



Annual Report 2008

CBHS Health Fund Limited

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CBHS Health Fund Limited

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CBHS Health Fund Limited

ACN 087 648 717
ABN 87 087 648 717

A Registered Private Health Insurer

Registered Office: 10 Pitt Street, Parramatta NSW 2150

Message from the Chairman

CBHS Health Fund Limited

The 2008 financial year has been a year of some significance for the Private Health Insurance Industry. New legislation, a change in the Federal Government, private health fund mergers and acquisitions as well as forecast changes to the Medicare Levy Surcharge and the stock market turmoil. Even so, your health fund has delivered a very sound financial performance. CBHS membership continues to grow (better than industry average), and it remains committed to providing value for money for its members as it strives to deliver exceptional service.

Over the past twelve months, your Board and the management team have focused attention on ensuring members receive a top value proposition which enables them to better manage their health needs.

CBHS is a not-for-profit organisation, and it returns to its members, by way of benefits as much of its contribution revenue that is commercially sustainable. During the past year your Fund processed 641,000 member claims, a 17% increase in volume compared to the previous year, which resulted in \$149 million being returned to members in benefit payments. These payments represented an average of \$2,383 in benefits per membership.

I know it will be of no surprise for you to be told that not only the number but the cost of claims has increased significantly and whilst contribution rate increases are never welcome, your Fund's April 2008 average contribution rate increase was 4.5%, which was lower than the Federal Government's policy position and below the industry average of 4.99%.

CBHS continues to be innovative. During the year a new web site was developed providing members with better access, including online claiming and greater capability for members to self manage their health cover. A new member magazine has been created, titled "Shine", which focuses on providing a wealth of health related information. CBHS has also improved benefits in key services, such as dental and optical, and is establishing a national Optical Choice Network so that members, depending on their level of cover, can experience no gap or lower gap out of pocket service.

The year ahead will be both exciting and challenging for CBHS with the recent introduction of its extended membership eligibility. This widened criterion will enable brothers, sisters, parents and grandchildren of principal members to join the Fund, and in the lead-up to the extended eligibility's launch, your Fund undertook considerable research to ensure exceptional service levels would be maintained and that product benefits were appropriate. Towards this goal, two new packaged products were developed and have been released for member selection. At the time of writing, the campaign to attract new members to the Fund has been very successful and I wish to thank you all for your ongoing support in growing the Fund's membership base which will ensure CBHS' position as a highly valued and respected restricted access private health insurer is sustained to meet the health and wellness needs of its members in the future.

I wish to take this opportunity to thank my fellow Directors for the time given and the workloads they have assumed during the year as well as to acknowledge the tremendous effort undertaken by the CBHS team, on whose shoulders rest the delivery of valuable services to our members and the continuing success of CBHS.

I also wish all our members a happy and healthy year ahead.



Adrian T. Walker
Chairman

Message from the CEO

CBHS Health Fund Limited

In 2007-08 CBHS achieved strong operating and financial performance through ongoing membership growth in a competitive environment, ongoing focus on members' needs, productivity and continued profitability which strengthened its financial stability. CBHS plans to sustain this success for members in the years ahead.

In the past year, membership grew by 5.9%, continuing to exceed average industry growth and reflecting the Fund's excellent value proposition of lower premiums and higher benefits to members. Total membership at year end was 62,617 members. CBHS remains the third largest restricted access health insurer in Australia, covering over 150,000 lives.

Reflecting our not-for-profit status, CBHS returned almost 92 cents in benefits to members, of every premium dollar collected in 2007-08. Benefit payments increased by 13% to \$149.2 million in 2007-08. Member utilisation of health services increased strongly during the year combined with relatively smaller increases in cost inflation associated with those services. CBHS remains committed to more effective health service purchasing arrangements on behalf of its members.

CBHS maintained low management expenses, at only 5.7% of members' contributions; far lower than the industry average of 10.1%. CBHS continues to ensure ongoing operational efficiencies with important investments undertaken during the course of the year in technology and employee skills development.

CBHS achieved an average contribution rate increase lower than the industry average while continuing to pay increased benefits to members over the course of 2007-08.

In 2007-08 CBHS recorded a surplus of \$4.3 million, a 44% reduction compared to 2006-07 results. This drop in the surplus was due to the impact of two 'abnormal' items which require further explanation.

- In May 2008 the Federal Government announced changes to the Medicare levy surcharge income thresholds. The annual income threshold at which the surcharge levy applies was to increase from \$50,000 to \$100,000 for singles and from \$100,000 to \$150,000 for couples from 1 July 2008. At the time of writing this message these changes were yet to come into effect with required legislation, subject to the outcome of a Senate Economic Committee enquiry. The change is expected to have industry wide implications in terms of younger, healthier members exiting health funds with resulting detrimental impacts for all funds. There has been a great deal of media reporting about the likely extent of the impact but it is impossible to predict with any certainty. Due to the nature of its membership profile, CBHS believes it may not be impacted to the same extent as the industry as a whole, however actuarial advice has recommended an increase of \$2.7m in CBHS's provision for future claims under current health insurance contracts, to take account of the proposed government policy change.
- In accordance with Australian Accounting Standards, CBHS has adjusted its book value and taken up an unrealised loss of \$1.5 million, associated with a drop in the market value of bank bills and floating rate notes as at 30 June 2008. The drop in market value is a result of recent volatility in the credit market with the market now demanding a greater reward for holding such instruments. The resulting unrealised losses are paper losses only and would only be realised if CBHS traded the relevant securities prior to maturity. In practice, CBHS holds all securities until maturity.

In the absence of these two 'abnormal' items CBHS achieved an operating surplus of \$8.5 million, an improvement of 9% compared to the 2006-07 result.

CBHS further strengthened its prudential position in 2007-08. Capital reserves continued to grow with net assets up 8% to \$67.3 million and investments increasing 9% to \$87.1 million.

Global financial markets were very volatile in the last three quarters of the financial year. CBHS' investment portfolio remains defensive and achieved a net investment return of \$5.3 million in 2007-08. We aim to balance a responsible financial performance with the need to ensure ongoing commercial sustainability, so that we provide for growth in future member benefit claims and minimise premium increases.

Our customer service performance was enhanced in 2007-08 with the launch of expanded web capability which provides better member access and allows members to make claims online and to manage many aspects of their membership. Greater self service allows members to access details associated with their policy cover at a time most convenient to them.

Message from the CEO (continued)

CBHS Health Fund Limited

Our staff have continued to display a strong commitment to CBHS members and the company over the last year. I thank them for their great work and drive to make CBHS an even more successful and sustainable organisation, as we move into the future.



Keith Stockall
Chief Executive Officer

Results at a Glance

CBHS Health Fund Limited

Premium Revenue
\$162 million

Total Claims
\$149 million

Benefits per Member
\$2,383

Hospital Episodes
31,548

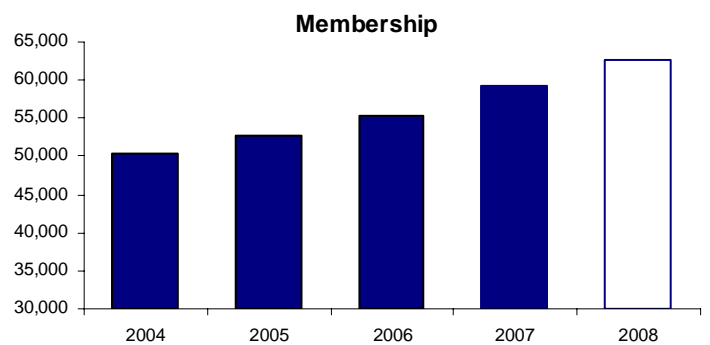
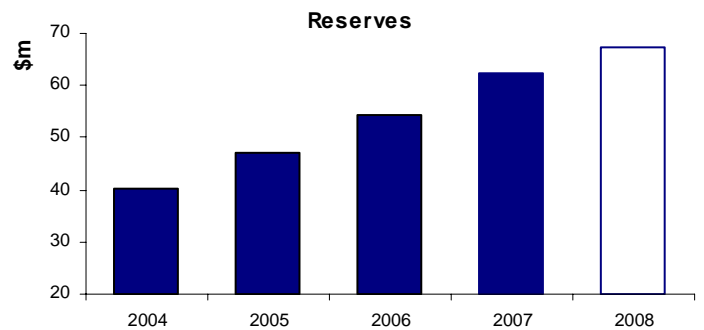
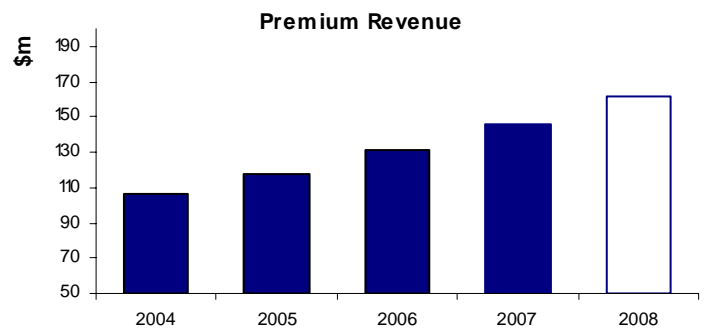
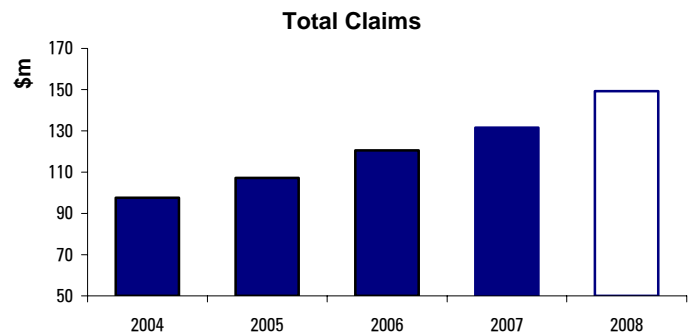
General Services
1,026,306

Surplus
\$4.3 million

Reserves per member
\$1,075

People Covered
150,121

Market Share
1.2 %



Five Year History

CBHS Health Fund Limited

	2008	2007	2006	2005	2004
INCOME STATEMENT					
Premium revenue	161,609,834	145,979,645	131,247,167	117,434,145	106,126,376
Claims expenses					
Fund benefits paid to members	125,231,790	113,669,379	97,449,815	90,416,524	81,840,822
Health benefits risk equalisation trust fund	20,716,290	17,247,404	15,817,526	13,443,801	12,054,001
Net movement in outstanding claims liability	749,747	(1,603,453)	5,154,683	1,499,341	1,974,977
Government levies	2,537,476	2,292,496	2,062,155	1,924,652	1,747,000
Total claims incurred	149,235,303	131,605,826	120,484,179	107,284,318	97,616,800
Net movement in unexpired risk liability	2,693,000	4,116,766	-	-	-
Underwriting expenses	8,757,113	7,639,059	7,189,836	6,125,819	5,563,151
Underwriting profit/(loss)	924,418	2,617,994	3,573,152	4,024,008	2,946,425
Investment and other income	5,322,853	4,063,195	3,451,386	2,959,717	2,276,728
Increase/(decrease) in managed share funds	48,838	1,562,078	472,497	237,671	326,228
Unrealised gains / (losses)	(1,489,498)	-	-	-	-
Other operating expenses	(466,377)	(431,206)	(381,851)	(368,659)	(351,876)
Operating (deficit)/ surplus	4,340,234	7,812,061	7,115,184	6,852,737	5,197,505
Retained surplus at beginning of year	61,926,411	54,114,350	46,999,166	40,146,429	34,948,924
Retained surplus at end of year	66,266,645	61,926,411	54,114,350	46,999,166	40,146,429
BALANCE SHEET					
Current assets	53,055,018	34,639,020	33,401,410	43,002,487	41,766,775
Non current assets	47,470,496	56,429,053	45,611,383	22,202,099	13,774,060
Total assets	100,525,514	91,068,073	79,012,793	65,204,586	55,540,835
Current liabilities	32,882,207	28,220,248	24,241,555	17,706,766	15,170,502
Non current liabilities	347,396	386,274	315,873	243,853	223,904
Total liabilities	33,229,603	28,606,522	24,557,428	17,950,619	15,394,406
Net assets	67,295,911	62,461,551	54,455,365	47,253,967	40,146,429
Reserves					
Asset revaluation reserve	1,029,266	535,140	341,015	254,801	-
Retained surplus	66,266,645	61,926,411	54,114,350	46,999,166	40,146,429
Total reserves	67,295,911	62,461,551	54,455,365	47,253,967	40,146,429
OTHER INFORMATION					
Benefits paid ratio (%)	92.3%	90.2%	91.8%	91.4%	92.0%
Expense ratio (%)	5.7%	5.5%	5.8%	5.5%	5.6%
Return on members' reserves (%)	6.4%*	12.5%	13.1%	14.5%	12.9%
Members	62,617	59,132	55,449	52,754	50,336
Claims processed	631,351	539,464	470,810	426,030	388,908
Reserves per member (\$)	1,075	1,056	982	896	798
Total income per member (\$)	2,667	2,564	2,438	2,287	2,160
Total expenditure per member (\$)	2,597	2,432	2,309	2,157	2,057
Operating surplus/(deficit) per member (\$)	69*	132	128	130	103

* Includes unrealised losses on financial assets and an increase in the unexpired risk liability. See 'Message from the CEO' for further details.

Corporate Governance

CBHS Health Fund Limited

Framework

The role and responsibilities of the Board of Directors (the Board) are set out in the Board Charter. Through this Charter the Board is accountable to Members for the activities and performance of CBHS under the Constitution.

The Board's key responsibility, in partnership with Management, is to set the values, strategic direction, benefit levels and financial objectives of CBHS, within an appropriate risk framework.

The Board has consistently placed importance on the governance of CBHS, which it believes is vital to the well being of the company. CBHS has adopted a comprehensive framework of corporate governance guidelines which are designed to properly balance performance and conformance, and to enhance the trust, respect and confidence of members, employees, providers, regulators and the industry within which CBHS operates.

Board of Directors

The Board comprises seven Directors, all of whom are independent non-executive Directors. Details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report. In accordance with the Constitution, all Directors are members of CBHS.

The Board generally meets monthly with an agenda designed to provide adequate information about the operations of CBHS, to allow the Board to monitor Management and to assist discussion and decisions on strategy. Matters of a strategic nature are given priority on the agenda. In addition, a detailed strategy review is the major focus of at least two meetings of the Board annually.

Directors are required to disclose any conflicts and material personal interests to the Board. The Board, as required, evaluates whether a Director should be able to participate in consideration of a matter by using the mechanism set out in the Constitution and the Corporations Act 2001. Directors regularly review their positions to assist in the avoidance of situations where the interests of the Directors might affect, or appear to affect, decision making by the Board (and to ensure satisfaction of the required "fit and proper" standards for continuing appointment).

A policy has been established and approved by Members which details the basis on which Directors are entitled to obtain access to company documents and information. To assist Directors to maintain their understanding of CBHS business activities and to assess the performance of Management in running the business, Managers brief the Board and its Committees regularly in person. External professionals and consultants also brief the Board and its Committees where appropriate.

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

As specified in the Constitution, Directors are limited to an aggregate term of twelve years. The Board also periodically assesses the skills, experience and expertise that is required to competently discharge the Board's duties, having regard to the strategic direction of the Health Fund.

Directors participate in an induction program upon appointment and in a refresher program on a regular basis. The Board has also established a program of continuing education. This 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 industry.

The Board has in place a process for annually reviewing its performance, policies and practices. These reviews seek to identify where improvements can be made and also assess the quality and effectiveness of information made available to Directors.

Corporate Governance (continued)

CBHS Health Fund Limited

Relationship with Management

The Board has delegated to the Chief Executive Officer (CEO) the authority and powers necessary to achieve the mission of CBHS – namely to, provide a choice of products that meet the needs of members through an exceptional service and value experience.

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

Board Committees

The Board is supported by three committees which meet regularly to consider the audit process, board composition, remuneration and people resources as well as other matters. Each committee operates under a Charter approved by the Board. The Charter of each Committee is reviewed from time to time. Board committees have delegated authority within their Charter of responsibilities and make recommendations to the Board. Activities of each committee are reported to the Board.

Audit Committee

The Charter of the Audit Committee incorporates a number of policies and practices to ensure that the Committee is independent and effective. Among these are assessment with respect to:

- the system of risk management and internal controls that Management has established and the process of internal and external auditor review of internal controls;
- the integrity of Management and external reporting to the regulator;
- compliance with legal and regulatory requirements;
- financial reporting and conformity with accounting standards, other mandatory reporting and statutory requirements; and
- the quality of the accounting policies applied and any other significant judgements made.

The Audit Committee is also responsible for oversight of the preparation of CBHS' Financial Statements and disclosures. The Audit Committee relies on the information provided by Management, the Internal Auditor and the External Auditor. The Audit Committee does not have the duty to plan or conduct audits to determine whether CBHS' Financial Statements and disclosures are complete and accurate.

The Committee periodically meets separately with the external and internal auditors in the absence of Management. In addition, the Committee considers, in the absence of Management and the external auditor, the quality of the information it receives.

In accordance with common practice, the partner of CBHS' external auditor who is responsible for managing the CBHS audit, will be rotated after a period of five years.

Membership of the Audit Committee consists of financially literate non-executive Directors and two have expertise in financial accounting and reporting. The Chairman of the Board is not permitted to be Chairman of the Audit Committee. However, the Chairman of the Board, CEO and other Executive Managers, the Appointed Actuary, the Internal Auditor and External Auditor may attend by invitation.

Nominations Committee

The Committee reviews, at least annually, the corporate governance procedures of CBHS and the composition and effectiveness of the Board. In addition to its role in proposing candidates for director appointment for

Corporate Governance (continued)

CBHS Health Fund Limited

consideration by the Board, the Committee has oversight responsibility with respect to:

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

Independent non executive Directors are subject to re-election at least every three years and new Directors appointed by the Board to fill casual vacancies are required to seek election at the first general meeting of members following their appointment, in accordance with the Constitution.

Directors are provided with a letter from the Chairman confirming the terms of their appointment and relevant Board policies including time commitment, the code of ethics and continuing education.

Meetings of the Nominations Committee may also include the CEO, by invitation.

People & Remuneration Committee

The principal responsibilities of the Committee are to:

- consider and recommend to the Board, the remuneration level of the CEO;
- be informed of leadership performance, legislative compliance in employment issues, industrial agreements and occupational health & safety;
- consider recommendations from Management and report to the Board on changes in people policies and practices; and
- review conditions of employment and the CBHS succession plan for employees, managers and executives.

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

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

Directors' Remuneration

The aggregate remuneration of independent non-executive Directors is determined, from time to time, by a general meeting, as specified in the Constitution and is divided between the Directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. The last determination was at the Annual General Meeting held on 30 November 2006, when members approved an aggregate remuneration of \$200,000 per annum. Details of Directors' remuneration are set out in note 28. Directors fees do not incorporate any bonus or incentive element.

Corporate Governance (continued)

CBHS Health Fund Limited

Chief Executive Officer Remuneration

The Board, pursuant to the Constitution, fixes the remuneration of the CEO as part of the terms and conditions of appointment. Remuneration is reviewed on an annual basis by the Board. The CEO's remuneration includes an appropriate level of "at risk" remuneration in the form of a short term bonus. The short-term bonus is determined by the Board at year end having regard to the performance of the company.

Executive Management Remuneration

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

Directors' and Officers' Insurance

During the financial year CBHS paid a premium in respect of an insurance policy for the benefit of the Directors, the company secretary, officers and employees (as defined by the policy). The premium paid was in respect of a contract insuring all insured persons against a liability (and not including any liabilities for which insurance is prohibited under s199B of the Corporations Act 2001). In accordance with commercial practice, the insurance policy prohibits the disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premiums.

Risk Management

CBHS has a system of effective risk management and controls, which is critical to the safety, reputation and sustainability of the operations of the company and to the security of members' health needs. The Board and Management of CBHS have developed and implemented a risk management framework to mitigate or eliminate the risks faced by CBHS. Operational risk is a basic line management responsibility within CBHS. The Audit Committee, from time to time, reviews the measurement and management of operational risk.

Monitoring

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

Systems

The systems of information technology and internal financial controls are designed to provide assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of Management or the Board. These controls have been established by Management and are reviewed from time to time by the Audit Committee and the Board.

Code of Conduct

CBHS operates under the Private Health Insurance Industry Code of Conduct. The Code forms the basis for the manner in which the people of CBHS perform their work and requires CBHS to operate its business in an open and honest manner with members, employees, providers, the regulator and the health insurance industry.

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

Directors' Report

CBHS Health Fund Limited

The Directors of CBHS Health Fund Limited (CBHS) submit their report together with the financial report of CBHS for the year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Board of Directors

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

Adrian Walker (Chairman)

Kerry Brinkley (Deputy Chairman)

Kevin Bourke

Micheline Hart

Andrea Kohler

Leslie Moth

Ronda Ryan

Information on Directors

Adrian Tolver Walker

Mr Walker has been a member of CBHS since December 1954, a Director of CBHS since November 2001 and appointed as Chairman on 30 November 2006. Mr Walker is a member of the People & Remuneration Committee and Chairman of the Nominations Committee. Mr. Walker retired from the Commonwealth Bank of Australia following a career in excess of 38 years, during which he held several senior executive positions in Australia and overseas.

Kerry Maree Brinkley

Ms Brinkley has been a member of CBHS since February 1973. She has been a Director of CBHS since January 1993, was elected Deputy Chairman on 19 December 2002 and is also Chairman of the People & Remuneration Committee and a member of the Nominations Committee. Ms Brinkley operates her own consultancy specialising in Human Resources and Industrial Relations. Prior to this she occupied the roles of CBA Section Secretary and QLD Branch Secretary (CBA Section) within the Finance Sector Union of Australia and 20 years experience in various roles within the Commonwealth Bank. Ms Brinkley is a graduate of Harvard University, Trade Union Program 1997, which included topics of law, economics and the American Health Systems. She is a member of the Industrial Relations Society, Queensland and a member of the Australian Institute of Company Directors.

Kevin Gerard Bourke

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

Directors' Report (continued)

CBHS Health Fund Limited

Michelene Hart

Ms Hart has been a member of CBHS since April 2005. She has been a Director of CBHS since December 2006 and is a member of the Audit Committee. Prior to Ms Hart leaving the Commonwealth Bank of Australia in 2006 she had 20 years experience within Commonwealth Bank of Australia and the Colonial Group in various senior management roles. Ms Hart was most recently Managing Director – Tidewater Asset Management and a director of Cheviot Kirribilly Vineyard Group, a listed vineyard property trust. Ms Hart is a CPA and holds a Bachelor of Economics, an Executive MBA and a Graduate Diploma in Applied Finance and Investments.

Andrea Nicole Kohler

Ms Kohler has been a member of CBHS since January 1987 except for the period between March 1994 and July 1999 whilst working overseas. She has been a Director of CBHS since May 2000. She is a member of the People & Remuneration Committee and the Audit Committee. Ms Kohler works as a private consultant, primarily in the area of risk management. She holds a Bachelor of Economics degree and is a member of the Australian Institute of Company Directors. Ms Kohler resigned from the Board of CBHS on 18 August 2008 to pursue other business interests.

Leslie George Moth

Mr Moth has been a member of CBHS since February 1968. He has been a Director of CBHS since December 2006 and is a member of the Audit Committee. Mr Moth retired from the Commonwealth Bank of Australia in 2004 following a career spanning 36 years. During this time he performed senior roles in the Commonwealth Bank of Australia, including leadership roles within a number of subsidiary companies of the Commonwealth Bank group. Mr Moth holds a Bachelor of Economics with Honours, is a Fellow of the Financial Services Institute of Australia and a Certified Professional Member of the Australian Human Resources Institute.

Ronda Jan Ryan

Mrs Ryan has been a member of CBHS since July 1997 and has been a Director of CBHS since November 2000. Mrs Ryan is a member of the People & Remuneration Committee and Nominations Committee. She is a Project Manager with a history of managing Projects with a focus on risks and change to successfully deliver results. Mrs Ryan has a Master of Business Administration (MBA) and is also a graduate member of the Australian Institute of Company Directors.

Directors' Meetings

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

Directors	Board		Audit Committee		People & Remuneration Committee		Nominations 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	No. of meetings eligible to attend	No. of meetings attended
K. G. Bourke	10	9	4	4	-	-	1	1
K. M. Brinkley	10	10	-	-	4	4	2	2
M. Hart	10	10	4	4	-	-	-	-
A. N. Kohler	10	10	4	3	4	4	-	-
L. G. Moth	10	10	4	4	-	-	-	-
R. J. Ryan	10	8	-	-	4	4	1	1
A. T. Walker	10	10	-	-	4	4	2	2

Directors' Report (continued)

CBHS Health Fund Limited

Company Secretaries

Mr Hartigan resigned as the Company Secretary on 25 January 2008 and the Chief Executive Officer, Keith Stockall was appointed Company Secretary. Nick Elvin was appointed Company Secretary on 20 June 2008.

Mr Stockall was first appointed Company Secretary in December 1996 and has over 23 years corporate secretariat experience. He is a Fellow of Chartered Secretaries Australia, a Professional National Accountant of the National Institute of Accountants and a graduate member of the Australian Institute of Company Directors.

Following the appointment of Mr Elvin in June 2008, Mr Stockall remains an alternate Company Secretary.

Mr Elvin joined CBHS following a 16 year career in both the public and private sector encompassing areas such as legal and industrial advocacy, industrial relations and human resources account management. He gained strong exposure to corporate governance responsibilities while working at the Commonwealth Bank of Australia. Mr Elvin has a Bachelor of Economics and a Bachelor of Laws, was admitted as a Solicitor of the NSW Supreme Court in 1993 and obtained the Graduate Diploma of Company Secretarial Practice in 2001.

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 a 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 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 \$4,340,234 (2007 \$7,812,061 surplus). 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's and CEO's messages.

Directors' Report (continued)

CBHS Health Fund Limited

Changes in state of affairs

During the financial year there was no significant change in the affairs of the CBHS. Under the provisions of the Private Health Insurance Act 2007, CBHS was registered as a Private Health Insurer in March 2008.

Subsequent events

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

Auditor's independence declaration

The Directors are satisfied that the provision of non-audit services provided to CBHS, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of amounts paid to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements.

The auditor's independence declaration is included on page 15 of the annual report.

Future developments

In May 2008 the Federal Government announced increases in the income threshold levels for the Medicare levy surcharge. This change has yet to come into effect with the matter being considered by a Senate Economic Committee, which is scheduled to report at the end of August 2008. Implementation of the proposed changes is expected to have industry wide implications. Due to the nature of its membership profile, CBHS believes it may not be impacted to the same extent as the industry as a whole, however actuarial advice has recommended an increase of \$2.7m in CBHS's provision for future claims under current health insurance contracts, to take account of the proposed government policy change.

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.



A. T. Walker
Chairman



K. G. Bourke
Director

Dated at Sydney 28th day of August 2008

The Board of Directors
CBHS Health Fund Limited
10 Pitt Street
Parramatta NSW 2150

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28 August 2008

Dear Board Members

CBHS Health Fund Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of CBHS Health Fund Limited.

As lead audit partner for the audit of the financial statements of CBHS Health Fund Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU

Eric Angelucci
Partner
Chartered Accountants

Income Statement for the Financial Year Ended 30 June 2008

CBHS Health Fund Limited

	Notes	2008 \$	2007 \$
Direct premium revenue	2	161,609,834	145,979,645
Net premium revenue		161,609,834	145,979,645
Direct claims expense	3	(125,231,790)	(113,669,379)
Net movement in outstanding claims liability (claims & other component)		(442,080)	1,206,453
Net movement in outstanding claims liability (risk equalisation component)		(307,667)	397,000
Health benefits risk equalisation trust fund		(20,716,290)	(17,247,404)
Government levies	7	(2,537,476)	(2,292,496)
Net claims incurred	4	(149,235,303)	(131,605,826)
Net movement in unexpired risk liability	22(2)	(2,693,000)	(4,116,766)
Salaries and employee benefit expense		(4,823,252)	(4,211,045)
Other underwriting expenses	9	(3,933,861)	(3,428,014)
Underwriting profit/(loss)		924,418	2,617,994
Investment income	5	5,270,412	4,000,798
Fair value gains/(losses) on financial assets at fair value through profit & loss - realised	6	48,838	1,562,078
Other income	5	52,441	62,397
Fair value gains/(losses) on financial assets at fair value through profit & loss - unrealised	6	(1,489,498)	-
Depreciation and amortisation expense	8	(368,731)	(326,084)
Other operating expenses	9	(97,646)	(105,122)
Operating surplus attributable to members of CBHS	23	4,340,234	7,812,061

Notes to the financial statements are included on pages 19 to 48

Balance Sheet

as at 30 June 2008

CBHS Health Fund Limited

	Notes	2008 \$	2007 \$
Current assets			
Cash and cash equivalents	10	6,175,455	3,933,012
Trade and other receivables	11	6,786,985	6,090,942
Financial assets at fair value through profit or loss	12	39,909,243	24,474,772
Other	13	183,335	140,294
Total current assets		53,055,018	34,639,020
Non-current assets			
Financial assets at fair value through profit or loss	14	42,582,966	52,384,556
Property, plant & equipment	15	4,553,543	4,044,497
Intangible assets	16	333,987	-
Total non-current assets		47,470,496	56,429,053
Total assets		100,525,514	91,068,073
Current liabilities			
Trade and other payables	17	6,273,087	4,962,903
Outstanding claims liability	20	14,340,295	13,590,548
Unearned premium liability	21	4,781,586	4,887,487
Unexpired risk liability	22(1)	6,900,902	4,207,902
Provisions	18	586,337	571,408
Total current liabilities		32,882,207	28,220,248
Non-current liabilities			
Provisions	19	347,396	386,274
Total non-current liabilities		347,396	386,274
Total liabilities		33,229,603	28,606,522
Net assets		67,295,911	62,461,551
Reserves			
Assets revaluation reserve		1,029,266	535,140
Retained surpluses		66,266,645	61,926,411
Total reserves	23	67,295,911	62,461,551

Notes to the financial statements are included on pages 19 to 48

Statement of Recognised Income and Expense for the Financial Year Ended 30 June 2008

CBHS Health Fund Limited

		2008	2007
		\$	\$
	Notes		
Net income recognised directly in equity			
Gain on revaluation of building	23	494,126	194,125
Surplus for the period		4,340,234	7,812,061
Total recognised income and expense for the period		4,834,360	8,006,186

Cash Flow Statement for the Financial Year Ended 30 June 2008

		2008	2007
		\$	\$
	Notes	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		161,097,306	144,632,912
Payments to members, employees and suppliers		(156,178,523)	(139,443,641)
Net cash flow provided by operating activities	25(b)	4,918,783	5,189,271
Cash flows from investing activities			
Payments for property, plant and equipment		(369,339)	(223,021)
Proceeds from sale of property, plant & equipment		2,356	756
Payments for intangible assets		(350,653)	-
Interest and investment income received		5,114,838	4,000,798
Net payments for investments		(7,073,542)	(11,146,301)
Net cash flow used in investing activities		(2,676,340)	(7,367,768)
Increase / (decrease) in cash and cash equivalents		2,242,443	(2,178,497)
Cash and cash equivalents at beginning of financial year		3,933,012	6,111,509
Cash and cash equivalents at the end of financial year	25(a)	6,175,455	3,933,012

Notes to the financial statements are included on pages 19 to 48

Notes to the Financial Statements for the Financial Year Ended 30 June 2008

CBHS Health Fund Limited

1. Significant accounting policies

Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with the A-IFRS ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 28 August 2008.

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, unless otherwise noted.

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

Significant accounting policies

a) Trade and other payables

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

b) Financial assets

Investments are recognised and derecognised on trade date where 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 'loans and receivables' and 'financial assets at fair value through profit and 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 (bank bills, floating rate notes, debentures, managed cash funds and managed share funds) as financial assets at fair value through profit or loss since these investments are assets backing general insurance liabilities. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates interest earned on the financial asset.

In estimating the fair value of financial assets CBHS has utilised the market value of these instruments as advised by relevant financial institutions.

Loans and receivables

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

Notes (continued)

CBHS Health Fund Limited

1. Significant accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. 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, 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 carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

c) Property, plant and equipment

Land and building are measured at fair value. Fair value is determined on the basis of an annual independent valuation prepared by external valuation experts, based on the current market selling price. The fair value is recognised in the financial statements and is reviewed at the end of each reporting period to ensure that the carrying value of land and building is not materially different from the fair value.

Any revaluation increase arising on the revaluation of land and building is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and building is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation of the revalued building is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

Plant 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.

Notes (continued)

CBHS Health Fund Limited

1. Significant accounting policies (continued)

Depreciation is provided on property, plant and equipment, including freehold building but excluding land. 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. 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
Buildings	30 years
Computer Equipment	3 years
Furniture and Fittings	7 years
Office Equipment	4 years

d) 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.

e) Employee benefits

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

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by CBHS in respect of services provided by employees up to reporting date.

Defined contributions plans

Contributions to defined contribution superannuation plans are expensed when incurred.

f) Outstanding claims liability

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

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

g) Trade and other receivables

Receivables are recorded at amounts due less any allowances for doubtful debts.

Notes (continued)

CBHS Health Fund Limited

1. Significant accounting policies (continued)

h) Revenue

Premium revenue

Premium revenue is recognised in the income statement when it has been earned on an accrual basis and reflecting risk patterns associated with resultant claims.

The proportion of (1) premium received or receivable but not earned, or (2) receivable and earned, in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability and premium receivable respectively.

Interest revenue

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

i) Goods and services tax

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

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

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

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

Under the Goods and Services Tax Act 1999 subsection 38-55, the majority of CBHS income is GST free.

j) Provisions

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

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

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

k) 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 and have a maturity of three months or less at the date of acquisition.

Notes (continued)

CBHS Health Fund Limited

1. Significant accounting policies (continued)

l) Impairment of long – lived assets

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

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

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

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

m) Liability adequacy test and unexpired risk liability

At each reporting date CBHS assesses whether the insurance liability, in regards to (a) unearned premium liability and (b) insurance contracts renewable before the next pricing review, is sufficient to cover all expected future cash flows relating to future claims. This assessment is referred to as the liability adequacy test and is performed by class of business i.e. hospital and ancillary.

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”.

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

n) Deferred acquisition cost

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

o) Assets backing general insurance liabilities

All investments held by CBHS, which exclude land and building (owner occupied), 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 received are included in interest income.

Notes (continued)

CBHS Health Fund Limited

1. Significant accounting policies (continued)

p) 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 dependant 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.

q) 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.

r) Health Benefits Risk Equalisation Trust Fund

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

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

s) Other underwriting expenses

With the exception of expenses related to the management of the investing activities of CBHS (this includes salary costs related to the time and effort of staff directly involved in managing the investments) all other expenses are classified as underwriting expenses.

t) Intangible assets

Software

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.

The following useful life is used in the calculation of amortisation:

Software	3 years
----------	---------

Notes (continued)

CBHS Health Fund Limited

2. Net premium revenue

2008	Hospital \$	Ancillary \$	Ambulance \$	Total \$
Premium received	103,207,413	57,667,624	83,489	160,958,526
Add movement in premium receivable	271,350	274,058	-	545,408
Add movement in unearned premium liability	52,687	53,213	-	105,900
Net premium revenue	103,531,450	57,994,895	83,489	161,609,834

2007	Hospital \$	Ancillary \$	Ambulance \$	Total \$
Premium received	93,287,095	52,480,082	74,298	145,841,475
Add movement in premium receivable	687,807	653,552	-	1,341,359
(Less) movement in unearned premium liability	(616,958)	(586,231)	-	(1,203,189)
Net premium revenue	93,357,944	52,547,403	74,298	145,979,645

3. Direct claims expense

	2008 \$	2007 \$
Hospital tables	77,227,101	69,436,325
Ancillary tables	47,983,133	44,212,298
Ambulance table	21,556	20,756
Total	125,231,790	113,669,379

4. Net claims incurred

	2008 Current Year		2008 Prior Year		2008 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	-	115,912,642	9,626,817	-	9,626,817	115,912,642
Outstanding claims provided for	(12,060,295)	12,060,295	1,990,731	(1,990,731)	(10,069,564)	10,069,564
Risk equalisation and gov't levies	-	21,311,181	1,634,916	-	1,634,916	21,311,811
Risk equalisation and gov't levies provided for	(2,280,000)	2,280,000	338,084	(338,084)	(1,941,916)	1,941,916
Net claims incurred	(14,340,295)	151,564,118	13,590,548	(2,328,815)	(749,747)	149,235,303

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.

Notes (continued)

CBHS Health Fund Limited

4. Net claims incurred (continued)

Outstanding claims liability movements are as follows:

	2008	2007
	\$	\$
Opening balance	(13,590,548)	(15,194,000)
Prior year claims, risk equalisation and levies paid	11,261,733	12,955,552
Write back to profit and loss	2,328,815	2,238,448
2008 provision established claims, risk equalisation and levies paid	(14,340,295)	(13,590,548)
Closing balance	(14,340,295)	(13,590,548)
Net movement	(749,747)	1,603,452

See Note 20 for detail.

	2007		2007		2007	
	Current Year	Profit and loss	Prior Year	Profit and loss	Total	Profit and loss
	Provision Movement	\$	Provision Movement	\$	Provision Movement	\$
Gross claims expense	-	102,337,667	10,934,711	-	10,934,711	102,337,667
Outstanding claims provided for	(11,617,548)	11,617,548	1,889,289	(1,889,289)	(9,728,259)	9,728,259
Risk equalisation and levies	-	17,916,059	2,020,841	-	2,020,841	17,916,059
Risk equalisation and levies provided for	(1,973,000)	1,973,000	349,159	(349,159)	(1,623,841)	1,623,841
Net claims incurred	(13,590,548)	133,844,274	15,194,000	(2,238,448)	1,603,452	131,605,826

	2008	2007
	\$	\$
5. Investment and other income		
Interest revenue:		
Cash and cash equivalents	471,469	403,796
Bank bills and floating rate notes	4,798,943	3,597,002
Licence fee revenue	52,441	62,397
Total	5,322,853	4,063,195

6. Fair value gains / (losses) on financial assets

Managed share funds gains/(loss) - realised	(478,204)	733,607
Managed cash funds gains/(loss) - realised	527,042	828,471
Bank bills and floating rate notes gains/(loss) – unrealised		
(i) (ii)	(1,489,498)	-
Net increment – gains/(losses)	(1,440,660)	1,562,078

Notes (continued)

CBHS Health Fund Limited

6. Fair value gains / (losses) on financial assets (continued)

- (i) The primary determinant of bank bill and floating rate note (FRN) valuations is the credit spread to bills or the margin at which the financial markets are prepared to trade the relevant paper. Following recent credit market volatility, the market is demanding far greater reward for holding credit instruments and the value of CBHS' existing bank bills and FRNs has fallen as a result.
- (ii) In 2006-07 the market value of bank bills and FRNs was not materially different from the face value of the relevant notes. As a result there were no unrealised gains or losses recognized on the notes.

	2008 \$	2007 \$
7. Government levies		
NSW, ACT ambulance levies	2,460,898	2,219,823
Other levies	76,578	72,673
Total	2,537,476	2,292,496

8. Depreciation and amortisation expense

Depreciation expense

Building	94,125	94,125
Plant and equipment	257,940	231,959

Amortisation expense

Software	16,666	-
Total	368,731	326,084

9. Underwriting and other expenses from ordinary activities

Information technology	601,632	799,954
Financial charges and taxes	142,930	137,902
Postage & telephone	391,725	344,499
Printing and stationery	379,183	346,256
Property expense	162,422	146,447
Research, advertising and publicity	120,161	63,478
(Gain)/Loss on disposal of plant & equipment	(2,354)	5,122
Other expenses	2,235,808	1,689,478
Total	4,031,507	3,533,136

10. Cash and cash equivalents

Cash at bank	1,529,888	860,351
Cash deposits – “24 hour At-Call”	4,645,017	3,072,111
Cash on hand	550	550
Total	6,175,455	3,933,012

Notes (continued)

CBHS Health Fund Limited

11. Current trade and other receivables

	2008	2007
	\$	\$
Premium receivable (i)	5,897,289	5,351,882
Investment income receivable	879,288	723,715
Sundry debtors	10,408	15,345
Total	6,786,985	6,090,942

(i) Premium receivable comprises two components, the Federal Government 30% Private Health Insurance rebate \$3,646,791 (2007: \$3,184,468) and members who pay for their contributions in arrears or who are non-financial \$2,250,498 (2007: \$2,167,414).

- The 30% rebate is accrued on a monthly basis and payment is due and payable within 30 days in the following month. Payment is normally received by the 15th day of the following month.
- The credit period for members who pay their contributions in arrears is 14 days. 14% of CBHS' members pay for their contributions in arrears while the other 71% pay for their contributions in advance. Members who fall into arrears by more than 14 days are not charged interest however they are classified as "non-financial" and no benefit will be paid. CBHS Fund Rules state that if a member is non-financial for more than two months membership may be terminated. Consequently, for members who are non-financial for more than two months, the accrued premium income is reversed out of the profit and loss and no allowance for doubtful debts is provided.

Premium receivable for members in arrears at year end is made up of approximately 14,607 (2007 - 14,445) members. Collection of premium receivable will take place by payroll deduction or direct debit from a member's bank account.

CBHS collects premiums by the following methods: payroll deductions (22% of members), direct debit (72% of members), Bpay (4% of members), and members paying by cheque and cash (2% of members). Default of premium income only occurs with members who pay by direct debit. The default rate per month is approximately 0.54% or 240 members out of 44,800 direct debit payers.

With the exception of Medicare Australia, trade receivables consist of a large number of members spread across geographical areas. Benefits are only payable to members who are financial in respect of their contributions. Medicare Australia is the only significant counterparty as at reporting date. Medicare Australia is the arm of the Federal Government that manages the 30% Private Health Insurance rebate. As at 30 June 2008 the amount owing to CBHS from Medicare Australia was \$3,646,791. This amount is guaranteed by the Federal Government.

Non-financial members - ageing of past due but not impaired

	2008	2007
	\$	\$
1- 30 days overdue	42,863	37,174
30 – 60 days	57,377	17,359

Notes (continued)

CBHS Health Fund Limited

12. Current financial assets at fair value through profit or loss

	2008	2007
	\$	\$
Bank bills and floating rate notes at fair value (i)	25,907,432	11,000,000
Managed cash funds at market value (ii)	14,001,811	13,474,772
Total	39,909,243	24,474,772

(i) As at 30 June 2008 the value of bank bills totaled \$14,961,542 (2007: \$8,000,000). The weighted average interest rate on these bank bills is 7.70% (2007: 6.74%). These bank bills have maturity dates ranging between 1 July 2008 and 14 October 2008.

As at 30 June 2008 the value of floating rate notes totaled \$10,945,890 (2007: \$3,000,000). The weighted average interest rate on these floating rate notes is 8.11% (2007: 6.83%). These floating rate notes have maturity dates ranging between 15 January 2009 and 21 May 2009.

CBHS maintains sufficient cash reserves to enable investment instruments, including bank bills and floating rate notes, to be held till maturity. It is extremely unlikely given these current investment practices that any unrealised losses will be realised. As at 30 June 2008 the fair value of these investments totaled \$25,907,432 (2007: \$11,000,000) which was marked to market.

(ii) As at 30 June 2008 CBHS had \$14,001,811 (2007: \$13,474,772) invested with ING in a managed cash fund. The funds are managed by professional ING fund managers. The return on the investment will fluctuate on a daily basis measured by the unit price. A capital gain or loss is booked into the profit and loss at the end of the month. The value of the investment as at 30 June 2008 is reflective of the fair value as per the unit price as at reporting date.

	2008	2007
	\$	\$
13. Other current assets		
Prepayments	131,128	112,609
GST Recoverable	52,207	27,685
Total	183,335	140,294

	2008	2007
	\$	\$
14. Non-current financial assets at fair value through profit or loss		
Managed share funds at market value (i)	2,906,352	3,384,556
Bank bills & floating rate notes at fair value (ii) (iii)	39,676,614	49,000,000
Total	42,582,966	52,384,556

(i) As at 30 June 2008 CBHS had \$2,906,352 (2007: \$3,384,556) invested with Barclays Global Investors in two managed share funds. \$1,861,893 is invested in an Australian share fund, while \$1,044,459 is invested in an international share fund. The funds are managed by professional fund managers.

(ii) As at 30 June 2008 CBHS had no bank bills with maturity dates of greater than 12 months (2007: \$4,000,000). The weighted average interest rate on these bank bills in 2006-07 was 6.45%.
The value of floating rate notes as at 30 June 2008 totaled \$37,041,114 (2007: \$42,000,000). The weighted average interest rate on these floating rate notes is 8.09% (2007: 6.76%). These floating rate

Notes (continued)

CBHS Health Fund Limited

14. Non-current financial assets at fair value through profit or loss (continued)

notes have maturity dates ranging between 21 September 2009 and 28 March 2012. CBHS maintains sufficient cash reserves to enable investment instruments, including bank bills and floating rate notes to be held till maturity. It is extremely unlikely given these current investment practices that the unrealised losses will be realised. As at 30 June 2008 the indicative market value of these investments totaled \$37,0411,114 which represents the fair value of the investments.

- (iii) As at 30 June 2008 CBHS had a Commonwealth Bank CPI linked investment. The indicative market value is \$2,635,500 (2007 - \$3,000,000) which represents fair value. The weighted average interest rate on this CPI linked investment is 1.75% (2007 - 9%). The performance of this investment is linked to the rate of inflation. Provided that the headline inflation rate stays between 0 and 3.20% the investment will earn 9%. If the headline inflation rate increases above 3.20% but stays below 4.40% the investment will earn between 1% and 9%. If the headline inflation rate increases above 4.40% the return will be 0%.

15. Property, plant and equipment

30 June 2008

	Plant and Equipment	Land	Building	Total
	at cost	at fair value	at fair value	\$
	\$	\$	\$	\$
Gross carrying amount				
Balance as at 30 June 2007 at cost	1,379,003	1,000,000	2,600,000	4,979,003
Additions	366,241	-	-	366,241
Disposals	(59,370)	-	-	(59,370)
Net adjustment from revaluation increment			400,000	400,000
Balance as at 30 June 2008	1,685,874	1,000,000	3,000,000	5,685,874
Accumulated depreciation				
Balance as at 30 June 2007	934,506	-	-	934,506
Disposals	(60,115)	-	-	(60,115)
Depreciation expense	257,940	-	94,125	352,065
Net adjustment from revaluation increment			(94,125)	(94,125)
Balance as at 30 June 2008	1,132,331	-	-	1,132,331
Net book value				
Balance as at 30 June 2007	444,497	1,000,000	2,600,000	4,044,497
Balance as at 30 June 2008	553,543	1,000,000	3,000,000	4,553,543

Notes (continued)

CBHS Health Fund Limited

15. Property, plant and equipment (continued)

30 June 2007

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
Gross carrying amount				
Balance as at 30 June 2006 at cost	1,295,491	1,000,000	2,507,825	4,803,316
Additions	222,265	-	-	222,265
Disposals	(138,753)	-	-	(138,753)
Net adjustment from revaluation increment	-	-	92,175	92,175
Balance as at 30 June 2007	1,379,003	1,000,000	2,600,000	4,979,003
Accumulated depreciation				
Balance as at 30 June 2006	835,056	-	7,825	842,881
Disposals	(132,509)	-	-	(132,509)
Depreciation expense	231,959	-	94,125	326,084
Net adjustment from revaluation increment	-	-	(101,950)	(101,950)
Balance as at 30 June 2007	934,506	-	-	934,506
Net book value				
Balance as at 30 June 2006	460,435	1,000,000	2,500,000	3,960,435
Balance as at 30 June 2007	444,497	1,000,000	2,600,000	4,044,497

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 8 to the financial statements.

Freehold land and building carried at fair value

An independent valuation of land and building was performed by John Virtue Valuers to determine the fair value. The valuation, which conforms to Australian Valuation Standards, was determined by reference to the market selling price. The effective date of the valuation is 30 June 2008.

Had CBHS land and buildings been measured on a historical costs basis, the carrying amount would have been as follows:

	2008 \$	2007 \$
Freehold land	1,000,000	1,000,000
Buildings	1,970,734	2,064,860

Notes (continued)

CBHS Health Fund Limited

16. Intangible assets

	Software	Total
	\$	\$
Gross carrying amount		
Balance as at 30 June 2007 at cost	-	-
Additions	350,653	350,653
Disposals	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2008	350,653	350,653
Accumulated amortisation		
Balance as at 30 June 2007	-	-
Disposals	-	-
Amortisation expense	16,666	16,666
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2008	16,666	16,666
Net book value		
Balance as at 30 June 2007	-	-
Balance as at 30 June 2008	333,987	333,987

	2008	2007
	\$	\$
17. Current trade & other payables		
Amounts due to the Health Benefits Risk Equalisation		
Trust Fund (i)	5,520,963	4,437,626
Accruals (ii)	608,440	416,076
Trade payables (ii)	143,684	109,201
Total	6,273,087	4,962,903

- (i) The credit period provided to CBHS by PHIAC for amounts due to the Health Benefits Risk Equalisation Trust Fund is 70 days from the incurred date being the last day of every quarter. Thereafter, interest is charged at 15% on the outstanding balance. CBHS has financial procedures in place to ensure this payment is made by the due date.
- (ii) For other trade creditors, the credit period on purchases of goods and services is up to 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged at 9%, however this only applies to no more than four trade suppliers. CBHS has financial procedures in place to ensure these payments are made by the due date.

	2008	2007
	\$	\$
18. Current provisions		
Employee benefits (i)	225,368	136,596
Provision for employee performance payments (Note 24)	360,969	434,812
Total	586,337	571,408

- (i) The current provision for employee benefits includes \$225,368 of annual leave accrued and expected to be taken within 12 months.

Notes (continued)

CBHS Health Fund Limited

19. Non-current provisions

	2008	2007
	\$	\$
Employee benefits	347,396	386,274
Total	347,396	386,274

20. Outstanding claims provision

(a) Outstanding claims liability

	2008	2007
	\$	\$
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	10,880,295	10,437,548
Risk margin (ii)	810,000	827,000
Claims handling costs	370,000	353,000
Risk equalisation	2,280,000	1,973,000
Gross outstanding claims liability	14,340,295	13,590,548

- (i) The expected future payments are not discounted due to an insignificant tail period.
- (ii) The risk margin of 6.00% (2007: 6.48%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2007: 75%). While the risk margin has decreased as a percentage of the underlying liability there has been no change to the application of the 75% probability of adequacy.

(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 the three main classes of benefits combined; hospital, medical and general (ancillary) benefits. 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 on an empirical basis as well as on the basis of the differences being normally distributed, providing 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 rare. Most activity in hospital and medical benefits after more than 12 months of the date of service are reversals due to workers compensation settlements. This activity is usually around 0.2% to 0.25% of total incurred claims in a month. (Health insurers usually pay claims that are likely to be subject to workers compensation when the claimant gives an undertaking that the benefits will be repaid to the insurer upon the workers compensation settlement). Also around 0.5% of ancillary benefit services for which benefit is 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.

	2008	2007
Risk margin	6.00%	6.48%

Notes (continued)

CBHS Health Fund Limited

20. Outstanding claims provision (continued)

	2008	2007
	\$	\$
(c) Reconciliation of movement		
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	13,590,548	15,194,000
Claims incurred during the year	149,235,303	131,605,826
Claims paid during the year	(148,485,556)	(133,209,278)
As at 30 June	14,340,295	13,590,548

21. Unearned premium liability

	2008	2007
	\$	\$
Unearned premium liability as at 1 July	4,887,487	3,684,297
Deferral of premiums on contracts written in the period	4,781,586	4,887,487
Earning of premiums written in previous periods	(4,887,487)	(3,684,297)
Unearned premium liability as at 30 June	4,781,586	4,887,487

22. Unexpired risk liability

In performing the liability adequacy test, CBHS takes into account (a) unearned premium liability and (b) insurance contracts to be renewed before next pricing review.

CBHS assessed the adequacy of the above items by considering the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in this estimate. If this present value exceeds the recorded liabilities, then the insurance liabilities are deficient. Any deficiency shall be recognised in the income statement and will be recorded as "Unexpired Risk Liability" in the balance sheet.

CBHS has recognised a further \$2,693,000 in the unexpired risk liability as at 30 June 2008 (2007: \$4,116,766).

	2008	2007
	\$	\$
(1) Unexpired risk liability		
Unexpired risk liability as at 1 July	4,207,902	91,136
Recognition of additional risk liability in the period	2,693,000	4,116,766
Unexpired risk liability as at 30 June	6,900,902	4,207,902
Unexpired risk liability includes a risk margin of 3.0% (2007: 3.63%)		

Notes (continued)

CBHS Health Fund Limited

22. Unexpired risk liability (continued)

	2008	2007
	\$	\$
(2) Deficiency recognised in the income statement		
Gross movement in unexpired risk liability	2,693,000	4,116,766
Net movement in unexpired risk liability	<u>2,693,000</u>	<u>4,116,766</u>
Total deficiency recognised in the income statement	<u>(2,693,000)</u>	<u>(4,116,766)</u>
(3) Calculation of deficiency		
(a) Unearned premium liability component		
Unearned premium liability (A)	4,256,000	4,102,487
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	4,220,000	4,068,773
Risk margin of 3.0% at 75% PoA* (C) (2007: 3.63%)	<u>127,000</u>	<u>147,696</u>
Net deficiency (B+C-A)	<u>(91,000)</u>	<u>(113,982)</u>
(b) Unclosed business liability component		
Unclosed business liability (A)	526,000	785,000
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	526,000	785,000
Risk margin of 3.0% at 75% PoA* (C)	<u>15,000</u>	<u>30,000</u>
Net deficiency (B+C-A)	<u>(15,000)</u>	<u>(30,000)</u>
(c) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	132,069,000	117,635,715
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	134,819,322	117,436,683
Risk margin 3.0% at 75% PoA* (C)	<u>4,044,580</u>	<u>4,262,952</u>
Net deficiency (B+C-A)	<u>(6,794,902)</u>	<u>(4,063,920)</u>
Total deficiency (a)+(b)+(c)	<u>(6,900,902)</u>	<u>(4,207,902)</u>

* Probability of Adequacy

CBHS has two classes of business (i.e. hospital and ancillary). The above liability adequacy test was performed for each class of business, and it was identified that a deficiency existed in hospital product category and a surplus in ancillary product category.

Notes (continued)

CBHS Health Fund Limited

23. Total reserves	2008	2007
Assets revaluation reserve	\$	\$
Balance at beginning of financial year	535,140	341,015
Revaluation increments	494,126	194,125
Balance at end of financial year	<u>1,029,266</u>	<u>535,140</u>

The asset revaluation reserve comprises revaluations of land and building.

Retained surplus

Balance at beginning of financial year	61,926,411	54,114,350
Operating surplus	4,340,234	7,812,061
Total retained surplus end of financial year	<u>66,266,645</u>	<u>61,926,411</u>
Balance at end of financial year	<u>67,295,911</u>	<u>62,461,551</u>

24. Provisions

	Provision for Employee Performance Payments
	\$
Balance as at 30 June 2007	434,812
Reductions arising from payment or usage	(283,095)
Excess provision transferred back to profit & loss	(151,717)
Additional provision recognised	<u>360,969</u>
Balance as at 30 June 2008 (i)	<u>360,969</u>

- (i) The provision for employee performance payments includes \$360,969 expected to be paid within 12 months.

25. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

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

	2008	2007
	\$	\$
Cash and cash equivalents	6,175,455	3,933,012
Total	<u>6,175,455</u>	<u>3,933,012</u>

Notes (continued)

CBHS Health Fund Limited

25. Notes to the cash flow statement (continued)

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

	\$	\$
Operating surplus	4,340,234	7,812,061
Interest received and receivable	(5,270,412)	(4,000,798)
Depreciation and amortisation	368,731	326,084
Net increment arising from the revaluation of current and non-current financial assets	1,440,660	(1,562,077)
Increase in current receivables	(540,470)	(1,424,212)
Increase in other current assets	(43,041)	(10,881)
Increase in amount payable for HBREE*	1,083,337	87,626
Increase in accounts payable and accruals	226,847	198,835
(Decrease)/Increase in unearned premium liability	(105,901)	1,203,190
Increase/(Decrease) in outstanding claim liability	749,747	(1,603,452)
Increase in unexpired risk liability	2,693,000	4,116,766
Increase/(Decrease) in current provisions	14,929	(24,272)
(Decrease)/Increase in non current provisions	(38,878)	70,401
Total	4,918,783	5,189,271

* HBREE - Health Benefits Risk Equalisation Expense

26. Related parties

Transactions with Directors

All Directors participate as members of CBHS under normal terms and conditions. As such they make contributions and receive benefits on terms and conditions no more favourable than those available to other members.

	2008 \$	2007 \$
27. Remuneration of auditors		
Auditing the financial report	92,500	74,954
Other audit services	27,000	26,500
Other non-audit services	5,000	4,137
Total	124,500	105,591

The auditor of CBHS is Deloitte Touche Tohmatsu.

Notes (continued)

CBHS Health Fund Limited

28. Remuneration of Directors' and other key management personnel

The Directors of CBHS during the year were:

- K G Bourke
- K M Brinkley
- M Hart
- A N Kohler
- L G Moth
- R J Ryan
- A T Walker

Other key management personnel of CBHS were:

- K D Stockall Chief Executive Officer and Company Secretary
- M L Coombs Chief Financial Officer, appointed in April 2008
- D B Milligan General Manager Marketing & Operations
- N A Elvin Company Secretary, appointed in June 2008
- J Hartigan Company Secretary, resigned in January 2008
- J Terzis Executive Manager Financial Services
- L Casmiri Executive Manager Technology and Support Services

Directors remuneration	2008	2007
	\$	\$
Short-term employment benefits	166,149	138,055
Post-employment benefits (9% statutory superannuation guarantee)	14,953	12,425
Total directors remuneration	181,102	150,480
Other key management personnel remuneration		
Short-term employment benefits	760,035	674,110
Post-employment benefits (9% statutory superannuation guarantee)	68,243	56,007
Total key management personnel remuneration	828,278	730,117
Total directors and other key management personnel remuneration	1,009,380	880,597

29. 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).

30. Contingent liability

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

31. Critical accounting judgements and estimates

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

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

Critical judgements in applying the entity's accounting policies

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

(a) Outstanding claims liability

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

The estimated cost of claims includes direct expenses to be incurred in settling claims and any risk equalisation related to the hospital and medical portion of claims. CBHS takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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 CBHS 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 32(1).

Notes (continued)

CBHS Health Fund Limited

31. Critical accounting judgements and estimates (continued)

(b) Unexpired risk liability

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

Details of specific assumptions used in deriving the unexpired risk liability during the year are detailed in note 32(2).

32. Actuarial assumptions and methods

(1) 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
Estimated Medical and Ancillary Incurred Claims Cost for June 2008	\$5,480,000
Estimated Hospital Incurred Claims Cost for June 2008	\$5,620,000
Claims Handling Expense – Hospital	2.5% of claims
Claims Handling Expense – Medical and Ancillary	5.0% of claims
Risk equalisation (Outstanding Claims Component)	27% of Hospital and Medical claims

Process used to determine assumptions

Hospital & 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.

Notes (continued)

CBHS Health Fund Limited

32. Actuarial assumptions and methods (continued)

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*
Incurred claims for June 2008	+10%	\$1,330,000
	-10%	(\$1,330,000)
Expense rate	+10%	\$37,000
	-10%	(\$37,000)
Risk equalisation (OSC Component)	+10%	\$228,000
	-10%	(\$228,000)

*Excludes IFRS risk margin

(2) 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 next pricing review.

Estimate	Key Variable
Estimated Claims Cost	\$101,920,000
Risk equalisation (relating to above estimated claim)	\$19,540,000
Risk margin	\$3,880,000

Process used to determine assumptions

Estimated Claim 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.

Notes (continued)

CBHS Health Fund Limited

32. Actuarial assumptions and methods (continued)

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.

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*
Estimated Claims Cost	+10%	\$6,630,000
	-10%	(\$6,630,000)
Risk equalisation (relating to above estimated claim)	+10%	\$2,040,000
	-10%	(\$2,040,000)

*Excludes risk margin

33. 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. Notes on CBHS policies and procedures in respect of managing risks are set out in this note:

a. Development of claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period.

b. Interest rate risk

None of the financial assets or liabilities from insurance contracts entered into by CBHS are directly exposed to interest rate risk. Insurance contracts are entered into weekly, monthly or annually. Contribution rates are reviewed annually.

c. Credit risk

Financial assets and liabilities from insurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date. There are no significant concentrations of credit risk.

Notes (continued)

CBHS Health Fund Limited

34. Segment information

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

35. Financial instruments

(a) Capital Risk Management

The capital structure of CBHS consists of cash and cash equivalents and reserves attributable to the members of the Health Fund.

CBHS manages its capital to ensure that it will be able to:

- continue as a going concern;
- fund ongoing returns to members via growth in health benefits and minimisation of future increases in contribution rates; and
- meet the capital adequacy requirements set by PHIAC.

The capital risk management strategy remains unchanged from 2007.

(b) Significant accounting policies

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

(c) Financial risk management objective

CBHS principal financial instruments comprise receivables, payables, short-term deposits, short and long term cash investments and units in managed share and cash 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 fair value, interest rate and price risk), cash flow risk, credit risk and liquidity risk. CBHS uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risks and assessments of market forecasts for interest rates. Ageing analyses are monitored to manage credit risk and liquidity risk is monitored through the development of rolling cash flow forecasts.

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

There has been no change to CBHS' exposure to financial risks or the manner in which it manages and measures the risks from the previous year.

(d) Interest rate risk management

CBHS is exposed to interest rate risk on its investment portfolio and bank deposits. The investment portfolio comprises both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rates of interest. As at 30 June 2008 the fair value of investments with a fixed interest rate was \$14,961,100 (2007: \$12,000,000) while the fair value of investments with a floating interest rate was \$50,622,503 (2007: \$48,000,000).

Notes (continued)

CBHS Health Fund Limited

35. Financial instruments (continued)

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

	Weighted average effective interest rate	2008	2007
	%	\$	\$
Cash deposits – “24 hour at call”	7.15%	4,645,017	3,072,111
Bank bills & Floating Rate Notes designated at fair value through profit or loss	7.97%	62,948,546	57,000,000
CPI Linked Note (note 14(iii))	1.75%	2,635,500	3,000,000

Interest rate sensitivity analysis

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

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

	Surplus Higher/(Lower)	
	2008	2007
	\$	\$
+0.25% (25 basis points) per annum	130,000	130,000
-0.25% (25 basis points) per annum	(130,000)	(130,000)

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

(f) Other price risks

CBHS is exposed to price risks arising from its investments in ING managed cash funds and in Barclays Global Investors managed share funds. These investments are held for strategic rather than trading purposes. For details on risk exposure and risk management policies with respect to such investments, refer to Notes 12 and 14.

Notes (continued)

CBHS Health Fund Limited

35. Financial instruments (continued)

Price risk sensitivity - managed cash fund

The sensitivity analyses below have been determined based on the movement in the yield curve at the reporting date. At reporting date, if the yield curve 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)	
	2008	2007
	\$	\$
+0.25% per annum	2,714	2,614
-0.25% per annum	(2,714)	(2,614)

Price risk sensitivity - managed share fund

The sensitivity analyses below have been determined based on the exposure to unit price risks at the reporting date. At reporting date, if the unit prices of the managed cash fund and managed share fund 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)	
	2008	2007
	\$	\$
+5% per annum	145,057	168,924
-5% per annum	(145,057)	(168,924)

(g) 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 are subject to Board approved counterparty limits. In relation to counterparty limits the Board has approved that 100% of cash investments may be invested with Tier 1 financial institutions (major four banks) with up to 50% of funds able to be invested with a single Tier 1 counter party. Up to 30% of cash investments may be invested with Tier 2 financial institutions with a minimum credit rating of BBB+.

The quality of trade and other receivables have been discussed under Notes 11, 12 and 14.

Notes (continued)

CBHS Health Fund Limited

35. Financial instruments (continued)

The following investments with individual counterparties exceed 5% of net assets at either 30 June 2008 or 30 June 2007:

Counterparty	2008 \$	2007 \$
Commonwealth Bank	29,827,190	27,111,875
ING	14,001,813	13,474,771
ANZ	10,857,080	13,000,000
St George Bank	7,031,100	-
Westpac	6,527,436	8,700,000
Adelaide Bank	6,748,560	-
Suncorp	5,239,653	5,260,236
NAB	3,997,600	4,000,000
Barclays Global Investors	-	3,384,555

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

	2008 \$'000	2007 \$'000
Carrying amount of financial instruments designated as at "fair value through profit or loss"	65,584	60,000
Principal amount of financial instruments designated as at "fair value through profit or loss"	67,000	60,000
Cumulative changes in fair value attributed to changes in credit risk	1,014	-
Changes in fair value attributable to changes in credit risk recognised during the period	1,014	-

At reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount reflected above represents CBHS maximum exposure to credit risk for such loans and receivables.

(h) Liquidity risk management

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

Notes (continued)

CBHS Health Fund Limited

Liquidity and interest risk tables

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

	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
2008					
Trade and other payables	624,284	6,129,403	-	-	-
2007					
Trade and other payables	974,601	4,853,702	-	-	-

(i) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Quoted prices

Financial assets in this category include floating rate notes, bank bills and managed share and cash funds.

The directors consider that the carrying amounts of the financial assets and liabilities in the financial statements approximate the fair values. Note 1(b) provides further details on the fair value of financial assets.

36. Adoption of new and revised Accounting Standards

In the current year, CBHS has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in changes to CBHS' accounting policies and has not affected the amounts reported in current or prior years.

CBHS also adopted the following standards as listed below which only impacted on CBHS' financial statement with respect to disclosure.

- AASB101 "Presentation of Financial Statements" revised September 2007.
- AASB7 "Financial Instruments: Disclosures"

Notes (continued)

CBHS Health Fund Limited

36. Adoption of new and revised Accounting Standards (continued)

At the date of authorisation of the financial report, the following Standards and Interpretations were not an issue for CBHS:

- | | |
|---|---|
| • AASB Interpretation 12 'Service Concession Arrangements' | Effective for annual reporting periods beginning on or after 1 January 2008 |
| • AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' | Effective for annual reporting periods beginning on or after 1 January 2008 |
| • AASB Interpretation 13 'Customer Loyalty Programmes' | Effective for annual reporting periods beginning on or after 1 July 2008 |
| • AASB 123 'Borrowing Costs' (revised) | Effective for annual reporting periods beginning on or after 1 January 2009 |
| • AASB 2008-2 'Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation' | Effective for annual reporting periods beginning on or after 1 January 2009 |
| • IFRS 3 'Business Combinations' and IAS 27 'Separate and Consolidated Financial Statements' | Effective for annual reporting periods beginning on or after 1 July 2009 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on CBHS' financial statements.

These Standards and Interpretations will be first applied in the financial report of CBHS that relates to the annual reporting period beginning after the effective date of each pronouncement.

37. Solvency Reserve

The Solvency Reserve, with respect to the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$6,842,000. Net assets are \$67,297,000 representing an excess of \$60,455,000 over the Solvency Reserve.

38. Additional company information

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

Registered Office

10 Pitt Street
PARRAMATTA NSW 2150
Tel: (02) 9843-7666

Principal Place of Business

10 Pitt Street
PARRAMATTA NSW 2150
Tel (02) 9843-7666

Directors' Declaration

CBHS Health Fund Limited

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that CBHS will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of CBHS;

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



A. T. Walker
Chairman



K. G. Bourke
Director

Dated at Sydney 28th day of August 2008

Independent Auditor's Report to the Members of CBHS Health Fund Limited

We have audited the accompanying financial report of CBHS Health Fund Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 16 to 49.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

Deloitte.



Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of CBHS Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the fund's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.


DELOITTE TOUCHE TOHMATSU


Eric Angelucci
Partner
Chartered Accountants
Parramatta, 28 August 2008