



Annual Report 2009

**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

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# Message from the Chairman

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## CBHS Health Fund Limited

2008-09 was a year of economic and financial turmoil as well as regulatory change and consolidation in the private health insurance industry. Notwithstanding the uncertainty associated with this widespread environmental change, CBHS remained strongly focused on its core business and ended the year in a sound financial and operational position. CBHS recorded a surplus of \$8.6m in 2008-09, increasing member reserves to \$75 million or \$1,126 per member.

As a not-for-profit organisation CBHS will always recognise the interests of members as its priority and attempts to return, by way of benefits, as much of its contribution revenue as is commercially sustainable. During the past year the Fund processed 706,000 member claims, a 12% increase in volume compared to the previous year. A total of \$169 million was returned to members in the form of benefit payments. These payments represented an average of \$2,520 in benefits per membership.

The eligibility criteria for membership of the Fund was extended in July 2008 to allow brothers, sisters, parents and grandchildren of principal members of CBHS to join the Fund. I am pleased to inform you that the year-long campaign to attract new members to the Fund has been very successful and I wish to thank members and staff for their ongoing support. Your advocacy of CBHS to potential new members in 2008-09 provided a strong endorsement of CBHS' products and our value proposition. During 2009-10 we will again look to secure your advocacy in growing our membership base. Continued membership growth will assist us to ensure that CBHS' reputation as a highly valued and respected private health insurer is maintained and that the Fund continues to very effectively meet its obligations to the health and wellness needs of its members in the future.

During the year the Board reviewed the Fund's underwriting profitability in light of increasing benefit costs and adopted a target underwriting margin. Consistent with its value proposition and not-for-profit status, CBHS aims to make a small underwriting surplus each year to ensure growth in capital reserves to support both future membership growth and to manage periods of poor underwriting results.

At CBHS, we have never lost sight of the fact that reserves belong to our members and need to be managed responsibly in the interests of all members. CBHS aims to balance a responsible financial performance with the need to ensure ongoing commercial sustainability, so that we can provide for the growing number of claims, implement improvements to benefit structures and minimise premium increases. To this end, CBHS reviewed its Capital Management Plan during the year to assist in managing the company's medium to long-term capital and liquidity requirements. The Board has endorsed a strategic investment asset allocation aimed at protecting capital reserves, meeting the claims of members and ensuring stable premium increases. A review of CBHS' Investment Policy is nearing completion and will guide future responsible investment of capital reserves. The Board also established an Investment Committee to oversee all investment related activities going forward.

CBHS is not a listed entity but the Board endeavours as much as possible to conform to the corporate governance principles and standards as specified by the ASX Corporate Governance Council in 2007. The Board has adopted a comprehensive framework of corporate governance guidelines which is reviewed on a regular basis. During 2008-09 the Board undertook a review of the Fund's Constitution and a revised Constitution will be presented to members at the 2009 Annual General Meeting.

The year ahead will be challenging for CBHS as we anticipate continuing strong growth in benefit costs, sluggish domestic economic conditions and uncertainty in global financial markets. In these difficult and unpredictable times, you can be assured that we are committed to meeting our member's health insurance needs and that your Board and management team are focused on the Fund's long term commercial sustainability. In 2009-10 we will ensure that the value members expect from CBHS is maintained. We will provide products that are competitively priced, complimented by benefits that meet our member's needs. We will continue to improve members ease of access to their health fund through enhanced web site functionality, continue to focus on containing management expenses to levels well below the industry average and look to provide better ways for members to manage their health needs.

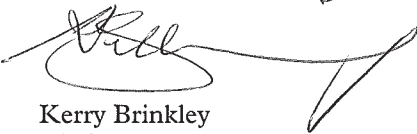
## Message from the Chairman (continued)

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CBHS Health Fund Limited

I would like to thank my fellow Directors for their hard work and commitment during the year. I would like to acknowledge the tremendous contribution and tireless efforts of the entire CBHS team. This dedicated group ensures the delivery of accurate, timely and friendly service to our members and is essential to the ongoing success of CBHS.

I wish all our members and staff good health during the coming year.



Kerry Brinkley  
Chairman

# Message from the CEO

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## CBHS Health Fund Limited

In 2008-09 membership of CBHS grew strongly by 7.1%. We believe this is an outstanding result given financial pressure on member households and ongoing strong competition in the private health insurance market. Membership growth continued to exceed average industry growth and reflects our value proposition of lower premiums, higher benefits and excellent service to members. Total membership at year end was 67,050 members. CBHS remains the third largest restricted access health insurer in Australia, providing national coverage for over 160,000 lives.

Following changes in June 2008 to membership eligibility criteria, we successfully launched CBHS to member's families. Membership take up by family members throughout the year has been excellent and I wish to thank members for their strong support of the Fund.

In 2008-09 CBHS' surplus of \$8.6 million was a 98% increase compared to 2007-08 results. This increase in profitability, however, is largely due to a write back in the unexpired risk liability. If adjustments to the unexpired risk liability are excluded for comparative purposes, CBHS surplus would have been \$4.1 million (or a 42% reduction compared to adjusted 2007-08 results). Both underwriting and investment results were adversely affected which impacted on CBHS' operational results.

CBHS experienced unprecedented growth in member benefit payments in 2008-09, particularly in relation to hospital services. While premium income grew by almost 12% over the year through a combination of contribution rate increases and membership growth, this was outstripped by a 13% growth in benefit payments. Underwriting profitability (excluding adjustments to the unexpired risk liability) fell almost 59% compared to the prior year.

The Fund has experienced sizeable increases in costs associated with orthopaedics, cardiac, circulatory and respiratory and obesity related services. This is consistent with experience across the private health insurance industry generally and reflects the increasing financial impact of lifestyle related illnesses and the ageing of the population on the health system.

In order for the Fund to remain sustainable over the long term we will need to rebalance product pricing and benefit structures over time to manage escalating benefit costs. Through this process we remain committed to maintaining a strong value proposition for our members through very competitive pricing and benefits and excellent member service.

CBHS maintained low management expenses, at 5.9% of members' contributions; far lower than the industry average of 9.8%. We were able to accommodate strong membership growth in 2008-09 with no increase in operational staffing levels and no reduction in service quality. This reflects the benefits of ongoing investment in technology and employee skills. CBHS remains committed to a low cost operating model and ensuring ongoing operational efficiencies. Low operating costs are an important factor in the Fund being able to return more to members in terms of benefits.

Like most financial services companies, CBHS' investment earnings were adversely impacted by the Global Financial Crisis in 2008-09. Notwithstanding the strongly defensive position of our investment portfolio, we achieved an investment result of \$3.0 million for the year. Importantly for members, CBHS' prudential position was preserved with no overall losses in capital through investment activities. Capital reserves continued to grow with net assets up 12% to \$75 million and investments increasing 6% to \$93 million through operating cash flows and asset appreciation.

Our member satisfaction survey for 2008-09 recorded the highest score in the last four years and our membership retention levels remain above industry experience. Looking forward with the aim to maintaining these good outcomes, we will provide better access for members to manage their policy cover at a time most convenient to them. We will focus on providing information that is relevant to you, we will continue to review our benefits structure and ensure that we are not distracted from delivering exceptional service.

In May 2009 the Federal Government announced changes to the 30% rebate on private health insurance premiums and the Medicare Levy Surcharge arrangements to take effect from 1 July 2010. Implementation of the proposed changes is expected to have an industry wide and ongoing impact on membership levels. Until the final legislative changes are known, it will be difficult to predict potential changes in member/consumer behaviour and the likely impact on CBHS.

## Message from the CEO (continued)

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CBHS Health Fund Limited

In terms of business outlook, we expect the next 12 to 18 months to be a difficult operating environment. Despite our excellent value proposition and strong member loyalty, CBHS will not be immune from a combination of depressed economic conditions, ongoing volatility in global financial markets and the proposed changes to financial support arrangements for private health insurance.

Finally, I would like to extend my thanks to the employees of CBHS who continue to display a strong commitment in putting our members interests first in everything they do. I congratulate the entire team on the performance they have achieved in challenging operating circumstances.



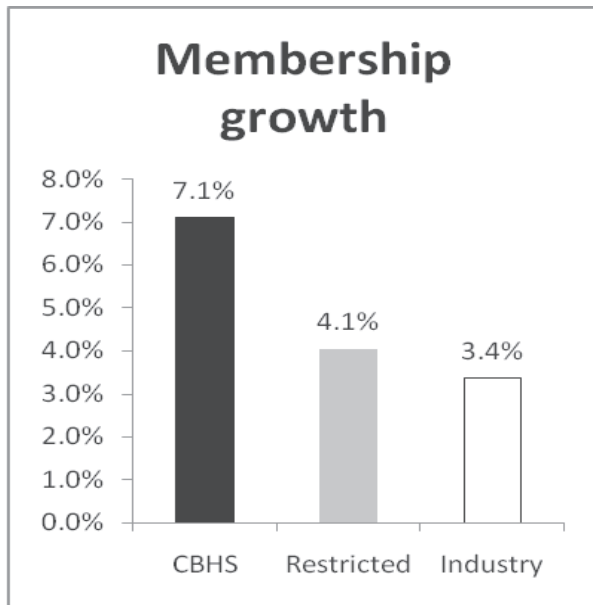
Keith Stockall  
Chief Executive Officer

# CBHS Value Proposition: Lower Prices, Better Benefits and Excellent Service

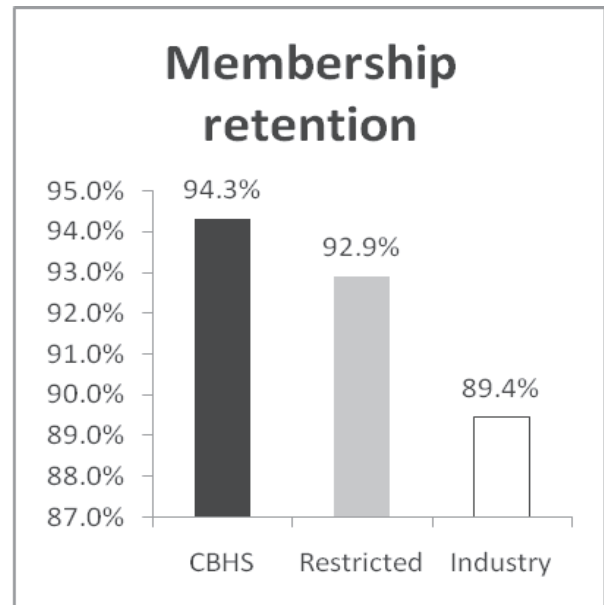
## CBHS Health Fund Limited

'Restricted' data represents restricted access health insurers. These are funds like CBHS which are not open to the general public and whose membership is restricted to defined groups like teachers, policemen, members of the armed forces and rail and transport workers or specific geographical areas.

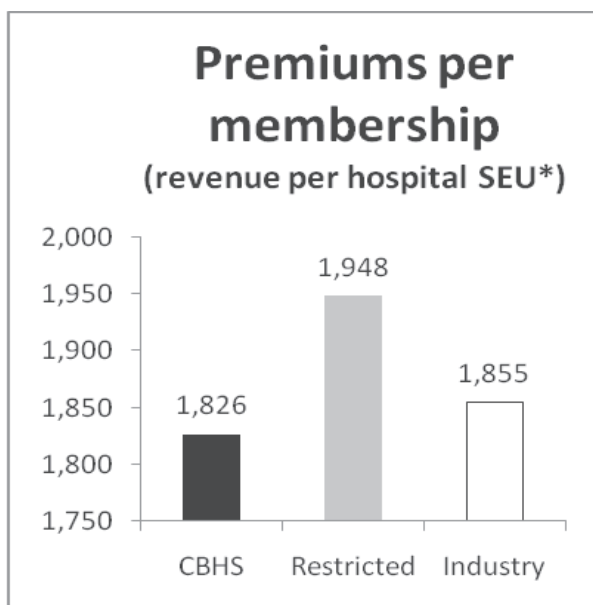
'Industry' data represents all private health insurers.



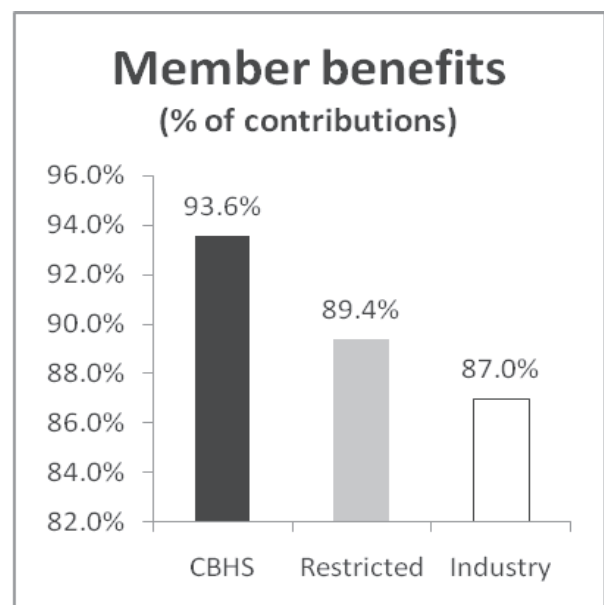
CBHS grew at more than double the rate of the industry reflecting the attractiveness of our value proposition to potential members.



More of our members chose to stay with CBHS during the year.



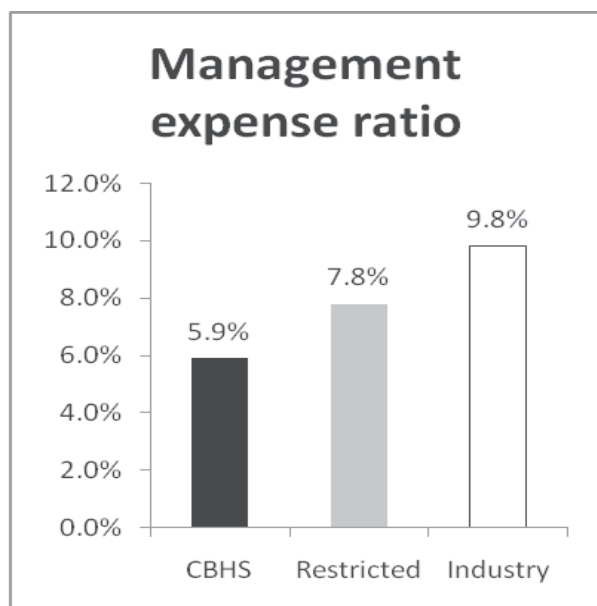
Average premiums per membership remain lower than our major competitors.



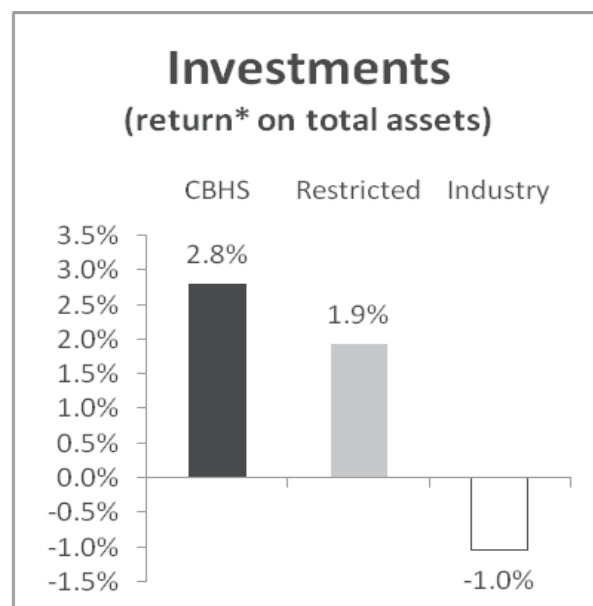
CBHS returned more to members in terms of benefits.

# CBHS Value Proposition: Lower Prices, Better Benefits and Excellent Service

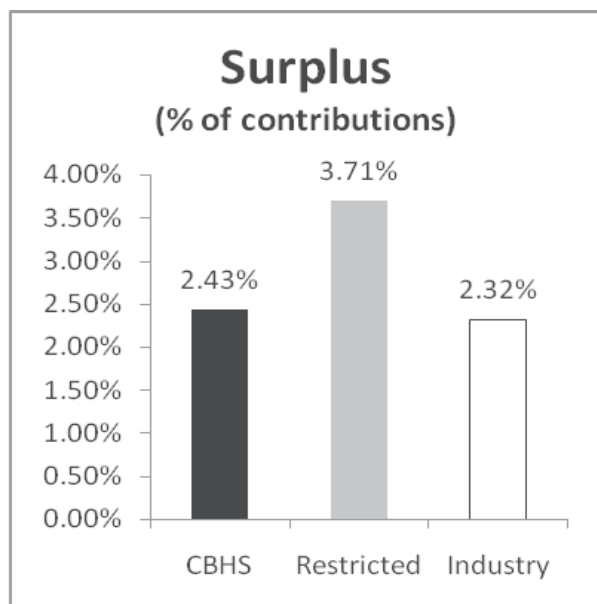
CBHS Health Fund Limited



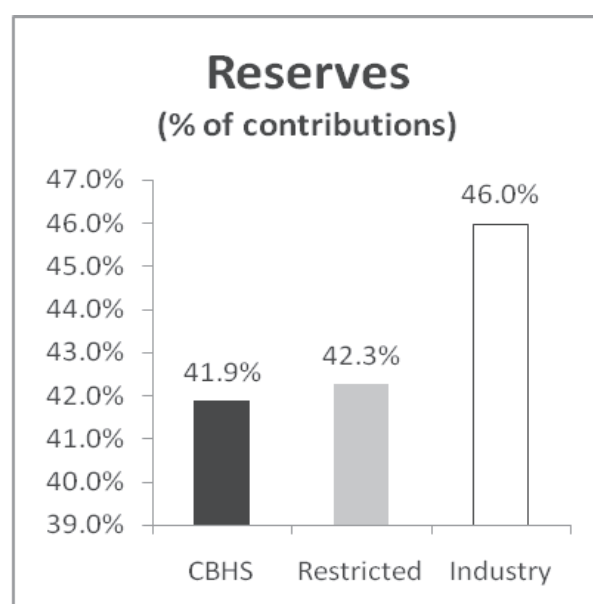
CBHS' low cost operating model means less money is spent managing the Fund.



Investment returns were impacted by the Global Financial Crisis but CBHS' defensive investment portfolio resulted in better than industry average investment returns.



For CBHS a reduced underwriting surplus was boosted by investment earnings. This result was the opposite of the industry where investment losses diminished solid underwriting profits.



CBHS maintained a prudent level of reserves for a small, growing fund in an uncertain political, economic and financial environment.



# Results at a Glance

CBHS Health Fund Limited

**Premium Revenue**  
\$180 million

**Total Claims**  
\$169 million

**Benefits per Member**  
\$2,516

**No. Hospital Episodes**  
35,966

**No. General Services**  
1,117,446

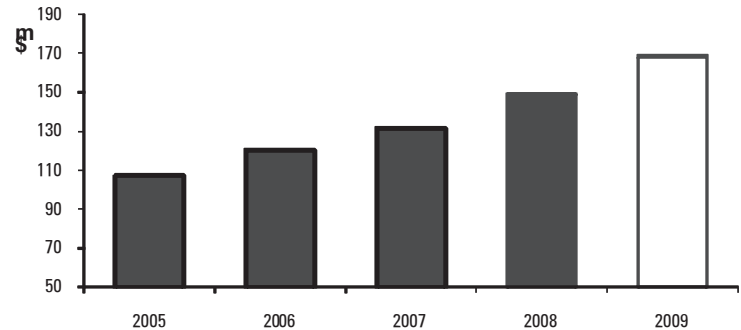
**Surplus**  
\$8.6 million

**Reserves per member**  
\$1,126

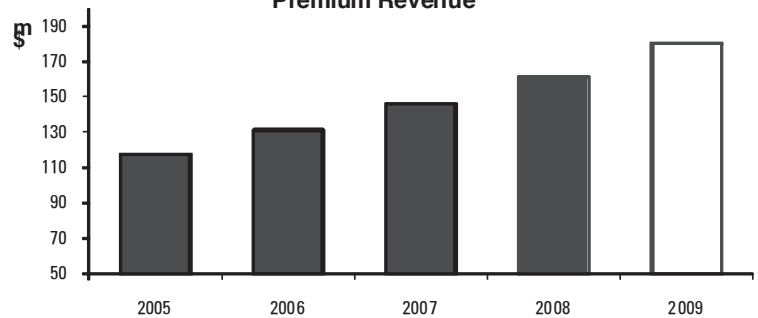
**People Covered**  
160,093

**Market Share**  
1.2 %

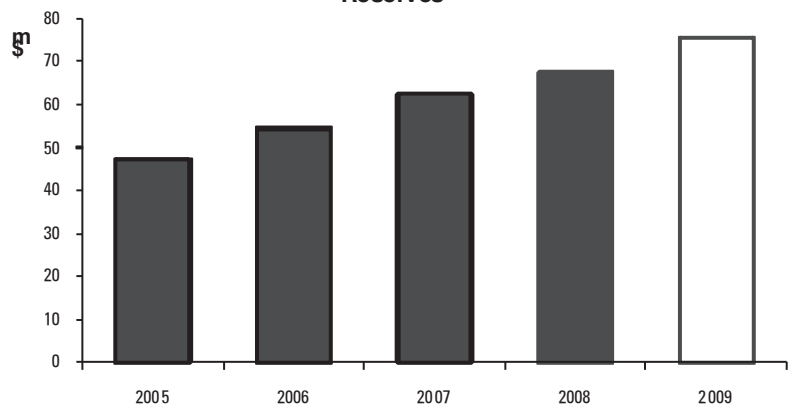
**Total Claims**



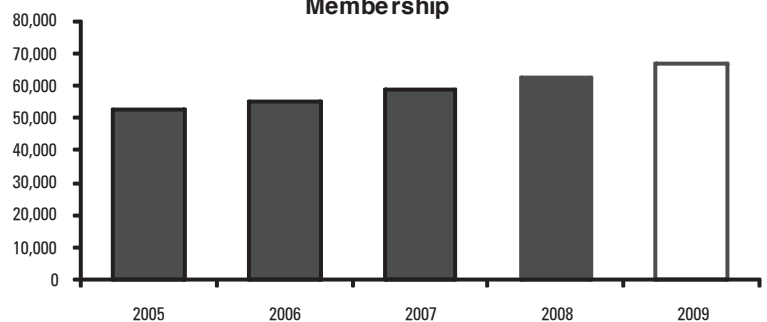
**Premium Revenue**



**Reserves**



**Membership**



# Five Year History

## CBHS Health Fund Limited

	2009	2008	2007	2006	2005
<b>INCOME STATEMENT</b>					
Premium revenue	180,282,354	161,609,834	145,979,645	131,247,167	117,434,145
<b>Claims expenses</b>					
Fund benefits paid to members	141,443,710	125,231,790	113,669,379	97,449,815	90,416,524
Health benefits risk equalisation trust fund	23,033,093	20,716,290	17,247,404	15,817,526	13,443,801
Net movement in outstanding claims liability	1,486,564	749,747	(1,603,453)	5,154,683	1,499,341
Government levies	2,755,649	2,537,476	2,292,496	2,062,155	1,924,652
<b>Total claims incurred</b>	<b>168,719,016</b>	<b>149,235,303</b>	<b>131,605,826</b>	<b>120,484,179</b>	<b>107,284,318</b>
Net movement in unexpired risk liability	(4,546,850)	2,693,000	4,116,766	-	-
Underwriting expenses	9,997,643	8,757,113	7,639,059	7,189,836	6,125,819
<b>Underwriting profit/(loss)</b>	<b>6,112,545</b>	<b>924,418</b>	<b>2,617,994</b>	<b>3,573,152</b>	<b>4,024,008</b>
Investment and other income	4,972,575	5,322,853	4,063,195	3,451,386	2,959,717
Fair value gains/(losses) on financial assets	(1,845,171)	(1,440,660)	1,562,078	472,497	237,671
<b>Operating (deficit)/ surplus</b>	<b>8,607,380</b>	<b>4,340,234</b>	<b>7,812,061</b>	<b>7,115,184</b>	<b>6,852,737</b>
Retained surplus at beginning of year	66,266,645	61,926,411	54,114,350	46,999,166	40,146,429
<b>Retained surplus at end of year</b>	<b>74,874,025</b>	<b>66,266,645</b>	<b>61,926,411</b>	<b>54,114,350</b>	<b>46,999,166</b>
<b>BALANCE SHEET</b>					
Current assets	75,505,440	53,055,018	34,639,020	33,401,410	43,002,487
Non current assets	31,035,699	47,470,496	56,429,053	45,611,383	22,202,099
<b>Total assets</b>	<b>106,541,139</b>	<b>100,525,514</b>	<b>91,068,073</b>	<b>79,012,793</b>	<b>65,204,586</b>
Current liabilities	30,524,491	32,882,207	28,220,248	24,241,555	17,706,766
Non current liabilities	519,232	347,396	386,274	315,873	243,853
<b>Total liabilities</b>	<b>31,043,723</b>	<b>33,229,603</b>	<b>28,606,522</b>	<b>24,557,428</b>	<b>17,950,619</b>
<b>Net assets</b>	<b>75,497,416</b>	<b>67,295,911</b>	<b>62,461,551</b>	<b>54,455,365</b>	<b>47,253,967</b>
<b>Reserves</b>					
Asset revaluation reserve	623,391	1,029,266	535,140	341,015	254,801
Retained surplus	74,874,025	66,266,645	61,926,411	54,114,350	46,999,166
<b>Total reserves</b>	<b>75,497,416</b>	<b>67,295,911</b>	<b>62,461,551</b>	<b>54,455,365</b>	<b>47,253,967</b>
<b>OTHER INFORMATION</b>					
Benefits paid ratio (%)	93.6%	92.3%	90.2%	91.8%	91.4%
Expense ratio (%)	5.9%	5.7%	5.5%	5.8%	5.5%
Return on members' reserves (%)	11.4%*	6.4%*	12.5%	13.1%	14.5%
Members	67,050	62,617	59,132	55,449	52,754
Claims processed	706,419	631,351	539,464	470,810	426,030
Reserves per member (\$)	1,126	1,075	1,056	982	896
Total income per member (\$)	2,731	2,667	2,564	2,438	2,287
Total expenditure per member (\$)	2,602	2,597	2,432	2,309	2,157
Operating surplus/(deficit) per member (\$)	128*	69*	132	128	130

\* Includes unrealised gains and losses on financial assets and the net movement in the unexpired risk liability.

# Corporate Governance

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## 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. Under the Charter a number of functions have been reserved to the Board. These functions include;

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

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

The Board has consistently placed importance on the governance of CBHS, which it believes is vital to the well-being of the Company. Consequently, CBHS has adopted a comprehensive framework of corporate governance guidelines which are reviewed on a regular basis.

The Board endeavours, where applicable, to conform to the corporate governance principles issued by the ASX Corporate Governance Council in 2007 (the 2<sup>nd</sup> edition of *Corporate Governance Principles and Recommendations*). During the 2008/09 financial year, the Board was also informed of the intention of the Private Health Insurance Administration Council (PHIAC) to issue a prudential standard relating to corporate governance. The Board is confident that CBHS’ corporate governance framework provides a solid foundation to enable a smooth transition into a new compliance environment (including compliance with any prudential standard issued by PHIAC through the course of 2009-10).

CBHS is committed to keeping its Members informed about general developments in corporate governance and the practical impact of those developments for CBHS. A dedicated corporate governance section is maintained on the CBHS website for this purpose.

### Board of Directors

The Board comprises seven Directors, each of whom is required by the Constitution to be a non-executive Director. Throughout 2009 each Director also confirmed that he or she was independent (that is, free from any business or other association with CBHS that could materially interfere with the Director’s independent judgment). Details of each Director’s experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors’ Report. In accordance with the Constitution, all Directors are members of CBHS.

The Board meets according to a schedule determined at the end of each calendar year. The scheduled meetings are supplemented by special purpose meetings where required. An extensive agenda is prepared for each meeting. The agenda enables Directors to be adequately informed about the operations of CBHS, to monitor Management’s implementation of key strategic initiatives and to consider the environment in which the health benefits fund operates. Matters of a strategic nature are given priority. In addition to the Board meetings, a detailed strategy review is the major focus of the annual Board Strategy Day.

# Corporate Governance (continued)

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## CBHS Health Fund Limited

Directors are required to disclose any conflicts and material personal interests to the Board. Where necessary the Board will evaluate whether a Director should participate in the consideration of a matter by using the mechanism set out in the 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.

During this financial year, the Board adopted a requirement that each Director make an annual “fit and proper” declaration. This declaration (also to be made by new Director nominees) will ensure that Members are represented by Directors of suitable character, integrity and competence.

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

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

The CBHS Constitution was amended in 2003 to limit the maximum aggregate term of a director to 12 years. For directors in office at the time of this change, the 12 year aggregate is to be calculated from 20 November 2003. The Board periodically assesses its performance policies and practices along with the skills, experience and expertise that are required to competently discharge the Board’s duties, having regard to the strategic direction of the Company.

Directors participate in an induction program upon appointment and in 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 and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by the Australian Institute of Company Directors.

### **Relationship with Management**

The Board has delegated to the 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 four Committees which meet regularly to consider the audit process, board composition, investment and capital management, remuneration and people resources 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.

Details about the membership of committees and the attendance of members at committee meetings are set out in the Directors’ Report.

# Corporate Governance (continued)

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## CBHS Health Fund Limited

### **Audit Committee**

The Charter of the Audit Committee specifies that the Committee has been established to assist the Board fulfil its statutory and fiduciary responsibilities relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance. The Committee's responsibilities include:

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

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 Auditor or Internal Auditor 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.

CBHS currently requires the partner of CBHS' External Auditor responsible for managing the CBHS audit to be rotated after a period of five years.

The CEO is authorised to appoint and remove the Internal Auditor only after consultation with the Audit Committee.

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

### **Nomination Committee**

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

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

# Corporate Governance (continued)

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## CBHS Health Fund Limited

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 Annual General Meeting of Members which immediately follows their appointment, in accordance with the Constitution.

Directors are provided with a letter each year from the Chairman confirming the terms of their appointment.

Meetings of the Nomination Committee may also include the CEO by invitation.

### **Investment Committee**

The Board established an Investment Committee in early 2009 with a Charter to review, develop and monitor all investment-related activities.

A key responsibility of the Committee is to make recommendations to the Board on the appropriate investment objectives, strategic benchmarks, investment structure, investment target allocations and investment delegations for CBHS' investment portfolio.

### **People & Remuneration Committee**

The principal responsibilities of the Committee are to:

- consider and recommend to the Board the remuneration and performance payments of the CEO;
- be informed of leadership performance, legislative compliance in employment issues, industrial agreements and occupational health and safety;
- approve the aggregate of the remuneration adjustments and the performance payment structure for senior executives;
- review succession plans for key management employees;
- review the remuneration process for general staff; and
- review people-related policies.

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 and Remuneration Committee may also include the CEO and other Executive Managers by invitation.

### **Board and Committee Performance Assessment**

Each year the Nomination Committee is required to establish processes for the review of the performance of individual Directors and of the Board as a whole. These reviews seek to identify where improvements can be made. The corporate governance procedures include a self-evaluation process which will supplement the processes established by the Nomination Committee.

Due to a change in meeting arrangements at the commencement of calendar year, the performance reviews are scheduled to be carried out during the second half of the 2009 calendar year.

# Corporate Governance (continued)

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CBHS Health Fund Limited

## **Directors' Remuneration**

The aggregate remuneration of independent non-executive Directors is determined, from time to time, by a general meeting, as specified in the Constitution. The aggregate sum is divided between the Directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. The last determination was at the 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 29. Directors' fees do not incorporate any bonus or incentive element.

## **Chief Executive Officer Remuneration**

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

## **Executive Management Remuneration**

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

## **Executive Management Performance Assessment**

Executive management (including the CEO) have individual, team and overall business key performance indicators (KPIs) set at the commencement of each financial year. The KPIs of the CEO are finalised following the Board's approval of the annual business plan. The KPIs of the senior management team (each of whom report to the CEO) are finalised after the CEO's targets have been set.

A short-term performance payment potential is established for each executive and senior manager at the commencement of the financial year. The payment, where it is payable, is an annual payment that relates to performance against a range of targets. Performance payments were made to senior managers in September 2008. These payments related to the performance of each employee for the 2007/8 financial year.

## **Directors' and Officers' Insurance and Supplementary Legal 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.

During 2009, CBHS also paid a premium in respect of an insurance policy covering defined legal costs (such as legal costs associated with Government agency inquiries). This policy was for the benefit of both CBHS and of specified individuals which include the Directors, CEO and the Company Secretary.

# Corporate Governance (continued)

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CBHS Health Fund Limited

## **Risk Management**

CBHS has a comprehensive system of risk management and controls. This risk management framework is critical to the safety, reputation and sustainability of the operations of the Company and to the ongoing viability of the health benefits fund operated by CBHS. A detailed Risk Management Plan has been established by Management and endorsed by the Board. CBHS has implemented under licence the use of extensive risk management software. The various practices are undertaken within the overriding principle that business risk is a basic line management responsibility - all managers, not just the CEO, share that responsibility.

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

As part of the sign-off of the financial reports for each year, Management completes a Directors' Questionnaire on various matters relevant to the financial statements. Included in the financial report sign-off is an assurance from the CEO and Chief Financial Officer to the Audit Committee that the risk management and internal control systems are effective.

At the conclusion of each financial year the Board is required to empower two Directors to certify the annual PHIAC Risk Management Statement. The Statement includes that CBHS has adequate control systems to measure, monitor and manage 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

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## 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 2009. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Board of Directors

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

Kerry Brinkley (Chairman)

Leslie Moth (Deputy Chairman)

Kevin Bourke

Michelene Hart

Andrea Kohler<sup>1</sup>

John Matthews<sup>2</sup>

Ronda Ryan

Adrian Walker

1. Ms. Andrea Kohler was a director from the beginning of the financial year until her resignation on 18 August 2008.
2. Mr John Matthews was appointed by the Board to fill a casual vacancy on 25 September 2008. He was subsequently elected as a director at the AGM on 25 November 2008.

### Information on Directors

#### Kerry Maree Brinkley

Ms Brinkley has been a member of CBHS since February 1973. She has been a Director of CBHS since January 1993, and was elected Chairman on 25 November 2008. She is also Chairman of the Nomination Committee and a member People & Remuneration Committee and Investment Committee. Ms Brinkley is a Director of Directioneering Queensland Pty Ltd and also 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 also had 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 graduate and member of the Australian Institute of Company Directors and a member of the Industrial Relations Society, Queensland.

#### Leslie George Moth

Mr Moth has been a member of CBHS since February 1968. He has been a Director of CBHS since December 2006, and was elected Deputy Chairman on 25 November 2008. He is a member of the Audit Committee, Nomination Committee and Investment 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.

# Directors' Report (continued)

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## CBHS Health Fund Limited

### **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.

### **Micheline Hart**

Ms Hart has been a member of CBHS since April 2005. She has been a Director of CBHS since December 2006 and is a member of the Audit, Investment and Nomination Committees. Ms Hart has 25 years experience in the financial services sector including over 20 years within Commonwealth Bank of Australia and the Colonial Group in various senior management roles. Since leaving the Commonwealth Bank, Ms Hart has acted as Chief Executive Officer of a listed company and Managing Director of an asset management company responsible for managing a listed property trust. Ms Hart is currently working independently looking for investment opportunities for private equity investment. 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 was a member of the People & Remuneration 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.

### **John Matthews**

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

### **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 Nomination Committee. She is a Program Manager with a history of aligning strategy to business change. Mrs Ryan has a Master of Business Administration (MBA) and is also a graduate member of the Australian Institute of Company Directors.

# Directors' Report (continued)

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## CBHS Health Fund Limited

### Adrian Tolver Walker

Mr Walker has been a member of CBHS since December 1954 and has been a Director of CBHS since November 2001. From November 2006, Mr Walker was Chairman of CBHS and he remained in that role until November 2008 – when he decided not to re-nominate for the position of Chairman. Mr Walker remains a Director and is member of the Audit Committee. He retired from the Commonwealth Bank of Australia in 1993 following a career in excess of 38 years, during which he held several senior executive positions in Australia and overseas.

### 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	
	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	11	11	3	3	-	-
K. M. Brinkley	11	11	-	-	3	3
M. Hart	11	10	3	2	-	-
A. N. Kohler	1	1	-	-	-	-
J. E. Matthews	9	8	-	-	2	2
L. G. Moth	11	11	3	3	-	-
R. J. Ryan	11	11	-	-	3	3
A. T. Walker	11	11	1	1	1	1

Directors	Nomination		Investment	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
K. G. Bourke	-	-	-	-
K. M. Brinkley	2	2	3	2
M. Hart	-	-	3	3
A. N. Kohler	-	-	-	-
J. E. Matthews	-	-	-	-
L. G. Moth	-	-	3	3
R. J. Ryan	2	2	-	-
A. T. Walker	2	2	-	-

# Directors' Report (continued)

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CBHS Health Fund Limited

## **Company Secretaries**

Mr Nick Elvin was appointed Company Secretary in June 2008. He 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. Mr Elvin is a Chartered Secretary and holds Associate membership of Chartered Secretaries Australia.

Mr Keith Stockall is also a Company Secretary and was first appointed in December 1996. He has over 23 years corporate secretariat experience. Mr Stockall 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.

## **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 \$8,607,380 (2008 \$4,340,234 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.

## **Changes in state of affairs**

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

## **Subsequent events**

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

# Directors' Report (continued)

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CBHS Health Fund Limited

## **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 28 to the financial statements.

The auditor's independence declaration is included on page 21 of the annual report.

## **Future developments**

In May 2009 the Federal Government announced changes to the 30% rebate on private health insurance premiums and the Medicare Levy Surcharge arrangements to take effect from 1 July 2010. The changes are yet to come into effect with the matter currently being considered by a Senate Economic Committee. The Federal Opposition has announced it will oppose the Government's proposed legislative changes. Implementation of the proposed changes is expected to have industry wide implications and the Federal Government has indicated that it expects no more than a 0.7% change in membership across the industry as a result of the changes. Until the final legislative changes are known, it is difficult to estimate the likely future impact on CBHS.

In early 2008 the Prime Minister and the Minister for Health and Ageing established the National Health and Hospitals Reform Commission to develop a long-term health reform plan for Australia. The Commission released its final report 'A Healthier Future For All Australians' in June 2009. This Report includes more than 100 recommendations, including a number of recommendations which could have a significant impact on the operations of all private health insurers. The Government is yet to respond to the Report.

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.



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**K. M. Brinkley**  
Chairman



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**K. G. Bourke**  
Director

Dated at Sydney 27<sup>th</sup> day of August 2009

The Board of Directors  
CBHS Health Fund Limited  
10 Pitt St  
PARRAMATTA NSW 2150

27 August 2009

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 2009, 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 2009

CBHS Health Fund Limited

	Notes	2009 \$	2008 \$
Direct premium revenue	2	180,282,354	161,609,834
<b>Net premium revenue</b>		<b>180,282,354</b>	<b>161,609,834</b>
Direct claims expense		(141,443,710)	(125,231,790)
Net movement in outstanding claims liability (claims & other component)		(1,147,235)	(442,080)
Net movement in outstanding claims liability (risk equalisation component)		(339,329)	(307,667)
Health benefits risk equalisation trust fund		(23,033,093)	(20,716,290)
Government levies	6	(2,755,649)	(2,537,476)
<b>Net claims incurred</b>	3	<b>(168,719,016)</b>	<b>(149,235,303)</b>
Net movement in unexpired risk liability	23(2)	4,546,850	(2,693,000)
Salaries and employee benefit expense		(5,900,272)	(4,823,252)
Other underwriting expenses	9	(4,097,371)	(3,933,861)
<b>Underwriting profit/(loss)</b>		<b>6,112,545</b>	<b>924,418</b>
Investment income	4	4,917,334	5,270,412
Fair value gains/(losses) on financial assets at fair value through profit & loss	5	(1,845,171)	(1,440,660)
Other income	4	55,241	52,441
Depreciation and amortisation expense	7	(498,328)	(368,731)
Other operating expenses	9	(134,241)	(97,646)
<b>Operating surplus attributable to members of CBHS</b>		<b>8,607,380</b>	<b>4,340,234</b>

Notes to the financial statements are included on pages 25 to 59

# Balance Sheet

## as at 30 June 2009

CBHS Health Fund Limited

	Notes	2009 \$	2008 \$
<b>Current assets</b>			
Cash and cash equivalents	10	6,829,079	6,175,455
Trade and other receivables	11	6,999,340	6,786,985
Term deposits	12	34,034,926	3,000,000
Financial assets at fair value through profit or loss	13	27,454,159	36,909,243
Other	14	187,936	183,335
<b>Total current assets</b>		<b>75,505,440</b>	<b>53,055,018</b>
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	15	26,474,882	42,582,966
Property, plant & equipment	16	4,064,733	4,553,543
Intangible assets	17	496,084	333,987
<b>Total non-current assets</b>		<b>31,035,699</b>	<b>47,470,496</b>
<b>Total assets</b>		<b>106,541,139</b>	<b>100,525,514</b>
<b>Current liabilities</b>			
Trade and other payables	18	6,028,658	6,273,087
Outstanding claims liability	21	15,826,861	14,340,295
Unearned premium liability	22	5,735,030	4,781,586
Unexpired risk liability	23(1)(3)	2,354,052	6,900,902
Provisions	19	579,890	586,337
<b>Total current liabilities</b>		<b>30,524,491</b>	<b>32,882,207</b>
<b>Non-current liabilities</b>			
Provisions	20	519,232	347,396
<b>Total non-current liabilities</b>		<b>519,232</b>	<b>347,396</b>
<b>Total liabilities</b>		<b>31,043,723</b>	<b>33,229,603</b>
<b>Net assets</b>		<b>75,497,416</b>	<b>67,295,911</b>
<b>Reserves</b>			
Assets revaluation reserve		623,391	1,029,266
Retained surpluses		74,874,025	66,266,645
<b>Total reserves</b>	24	<b>75,497,416</b>	<b>67,295,911</b>

Notes to the financial statements are included on pages 25 to 59



# Statement of Recognised Income and Expense for the Financial Year Ended 30 June 2009

CBHS Health Fund Limited

		2009	2008
		\$	\$
	Notes		
<b>Net income recognised directly in equity</b>			
Gain/(loss) on revaluation of building	24	(405,875)	494,126
<b>Surplus for the period</b>		8,607,380	4,340,234
<b>Total recognised income and expense for the year</b>		<u>8,201,505</u>	<u>4,834,360</u>

## Cash Flow Statement for the Financial Year Ended 30 June 2009

		2009	2008
		\$	\$
	Notes	Inflows (Outflows)	Inflows (Outflows)
<b>Cash flows from operating activities</b>			
Receipts from members		179,612,056	161,097,306
Payments to members, employees and suppliers		(176,500,541)	(156,178,523)
Net cash flow provided by operating activities	26(b)	<u>3,111,515</u>	<u>4,918,783</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(291,480)	(369,339)
Proceeds from sale of property, plant & equipment		2,046	2,356
Payments for intangible assets		(288,011)	(350,653)
Interest and investment income received		5,436,495	5,114,838
Net payments for investments		(7,316,941)	(7,073,542)
Net cash flow used in investing activities		<u>(2,457,891)</u>	<u>(2,676,340)</u>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>653,624</b>	<b>2,242,443</b>
<b>Cash and cash equivalents at beginning of financial year</b>		<b>6,175,455</b>	<b>3,933,012</b>
<b>Cash and cash equivalents at the end of financial year</b>	26(a)	<u><b>6,829,079</b></u>	<u><b>6,175,455</b></u>

Notes to the financial statements are included on pages 25 to 59

# Notes to the Financial Statements for the Financial Year Ended 30 June 2009

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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 27 August 2009.

### 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 (floating rate notes, 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 adopted the following approaches:

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

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### *b) Financial assets (continued)*

##### 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.

##### 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 directly reduced by any impairment loss for all financial assets except 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.

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### *c) Property, plant and equipment (continued)*

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.

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:

<b>Description</b>	<b>Useful life</b>
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.

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### *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.

#### *h) Revenue*

##### Premium revenue

Premium revenue comprises contributions received from members, inclusive of the 30%, 35% and 40% Government rebate. 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.

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### *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.

CBHS also maintains a portfolio of term deposits and many of the term deposits have the characteristics of cash equivalents. These term deposits have not been categorised as cash equivalents and have been maintained as a separate investment asset class, given these terms deposits are not utilised as business working capital in the same way as cash and cash equivalents.

#### *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

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### *l) Impairment of long – lived assets (continued)*

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 through classification of the business of CBHS into three components i.e. packaged products (including member self packaging of hospital and ancillary products), hospital products and ancillary products.

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.

#### *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 dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

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

#### *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.

# Notes (continued)

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## CBHS Health Fund Limited

### 1. Significant accounting policies (continued)

#### 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

### 2. Net Premium Revenue

	2009	2008
	\$	\$
Premium received	180,600,136	160,958,526
Add movement in premium receivable	726,376	545,408
(Less)/Add movement in unearned premium liability	(1,044,158)	105,900
<b>Net premium revenue</b>	<b>180,282,354</b>	<b>161,609,834</b>



# Notes (continued)

## CBHS Health Fund Limited

### 3. Net claims incurred

	2009 Current Year		2009 Prior Years		2009 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	-	130,389,521	11,393,518	-	11,393,518	130,389,521
Outstanding claims provided for	(13,266,861)	13,266,861	666,779	(666,779)	(12,600,082)	12,600,082
Risk equalisation and gov't levies	-	23,295,467	2,153,946	-	2,153,946	23,295,467
Risk equalisation and gov't levies provided for	(2,560,000)	2,560,000	126,054	(126,054)	(2,433,946)	2,433,946
<b>Net claims incurred</b>	<b>(15,826,861)</b>	<b>169,511,849</b>	<b>14,340,297</b>	<b>(792,833)</b>	<b>(1,486,564)</b>	<b>168,719,016</b>

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

Outstanding claims liability movements are as follows:

	2009 \$	2008 \$
Opening balance	(14,340,295)	(13,590,548)
Prior year claims, risk equalisation and levies paid	13,547,464	11,261,733
Write back to profit and loss	792,833	2,328,815
2009 provision established claims, risk equalisation and levies paid	(15,826,861)	(14,340,295)
Closing balance	(15,826,859)	(14,340,295)
Net movement	(1,486,564)	(749,747)

See Note 21 for detail.

	2008 Current Year		2008 Prior Years		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 levies	-	21,311,181	1,634,916	-	1,634,916	21,311,181
Risk equalisation and levies provided for	(2,280,000)	2,280,000	338,084	(338,084)	(1,941,916)	1,941,916
<b>Net claims incurred</b>	<b>(14,340,295)</b>	<b>151,564,118</b>	<b>13,590,548</b>	<b>(2,328,815)</b>	<b>(749,747)</b>	<b>149,235,303</b>

# Notes (continued)

## CBHS Health Fund Limited

	2009 \$	2008 \$
<b>4. Investment and other income</b>		
Interest revenue:		
Cash and cash equivalents	447,468	471,469
Term deposits	544,254	151,027
Floating rate notes and bank bills	3,925,612	4,647,916
Licence fee revenue	55,241	52,441
<b>Total</b>	<u>4,972,575</u>	<u>5,322,853</u>

### 5. Fair value gains / (losses) on financial assets

Managed share funds gains/(loss)	(533,481)	(478,204)
Managed cash funds gains/(loss) (i)	(1,628,889)	527,042
Floating rate notes and bank bills gains/(loss) (ii)	317,199	(1,489,498)
<b>Net increment – gains/(losses)</b>	<u>(1,845,171)</u>	<u>(1,440,660)</u>

- (i) A discount factor has been applied to the unit prices of the cash funds as at 30 June 2009 to better reflect the market value of the investments – see note 35 (i).
- (ii) 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. As a result of the Global Financial Crisis, the market is demanding far greater reward for holding credit instrument. The market or fair value of CBHS' existing FRNs is below the face value of the notes.

	2009 \$	2008 \$
<b>6. Government levies</b>		
NSW, ACT ambulance levies	2,673,659	2,460,898
Other levies	81,990	76,578
<b>Total</b>	<u>2,755,649</u>	<u>2,537,476</u>

### 7. Depreciation and amortisation expense

<b>Depreciation expense</b>		
Building	94,125	94,125
Plant and equipment	276,421	257,940
<b>Amortisation expense</b>		
Software	127,782	16,666
<b>Total</b>	<u>498,328</u>	<u>368,731</u>

### 8. Employee benefit expense

Post-employment benefits (9% statutory superannuation guarantee)	535,568	383,009
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# Notes (continued)

## CBHS Health Fund Limited

	2009 \$	2008 \$
<b>9. Underwriting and other expenses from ordinary activities</b>		
Information technology	745,035	601,632
Financial charges and taxes	172,468	142,930
Postage & telephone	449,958	391,725
Printing and stationery	430,344	379,183
Property expense	204,769	162,422
Research, advertising and publicity	133,730	120,161
Loss/(Gain) on disposal of plant & equipment	3,241	(2,354)
Other expenses	2,092,067	2,235,808
<b>Total</b>	<b>4,231,612</b>	<b>4,031,507</b>

### 10. Cash and cash equivalents

Cash at bank	1,961,096	1,529,888
Cash deposits – “24 hour At-Call”	4,867,433	4,645,017
Cash on hand	550	550
<b>Total</b>	<b>6,829,079</b>	<b>6,175,455</b>

### 11. Current trade and other receivables

	2009 \$	2008 \$
Premium receivable (i)	6,623,664	5,897,289
Investment income receivable	360,094	879,288
Sundry debtors	15,582	10,408
<b>Total</b>	<b>6,999,340</b>	<b>6,786,985</b>

(i) Premium receivable comprises two components, the Federal Government 30% Private Health Insurance rebate \$4,271,433 (2008: \$3,646,791) and members who pay for their contributions in arrears or who are non-financial \$2,352,231 (2008: \$2,250,498).

- 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 15<sup>th</sup> day of the following month.
- The credit period for members who pay their contributions in arrears is 14 days. 26% of CBHS’ members pay for their contributions in arrears while the other 74% 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 account and no allowance for doubtful debts is provided.

Premium receivable for members in arrears at year end is made up of approximately 17,124 (2008 - 14,607) members. Collection of premium receivable will take place by payroll deduction or direct debit from a member’s bank account.

# Notes (continued)

## CBHS Health Fund Limited

### 11. Current trade and other receivables(continued)

CBHS collects premiums by the following methods: payroll deductions (21% of members), direct debit (74% of members) and Bpay, credit card, cheque and cash (5% of members). Default of premium income only occurs with members who pay by direct debit. The default rate per month is approximately 0.75% or 370 members out of 49,620 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 2009 the amount owing to CBHS from Medicare Australia was \$4,271,433. This amount is guaranteed by the Federal Government.

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

	2009	2008
	\$	\$
1- 30 days overdue	57,816	42,863
30 – 60 days	45,778	57,377

### 12. Term deposits

Term deposit investments totalled \$34,034,926 as at 30 June 2009 (2008: \$3,000,000). These term deposits have maturity dates ranging from 19 July 2009 to 29 November 2009. The weighted average interest rate on these term deposits is 4.01% (2008: 7.15%).

In 2008-09 term deposits formed an important part of CBHS' liquidity and credit risk management in light of the Global Financial Crisis – see note 36(f).

### 13. Current financial assets at fair value through profit or loss

	2009	2008
	\$	\$
Floating rate notes and bank bills at fair value (i)	15,081,235	22,907,432
Managed cash funds at market value (ii)	12,372,924	14,001,811
<b>Total</b>	<b>27,454,159</b>	<b>36,909,243</b>

- (i) As at 30 June 2009 CBHS did not hold any bank bills (2008: \$14,961,542). The weighted average interest rate on bank bills in 2007-08 was 7.70%.

The value of floating rate notes totalled \$15,081,235 (2008: \$10,945,890) as at 30 June 2009. The weighted average interest rate on these floating rate notes is 3.45% (2008: 8.11%). These floating rate notes have maturity dates ranging between 2 September 2009 and 16 February 2010.

CBHS maintains sufficient cash reserves to enable investment instruments, including 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 2009 the fair value of these investments totalled \$15,081,235 (2008: \$25,907,432) which was marked to market.

- (ii) CBHS had \$12,372,924 (2008: \$14,001,811) invested in two ING managed cash funds – the ANZ Cash Plus Fund and the Wholesale Enhanced Cash Trust - as at 30 June 2009. Both funds are managed by professional ING fund managers.

# Notes (continued)

## CBHS Health Fund Limited

### 13. Current financial assets at fair value through profit or loss (continued)

- a. As a result of the Global Financial Crisis and the subsequent reduction in liquidity for the underlying securities in the ANZ Cash Plus Fund, ING temporarily suspended the fund in late November 2008. This prevented withdrawals from and further investments in the fund. In February 2009 unit holders in the fund agreed to changes in the fund's constitution which effectively provided the fund manager with enhanced control over unit redemptions, including timing and value, with the objective of managing the fund in the interests of all unit holders. CBHS supported the changes to the fund's constitution on the basis that unit values would be better preserved and CBHS did not require day-to-day access to the investment for working capital purposes. The credit standing of underlying securities in the fund is sound.

The return on the investment in the fund will fluctuate on a daily basis measured by the unit price. A capital gain or loss is booked into the profit and loss at month end.

The value of the investment as at 30 June 2009 is reflective of fair value as at reporting date – see note 36(i).

- b. As a result of the Global Financial Crisis and the subsequent reduction in liquidity for the underlying securities in the Wholesale Enhanced Cash Trust, ING temporarily suspended the fund in late November 2008. This prevented withdrawals from and further investments in the fund. The fund was terminated by ING in early February 2009 following the failure of investors to agree on a basis for ING to manage the fund in the changed economic circumstances. The credit standing of the underlying securities in the fund is sound. Daily unit prices are no longer quoted.

The value of the investment as at 30 June 2009 is reflective of fair value as at reporting date – see note 36(i).

	2009	2008
	\$	\$
<b>14. Other current assets</b>		
Prepayments	141,721	131,128
GST Recoverable	46,215	52,207
<b>Total</b>	<b>187,936</b>	<b>183,335</b>
	2009	2008
	\$	\$
<b>15. Non-current financial assets at fair value through profit or loss</b>		
Managed share funds at market value (i)	1,428,416	2,906,352
Bank bills & floating rate notes at fair value (ii)	25,046,466	39,676,614
<b>Total</b>	<b>26,474,882</b>	<b>42,582,966</b>

- (i) As at 30 June 2009 CBHS had \$1,428,416 (2008: \$2,906,352) invested with Barclays Global Investors in one (2008: two) managed Australian share fund. The funds are managed by professional fund managers.

## Notes (continued)

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### CBHS Health Fund Limited

#### **15. Non-current financial assets at fair value through profit and loss (continued)**

- (ii) The value of floating rate notes as at 30 June 2009 totalled \$25,046,466 (2008: \$37,041,114). The weighted average interest rate on these floating rate notes is 3.44% (2008: 8.09%). These floating rate notes have maturity dates ranging between 20 July 2010 and 28 March 2012. CBHS maintains sufficient cash reserves to enable investment instruments, including 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 2009 the indicative market value of these investments totalled \$25,046,466 which represents the fair value of the investments.

# Notes (continued)

## CBHS Health Fund Limited

### 16. Property, plant and equipment

#### 30 June 2009

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
<b>Gross carrying amount</b>				
Balance as at 30 June 2008 at cost	1,685,874	1,000,000	3,000,000	5,685,874
Additions	291,482	-	-	291,482
Disposals	(229,482)	-	-	(229,482)
Net adjustment from revaluation (decrement)/increment			(500,000)	(500,000)
<b>Balance as at 30 June 2009</b>	<b>1,747,874</b>	<b>1,000,000</b>	<b>2,500,000</b>	<b>5,247,874</b>
<b>Accumulated depreciation</b>				
Balance as at 30 June 2008	1,132,331	-	-	1,132,331
Disposals	(225,612)	-	-	(225,612)
Depreciation expense	276,422	-	94,125	370,547
Net adjustment from revaluation (decrement)			(94,125)	(94,125)
<b>Balance as at 30 June 2009</b>	<b>1,183,141</b>	<b>-</b>	<b>-</b>	<b>1,183,141</b>
<b>Net book value</b>				
<b>Balance as at 30 June 2008</b>	<b>553,543</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>4,553,543</b>
<b>Balance as at 30 June 2009</b>	<b>564,733</b>	<b>1,000,000</b>	<b>2,500,000</b>	<b>4,064,733</b>

#### 30 June 2008

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
<b>Gross carrying amount</b>				
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/(decrement)			400,000	400,000
<b>Balance as at 30 June 2008</b>	<b>1,685,874</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>5,685,874</b>
<b>Accumulated depreciation</b>				
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/(decrement)			(94,125)	(94,125)
<b>Balance as at 30 June 2008</b>	<b>1,132,331</b>	<b>-</b>	<b>-</b>	<b>1,132,331</b>
<b>Net book value</b>				
<b>Balance as at 30 June 2007</b>	<b>444,497</b>	<b>1,000,000</b>	<b>2,600,000</b>	<b>4,044,497</b>
<b>Balance as at 30 June 2008</b>	<b>553,543</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>4,553,543</b>

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 7 to the financial statements.

# Notes (continued)

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## CBHS Health Fund Limited

### 16. Property, plant and equipment (continued)

#### Freehold land and building carried at fair value

An independent valuation of land and building was performed by John Virtue Valuers Pty Ltd 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 2009.

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

	2009	2008
	\$	\$
Freehold land	1,000,000	1,000,000
Buildings	1,876,609	1,970,734

### 17. Intangible assets

	Software	Total
	\$	\$
<b>Gross carrying amount</b>		
Balance as at 30 June 2008 at cost	350,653	350,653
Additions	289,878	289,878
Disposals	-	-
Net adjustment from revaluation increment	-	-
<b>Balance as at 30 June 2009</b>	<b>640,531</b>	<b>640,531</b>
<b>Accumulated amortisation</b>		
Balance as at 30 June 2008	16,666	16,666
Disposals	-	-
Amortisation expense	127,781	127,781
Net adjustment from revaluation increment	-	-
<b>Balance as at 30 June 2009</b>	<b>144,447</b>	<b>144,447</b>
<b>Net book value</b>		
<b>Balance as at 30 June 2008</b>	<b>333,987</b>	<b>333,987</b>
<b>Balance as at 30 June 2009</b>	<b>496,084</b>	<b>496,084</b>



# Notes (continued)

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## CBHS Health Fund Limited

	2009	2008
	\$	\$
<b>18. Current trade &amp; other payables</b>		
Amounts due to the Health Benefits Risk Equalisation Trust Fund (i)	5,347,754	5,520,963
Accruals (ii)	493,272	608,440
Trade payables (ii)	187,632	143,684
<b>Total</b>	<b>6,028,658</b>	<b>6,273,087</b>

- (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 8%, 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.

	2009	2008
	\$	\$
<b>19. Current provisions</b>		
Employee benefits (i)	163,456	225,368
Provision for employee performance payments (Note 25)	416,434	360,969
<b>Total</b>	<b>579,890</b>	<b>586,337</b>

- (i) The current provision for employee benefits includes \$163,456 of annual leave accrued and expected to be taken within 12 months.

## 20. Non-current provisions

	2009	2008
	\$	\$
Employee benefits	519,232	347,396
<b>Total</b>	<b>519,232</b>	<b>347,396</b>

# Notes (continued)

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## CBHS Health Fund Limited

### 21. Outstanding claims provision

<b>(a) Outstanding claims liability</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	11,961,001	10,880,295
Risk margin (ii)	895,860	810,000
Claims handling costs	410,000	370,000
Risk equalisation	2,560,000	2,280,000
<b>Gross outstanding claims liability</b>	<b>15,826,861</b>	<b>14,340,295</b>

- (i) The expected future payments are not discounted due to an insignificant tail period.
- (ii) The risk margin of 6.00% (2008: 6.00%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2008: 75%). While the risk margin has not changed compared to last year 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.

	<b>2009</b>	<b>2008</b>
Risk margin	6.00%	6.00%

# Notes (continued)

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## CBHS Health Fund Limited

### 21. Outstanding claims provision (continued)

	2009	2008
	\$	\$
<b>(c) Reconciliation of movement</b>		
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	14,340,295	13,590,548
Claims incurred during the year	168,719,016	149,235,303
Claims paid during the year	(167,232,450)	(148,485,556)
<b>As at 30 June</b>	<b>15,826,861</b>	<b>14,340,295</b>

### 22. Unearned premium liability

	2009	2008
	\$	\$
Unearned premium liability as at 1 July	4,781,586	4,887,487
Deferral of premiums on contracts written in the period	5,735,030	4,781,586
Earning of premiums written in previous periods	(4,781,586)	(4,887,487)
<b>Unearned premium liability as at 30 June</b>	<b>5,735,030</b>	<b>4,781,586</b>

### 23. 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 reduction of \$4,546,850 in the unexpired risk liability as at 30 June 2009 (2008: increase of \$2,693,000).

	2009	2008
	\$	\$
<b>(1) Unexpired risk liability</b>		
Unexpired risk liability as at 1 July	6,900,902	4,207,902
(decrease)/increase recognition of additional risk liability in the period	(4,546,850)	2,693,000
<b>Unexpired risk liability as at 30 June</b>	<b>2,354,052</b>	<b>6,900,902</b>
Unexpired risk liability includes a risk margin of 3.0% (2008: 3.0%)		

# Notes (continued)

## CBHS Health Fund Limited

### 23. Unexpired risk liability (continued)

	2009	2008
	\$	\$
<b>(2) Movement recognised in the income statement</b>		
Gross movement in unexpired risk liability <sup>1</sup>	(4,546,850)	2,693,000
Net movement in unexpired risk liability	(4,546,850)	2,693,000
<b>Total movement recognised in the income statement</b>	<b>4,546,850</b>	<b>(2,693,000)</b>
<b>(3) Calculation of deficiency</b>		
<b>(a) Unearned premium liability component</b>		
Unearned premium liability (A)	5,300,000	4,256,000
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	5,215,399	4,220,000
Risk margin of 3.0% at 75% PoA* (C) (2008: 3.0%)	153,162	127,000
<b>Net deficiency (B+C-A)</b>	<b>(68,561)</b>	<b>(91,000)</b>
<b>(b) Unclosed business liability component</b>		
Unclosed business liability (A)	435,200	526,000
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	428,253	526,000
Risk margin of 3.0% at 75% PoA* (C)	12,577	15,000
<b>Net deficiency (B+C-A)</b>	<b>(5,630)</b>	<b>(15,000)</b>
<b>(c) Insurance contracts renewable before the next pricing review</b>		
Insurance contracts renewable before the next pricing review (A)	145,377,946	132,069,000
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	143,355,324	134,819,322
Risk margin 3.0% at 75% PoA* (C)	4,302,483	4,044,580
<b>Net deficiency (B+C-A)</b>	<b>(2,279,861)</b>	<b>(6,794,902)</b>
<b>Total deficiency (a)+(b)+(c)</b>	<b>(2,354,052)</b>	<b>(6,900,902)</b>

\* Probability of Adequacy

- There has been a change in the accounting estimate as at 30 June 2009 in determining the unexpired risk liability. For the year ended 30 June 2009, the unexpired risk liability has been calculated on the basis of class of business: packaged products (including member self packaging of hospital and ancillary products), hospital products and ancillary products. This estimation methodology more accurately reflects CBHS' experience in relation to insurance risks and the internal management of those risks. In the prior year the unexpired risk liability was determined on the basis of product profitability, with hospital and ancillary contracts treated as two separate classes of business regardless of the purchasing behaviour of members.

This change in accounting estimate resulted in a decrease in the provision of \$4,546,850 as at 30 June 2009. If there was no change in the accounting estimate and the methodology from the prior year was applied the provision would increase by \$663,839 as at 30 June 2009.

# Notes (continued)

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## CBHS Health Fund Limited

<b>24. Total reserves</b>	<b>2009</b>	<b>2008</b>
<b>Assets revaluation reserve</b>	<b>\$</b>	<b>\$</b>
Balance at beginning of financial year	1,029,266	535,140
Revaluation increments / (decrements)	(405,875)	494,126
Balance at end of financial year	<u>623,391</u>	<u>1,029,266</u>

The asset revaluation reserve comprises revaluations of land and building.

<b>Retained surplus</b>		
Balance at beginning of financial year	66,266,645	61,926,411
Operating surplus	8,607,380	4,340,234
Total retained surplus end of financial year	<u>74,874,025</u>	<u>66,266,645</u>
<b>Balance at end of financial year</b>	<u>75,497,416</u>	<u>67,295,911</u>

## 25. Provisions

	<b>Provision for Employee Performance Payments</b>
	<b>\$</b>
Balance as at 30 June 2008	360,969
Reductions arising from payment or usage	(339,535)
Excess provision transferred back to profit & loss	(21,434)
Additional provision recognised	<u>416,434</u>
<b>Balance as at 30 June 2009 (i)</b>	<u>416,434</u>

- (i) The provision for employee performance payments includes \$416,434 expected to be paid within 12 months.

## 26. 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.

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	6,829,079	6,175,455
<b>Total</b>	<u>6,829,079</u>	<u>6,175,455</u>

# Notes (continued)

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## CBHS Health Fund Limited

### 26. Notes to the cash flow statement (continued)

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

	2009	2008
	\$	\$
Operating surplus	8,607,380	4,340,234
Interest received and receivable	(4,917,334)	(5,270,412)
Depreciation and amortisation	498,328	368,731
Net decrement arising from the revaluation of current and non-current financial assets	1,845,171	1,440,660
Increase in current receivables	(731,549)	(540,470)
Increase in other current assets	(4,601)	(43,041)
(Decrease)/Increase in amount payable for HBREE*	(173,209)	1,083,337
(Decrease)/Increase in accounts payable and accruals	(71,220)	226,847
Increase/(Decrease) in unearned premium liability	953,444	(105,901)
Increase in outstanding claim liability	1,486,566	749,747
(Decrease)/Increase in unexpired risk liability	(4,546,850)	2,693,000
(Decrease)/Increase in current provisions	(6,447)	14,929
Increase/(Decrease) in non current provisions	171,836	(38,878)
<b>Total</b>	<b>3,111,515</b>	<b>4,918,783</b>

\* HBREE - Health Benefits Risk Equalisation Expense

### 27. 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.

	2009	2008
	\$	\$
<b>28. Remuneration of auditors</b>		
Auditing the financial report	105,625	92,500
Other audit services	28,870	27,000
Other non-audit services	35,689	5,000
<b>Total</b>	<b>170,184</b>	<b>124,500</b>

The auditor of CBHS is Deloitte Touche Tohmatsu.

# Notes (continued)

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## CBHS Health Fund Limited

### 29. 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
- J E Matthews
- 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
- L Casmiri Executive Manager Information Technology and Support Services
- M L Coombs Chief Financial Officer
- N A Elvin Company Secretary
- D B Milligan General Manager Marketing & Operations
- J Terzis Executive Manager Financial Services

<b>Directors remuneration</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Short-term employment benefits	175,872	166,149
Post-employment benefits (9% statutory superannuation guarantee)	15,828	14,953
<b>Total directors remuneration</b>	<b>191,700</b>	<b>181,102</b>
<b>Other key management personnel remuneration</b>		
Short-term employment benefits	1,047,855	760,035
Post-employment benefits (9% statutory superannuation guarantee)	94,307	68,243
<b>Total key management personnel remuneration</b>	<b>1,142,162</b>	<b>828,278</b>
<b>Total directors and other key management personnel remuneration</b>	<b>1,333,862</b>	<b>1,009,380</b>

### 30. 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).

### 31. Contingent liability

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

# Notes (continued)

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## CBHS Health Fund Limited

### 32. 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 33(1).



# Notes (continued)

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## CBHS Health Fund Limited

### 32. 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 33(2).

### 33. 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 2009	\$6,565,682
Estimated Hospital Incurred Claims Cost for June 2009	\$6,228,052
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)

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## CBHS Health Fund Limited

### 33. 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*
Incurring claims for June 2009	+10%	\$1,541,000
	-10%	(\$1,541,000)
Expense rate	+10%	\$41,000
	-10%	(\$40,000)
Risk equalisation (OSC Component)	+10%	\$257,000
	-10%	(\$256,000)

\*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	\$116,419,000
Risk equalisation (relating to above estimated claim)	\$21,349,000
Risk margin	\$4,291,000

#### 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)

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## CBHS Health Fund Limited

### 33. 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.

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

	2009	2008
Risk margin	3.00%	3.00%

#### **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%	\$12,726,000
	-10%	(\$2,354,000)
Risk equalisation (relating to above estimated claim)	+10%	\$2,384,000
	-10%	(\$2,240,000)

### 34. 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)

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## CBHS Health Fund Limited

### 35. Segment information

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

### 36. 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 2008.

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

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

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 2009 the fair value of investments with a fixed interest rate was \$34,034,926 (2008: \$14,961,100) while the fair value of investments with a floating interest rate was \$40,127,701 (2008: \$50,622,503).

# Notes (continued)

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## CBHS Health Fund Limited

### 36. Financial instruments (continued)

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

	<b>Weighted average effective interest rate</b>	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>\$</b>	<b>\$</b>
Cash deposits – “24 hour at call”	2.96%	4,867,433	4,645,017
Term deposits & Floating Rate Notes designated at fair value through profit or loss	3.78%	74,162,627	62,948,546

#### 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:

	<b>Surplus Higher/(Lower)</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
+0.25% (25 basis points) per annum	188,337	130,000
-0.25% (25 basis points) per annum	(188,337)	(130,000)

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

#### **(e) Other price risks**

CBHS is exposed to price risks arising from its investments in ING managed cash funds and a Barclays Global Investors managed share fund. 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 13 and 15.

# Notes (continued)

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## CBHS Health Fund Limited

### 36. 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:

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	<b>Surplus Higher/(Lower)</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
+0.25% per annum	2,633	2,714
-0.25% per annum	(2,633)	(2,714)

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#### 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:

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	<b>Surplus Higher/(Lower)</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
+5% per annum	71,221	145,057
-5% per annum	(71,221)	(145,057)

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#### **(f) Credit risk management**

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

CBHS investments are with Board approved financial institutions and are subject to Board approved counterparty limits. In relation to counterparty limits and in previous market conditions the Board had 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 could be invested with Tier 2 financial institutions with a minimum credit rating of BBB+.

Following the advent of the Global Financial Crisis and the introduction of the Federal Government's guarantee of deposits with Authorised Deposit-Taking Institutions (ADIs), the Board approved an interim strategy to take maximum advantage of the free component of the Government guarantee arrangements in order to reduce credit risk.

- CBHS can deposit funds of more than \$1m with individual ADIs with credit ratings of A- and above.
- CBHS can deposit total funds of up to \$1m with individual ADIs with credit ratings below A- where those ADI's are Australian banks or Australian subsidiaries of foreign banks.

As at 30 June 2009 deposits of \$16,000,000 were covered by the Federal Government's deposit guarantee arrangements.

The quality of trade and other receivables have been discussed under Notes 12, 13 and 15.

# Notes (continued)

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## CBHS Health Fund Limited

### 36. Financial instruments (continued)

The following investments with individual counterparties exceed 5% of net assets at either 30 June 2009 or 30 June 2008:

<b>Counterparty</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Commonwealth Bank	28,468,766	24,614,073
ING	12,372,924	14,001,813
ANZ	5,908,590	10,857,080
St George Bank	-	7,031,100
Westpac	9,542,376	6,527,436
Adelaide Bank	7,641,568	6,748,560
Suncorp	-	5,239,653
NAB	-	3,997,600
Colonial	8,442,805	5,213,117
Bankwest	4,000,000	-

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

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Carrying amount of financial instruments designated as at "fair value through profit or loss"	74,163	65,584
Principal amount of financial instruments designated as at "fair value through profit or loss"	75,335	67,000
Cumulative changes in fair value attributed to changes in credit risk	1,050	1,014
Changes in fair value attributable to changes in credit risk recognised during the period	36	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.

#### **(g) Liquidity risk management**

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

# Notes (continued)

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## CBHS Health Fund Limited

### 36. Financial instruments (continued)

#### 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.

	<b>Less than 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3 months to 1 year \$'000</b>	<b>1-5 years \$'000</b>	<b>5+ years \$'000</b>
<b>2009</b>					
Trade and other payables	636,951	6,458,701	-	-	-
<b>2008</b>					
Trade and other payables	624,284	6,129,403	-	-	-

#### **(h) Fair value control framework**

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

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. In less liquid markets, direct observation of traded price may not be possible. In these circumstances, CBHS sources alternative market information to validate the financial instrument's fair value. Greater weight is given to information that is considered to be more relevant and reliable.

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

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



# Notes (continued)

## CBHS Health Fund Limited

### 36. Financial instruments (continued)

#### (i) Fair value of financial instruments

As at 30 June 2009, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2009	Level 1: quoted prices in active markets (1)	Level 2: valuation techniques based on observable market data (2)	Level 3: valuation techniques incorporating information other than observable market data (3)	Total
<b>Assets</b>				
<i>Fair value through profit or loss</i>				
Floating rate notes	\$40,127,701	-	-	\$40,127,701
Managed share fund	\$1,428,416	-	-	\$1,428,416
Managed cash funds	-	\$12,372,924	-	\$12,372,924
	<b>\$41,556,117</b>	<b>\$12,372,924</b>	<b>-</b>	<b>\$53,929,041</b>

(1) Financial assets valued using unadjusted quoted prices in active markets for identical assets. Financial assets in this category include floating rate notes and the managed share fund.

- Quoted prices for floating rate notes are provided by financial institutions based on recent transactions in an active market and determined as the mid-point between the market bid and offer price.
- Quoted unit prices for the managed Australian equity fund are provided by Barclays Global Investors on a daily basis. The unit price is determined based on the sum of the last traded prices of the underlying shares at the end of the trading day divided by the number of units issued to unit holders. When determining the fair value of the managed Australian equity fund the exit unit price is used.

(2) Financial assets valued using techniques based on observable market data. Instruments in this category are valued using quoted prices for similar assets or identical assets in markets which are considered to be less than active or valuation techniques where all inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial assets in this category include the ING Wholesale Enhanced Cash Fund and the ANZ Cash Fund.

- The fair value of the investment in the ANZ Cash Plus Fund as at 30 June 2009 has been calculated utilising unit prices advised by ING as at 30 June 2009 discounted by a factor of 8.5%. This discount factor is the mid-point of a range advised by ING for unit redemption purposes and represents an estimate of the discount between fund value (represented by unit prices) and market or realisable value. The discount factor reflects ongoing liquidity issues in fixed interest credit markets.
- Given the Wholesale Enhanced Cash Trust has been terminated unit prices are no longer quoted. ING provided advice on the value of the underlying securities in the Wholesale Enhanced Cash Trust as at 30 June 2009 and CBHS used this information to calculate an effective unit price. ING's advice was compared with bid and offer spreads for individual securities in the fund where available. Current price information was not available for

# Notes (continued)

## CBHS Health Fund Limited

securities representing 47% of the value of the fund. In these circumstances CBHS has erred on the side of conservatism and applied a discount factor of 10% to the calculated unit price as at 30 June 2009. The discount factor reflects ongoing liquidity issues in fixed interest credit markets.

- These two enhanced cash fund investments were in Level 1 of the hierarchy as at 30 June 2008.
- (3) Valuation techniques incorporating information other than observable market data are used for instruments where at least one input (which could have a significant effect on the instrument's valuation) cannot be based on observable market data. CBHS does not have any financial assets in this category.

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.

### 37. 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.

With respect to disclosure of CBHS financial instruments early adoption of amendments to AASB 7 "Financial Instruments: Disclosures" has been implemented.

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

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"><li>• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>• AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>• AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'</li></ul>	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
<ul style="list-style-type: none"><li>• AASB 2008-1 'Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations'</li></ul>	1 January 2009	30 June 2010

## Notes (continued)

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### CBHS Health Fund Limited

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"><li>AASB 2008-2 'Amendments to Australian Accounting Standards Puttable Financial Instruments and Obligations arising on Liquidation'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'</li></ul>	1 July 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items'</li></ul>	1 July 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB Interpretation 15 'Agreements for the Construction of Real Estate'</li></ul>	1 January 2009	30 June 2010
<ul style="list-style-type: none"><li>AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'</li></ul>	1 October 2008	30 June 2010
<ul style="list-style-type: none"><li>AASB Interpretation 17 'Distribution of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners'</li></ul>	1 July 2009	30 June 2010

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.

### 38. Solvency Reserve

The Solvency Reserve, with respect to the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$8,826,000. Net assets are \$75,498,000 representing an excess of \$66,672,000 over the Solvency Reserve.

### 39. 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

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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.

  
\_\_\_\_\_  
**K. M. Brinkley**  
Chairman

  
\_\_\_\_\_  
**K. G. Bourke**  
Director

Dated at Sydney 27<sup>th</sup> day of August 2009

## **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 2009, 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 22 to 59.

### *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.

Member of  
Deloitte Touche Tohmatsu

*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 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Eric Angelucci  
Partner  
Chartered Accountants  
Parramatta, 27 August 2009

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