk liability	-	(2,154)
Net movement in unexpired risk liability	-	(2,154)
Total movement recognised in the income statement	-	(2,154)

b. Calculation of deficiency

	2016 \$'000	2015 \$'000
(i) Unearned premium liability component		
Unearned premium liability (A)	28,404	26,861
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	27,049	25,811
Risk margin of 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C)	729	697
Net deficiency (B+C-A)	-	-
(ii) Unclosed business liability component		
Unclosed business liability (A)	1,455	1,582
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,386	1,520
Risk margin of 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C)	37	41
Net deficiency (B+C-A)	-	-
(iii) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	295,204	269,340
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	281,127	258,810
Risk margin 2.75% on claims cost and 1.5% on management expenses at 75% PoA* (C)	7,586	6,995
Net deficiency (B+C-A)	-	-
Total deficiency (i)+(ii)+(iii)	-	-

* Probability of Adequacy



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 24(b).

17) Total reserves

	2016 \$'000	2015 \$'000
Retained surplus		
Balance at beginning of financial year	166,876	149,658
Operating surplus	7,755	17,218
Total retained surplus end of financial year	174,631	166,876
Balance at end of financial year	174,631	166,876



18) Related Parties

During the year five of the seven Directors of CBHS were members of the Fund while the other two Directors were not 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.

19) Remuneration of auditors

	2016	2015
	\$	\$
Audit of the financial statements, statutory returns and regulatory requirements	142,290	135,500
Non-audit services	8,250	11,660
Total	150,540	147,160

The auditor of CBHS is PricewaterhouseCoopers.

20) Remuneration of Directors and other key management personnel

a. Directors remuneration

	2016	2015
	\$	\$
Short-term employment benefits	271,102	249,315
Post-employment benefits (9.50% statutory superannuation guarantee)	18,119	20,239
Total Directors remuneration	289,221	269,554

b. Other key management personnel remuneration

	2016	2015
	\$	\$
Short-term employment benefits	1,856,711	1,544,519
Post-employment benefits (9.50% statutory superannuation guarantee)	136,105	134,253
Total key management personnel remuneration	1,992,816	1,678,772
Total Directors and other key management personnel remuneration	2,282,037	1,948,326



21) 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).

22) Contingent liability

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

23) Lease Commitments

Non-cancellable operating leases

CBHS leases office space under a non-cancellable operating lease which expires in 6 years. The lease has varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated.

	2016	2015
	\$'000	\$'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	459	919
Total	2,755	3,215

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.

24) 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 2016 \$'000	Key Variable 2015 \$'000
Estimated Medical and Ancillary Incurred Claims Cost	\$11,022	\$10,072
Estimated Hospital Incurred Claims Cost	\$14,339	\$12,295
Claims Handling Expense – Hospital	2.5%	2.5%
Claims Handling Expense – Medical and Ancillary	5.0%	5.0%
Risk equalisation (Outstanding Claims Component)	23.0%	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

	Key Variable Change	Changes in Outstanding Claims Component*	Key Variable Change	Changes in Outstanding Claims Component*
	2016 %	2016 \$'000	2015 %	2015 \$'000
Incurring claims	+10	3,086	+10	2,686
	-10	(3,086)	-10	(2,686)
Expense rate	+10	91	+10	76
	-10	(91)	-10	(76)
Risk equalisation (OSC Component)	+10	727	+10	515
	-10	(727)	-10	(515)

*Excludes risk margin

b. Unexpired risk liability

Actuarial assumptions

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

Estimate	Key Variable 2016 \$'000	Key Variable 2015 \$'000
Estimated Claims Cost	\$258,108	\$234,523
Risk equalisation (relating to above estimated claim)	13.0%	15.2%
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.

	2016	2015
Risk margin	2.75%	2.75%



Sensitivity analysis

Summary

CBHS conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed.

Impact of changes in key variables

	Key Variable Change	Changes in unexpired Risk Component*	Key Variable Change	Changes in unexpired Risk Component*
	2016 %	2016 \$'000	2015 %	2015 \$'000
Estimated Claims Cost	+10	19,613	+10	20,218
	-10	-	-10	-
Risk equalisation (relating to above estimated claim)	+10	-	+10	-
	-10	-	-10	-

* Excludes risk margin

25) 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' risk management framework include the:

- Audit and Risk Committee's responsibility is to assist the Board fulfil its statutory and fiduciary duties relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance;
- Asset and Liability Committee's responsibility to monitor investment-related activities;
- annual endorsement of a Risk Management Plan which sets out the ways in which CBHS will mitigate strategic and operational risks;
- monitoring and management of risk through the utilisation of risk management software; and



- various internal policies, procedures and information systems including:
 - CBHS Management’s regular assessment and reporting on key risks. Risk profiles are reviewed regularly and where necessary policies and procedures are implemented to mitigate the risk;
 - the specific identification and addressing of insurance risk within the CBHS risk profile;
 - the Internal Audit function which provides management and the Board independent assurance of the internal control environment;
 - the annual Management Certification and Representation Questionnaire provides the Board from management about the accuracy of the representation of financial data and the effectiveness of internal controls;
 - an investment strategy heavily weighted to defensive investment assets and capital preservation;
 - the monitoring and review of compliance with Solvency and Capital Adequacy standards as required by the Private Health Insurance (Prudential Supervision) Act 2015, and the strategic benchmarks set by the Board;
 - the setting of key performance indicators under the annual Business Plan together with the monitoring and re-forecasting of targets throughout the course of the year;
 - a product design and approval process that includes sign-off by business units (Marketing, Finance and Operations), the Appointed Actuary and Legal prior to Board approval;
 - a rigorous pricing review;
 - review and approval of the budget and forecast/s compiled by management; and
 - continuous monitoring of performance against budget and forecast/s.

Insurance Risk

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

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



Concentration Risk

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

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

Credit Risk

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

CBHS is exposed to credit risk through the operation of its Private Health Insurance business and management of its financial assets (credit risk of financial assets is addressed in note 27 (f).

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

Interest Rate Risk

CBHS interest rate risk is limited to those of its financial assets in note 27 (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 27.

26) Segment information

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

27) Financial instruments

a. Capital risk management

Capital adequacy and solvency standards are established by APRA, and are an integral component of the regulatory reporting framework. APRA issues Solvency and Capital Adequacy Standards (Prudential Standard HPS 100 Solvency Standard (HPS 100) and Prudential Standard HPS 110 Capital Adequacy (HPS 110), 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 Statement which defines the Board's investment beliefs, a strategic asset allocation and specific rules around investments; and
- A Liquidity Management Plan 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 Group 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 2016 the fair value of investments with a fixed interest rate was \$84,000,000 (2015: \$89,300,000).

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

	Weighted average effective interest		
	rate %	2016 \$'000	2015 \$'000
Cash deposits – “24 hour at call”	2.26	42,692	8,630
Term deposits designated at fair value through profit or loss	3.40	84,000	89,300

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)	
	2016	2015
	\$'000	\$'000
+0.25% (25 basis points) per annum	210	223
-0.25% (25 basis points) per annum	(210)	(223)

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)	
	2016	2015
	\$'000	\$'000
+5% per annum	5,966	5,523
-5% per annum	(5,966)	(5,523)

f. Credit risk management

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

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



Credit exposure by credit rating

	2016 \$'000	2015 \$'000
Cash and cash equivalents		
A series rating	42,692	8,630
B series rating	-	-
Unrated	-	-
Financial assets at fair value through the profit or loss		
A series rating	84,000	89,300
B series rating	-	-
Unrated	114,723	125,223
Total	198,723	214,523

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

	2016 \$'000	2015 \$'000
Carrying amount of financial instruments designated as at “fair value through profit or loss”	84,000	89,300
Principal amount of financial instruments designated as at “fair value through profit or loss”	84,000	89,300
Cumulative changes in fair value attributed to changes in credit risk	(150)	(149)
Changes in fair value attributable to changes in credit risk recognised during the period	(1)	139

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 Group Chief Executive Officer and Chief Financial Officer. CBHS manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. CBHS continues to review its Capital Management Plan to assist in managing the company’s medium and long term funding and liquidity requirements.



Liquidity and interest risk tables

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

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
	\$'000	\$'000	\$'000	\$'000	\$'000
2016					
Trade and other payables	1,346	12,170	450	-	-
2015					
Trade and other payables	1,243	9,236	-	-	-

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 2016, all financial instruments held by CBHS were traded in active markets.

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

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- ii. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).



i. Fair value of financial instruments

As at 30 June 2016, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

	Level 1: quoted prices in active markets (i) \$'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
2016				
Assets				
<i>Fair value through profit or loss</i>				
Term deposits	84,000	-	-	84,000
Managed multi asset fund	22,128	-	-	22,128
Managed share funds	50,870	-	-	50,870
Managed bond funds	41,725	-	-	41,725
Total	198,723	-	-	198,723

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:

At 30 June 2016, all financial instruments held by CBHS are traded in active markets, hence level 1. Financial assets are valued using unadjusted quoted prices in active markets for identical assets. Financial assets in this category are managed funds.

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

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

28) Additional company information

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

Level 5, 79 George Street
Parramatta NSW 2150
Tel: (02) 9843-7603

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out between pages 39 and 79 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - ii. giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as when they become due and payable.


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

The Directors have been given the declarations by the Group 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.



L. G. Moth
Chairman



T. A. Benson
Director

Dated at Sydney 25th day of August 2016





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 2016, 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.

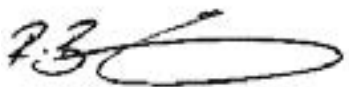
Independence

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 company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.
- a. (b) the company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



R Balding

Partner
PricewaterhouseCoopers

Sydney
25 August 2016

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