

CBHS



**CBHS**  
**Health Fund Limited**  
**Annual Report**

**2010**

**the key to greater health cover**

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## **CBHS Health Fund Limited**

ABN 87 087 648 717

A Registered Private Health Insurer

Registered Office: 10 Pitt Street, Parramatta NSW 2150

# Message from the Chairman and Acting CEO

CBHS remained focussed on its core business during the 2009-10 financial year and ended the year having delivered strong financial and operational results. The Fund recorded a surplus of \$10.5 million, increasing member reserves to \$86.1 million, an increase of 14% compared to the 2008-09 financial year.

True to our commitment to member value and 'returns', CBHS paid over \$157 million in benefits in 2009-10, processing just over 776,000 member claims. As a not-for-profit health fund, CBHS is committed to returning as much of its contribution revenue as commercially sustainable to members by way of better benefits, highly competitive premiums and improved service delivery technology.

The Board and Management team continually focus on balancing members' short-term interests in respect of better benefits and lower premiums against the longer-term interests of members by ensuring a sustainable business model. The Board focuses on underwriting results, sustainable and profitable membership growth and capital preservation to assist in achieving this balance.

Over the past two years CBHS has taken steps to improve its underwriting profitability, 2009-10 is the first time in four years where increases in benefits costs did not exceed increases in premium revenue. Sustaining this small improvement in underwriting results is vital to the Fund's longevity. In the future CBHS will aim for an underwriting margin of 1.75% per annum. This level of underwriting profitability is well below the average level in the industry and CBHS believes that this appropriately reflects our not-for-profit status and our goal of returning greater benefits to members.

CBHS continues to have a strong capital base and member's reserves are responsibly invested to ensure safety of capital, day to day liquidity and to position the Fund (and members) positively when having to consider premium increases. In 2009-10 CBHS finalised a review of its Investment Policy and adopted an underpinning strategy of capital preservation. This strategy influences CBHS' selection of investments, with more than 65% of the portfolio to be maintained in cash based assets.

Earnings on investment assets almost doubled in 2009-10 as a result of the recovery of global financial markets and this result reflects increased returns across all aspects of the investment portfolio and the write back of investment assets written down in 2008-09. Average returns of 6.1% were earned from investments during the year.

CBHS continues to defy industry growth averages finishing 2009-10 with a growth in net membership of 5.5% (3,675 members); this was against a target of 4.25%. While industry membership growth in recent years has averaged approximately 3.5%, CBHS has produced an average growth of 6.5% in the past three years. This stands as testament to our commitment to ensure that CBHS continues to deliver value for members. It is also a reflection of the strong advocacy of our members who have supported the introduction of extended eligibility criteria to brothers, sisters, parents and grandchildren since 2008. In addition to this CBHS has continued to strengthen ties with the Commonwealth Bank Group to ensure continued membership growth.

In July 2010 CBHS' Chief Executive Officer, Mr Keith Stockall retired after dedicating 16 years (in various roles) to CBHS and its members., Keith felt it was time to address his work/life balance and embrace other challenges. We extend our deepest appreciation for his efforts and the contribution he has made to the Fund and its members.

After an extensive professional recruitment process, Mr Paul Gladman has been appointed as CBHS' new Chief Executive Officer. Paul joins CBHS from the Australian Prudential Regulation Authority and has extensive insurance experience following a number of senior roles within the general



# Message from the Chairman and Acting CEO (cont...)

insurance industry. Paul will commence in September and is looking forward to continuing to uphold CBHS' legacy of placing members first, returning exceptional value to members and leading a dedicated team of professional staff committed to delivering best-practice member service standards.

The Board acknowledges the tireless contribution and dedication of retired Director Mr Adrian Walker. He has been a member of CBHS since December 1954, a Director since 2001 and Chairman between 2006 and 2008, Adrian retired from the Board in April this year and we wish him all the very best.

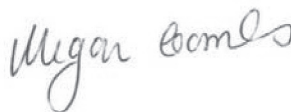
The year ahead will not be without its challenges, while on one hand Government policy continues to play a significant role in industry dynamics, on the other hand the Australian economy has emerged strongly from the Global Financial Crisis. CBHS is well placed to deal with policy changes and looks forward to achieving its target growth of 5% taking the overall membership of the Fund to just under 75,000 by 30 June 2011, reinforcing CBHS as the third largest restricted health insurance fund in Australia.

We are incredibly proud to lead a team of dedicated professionals who are committed to CBHS' values of mutuality and member focus. It is truly an immense team effort from all the staff at CBHS, especially those who are at the coal-face whose responsibility it is to deliver accurate, timely and friendly service to our members. On behalf of the Board of Directors we extend a sincere thank you to the whole team for their great efforts throughout the year. It is equally important to extend that thanks to our committed and loyal members across Australia, without whose support we simply wouldn't be operating today.

We wish all members and staff a healthy and prosperous coming year.



Kerry Brinkley  
Chairman  
26 August 2010



Megan Coombs  
Acting CEO

# CBHS Delivering Value

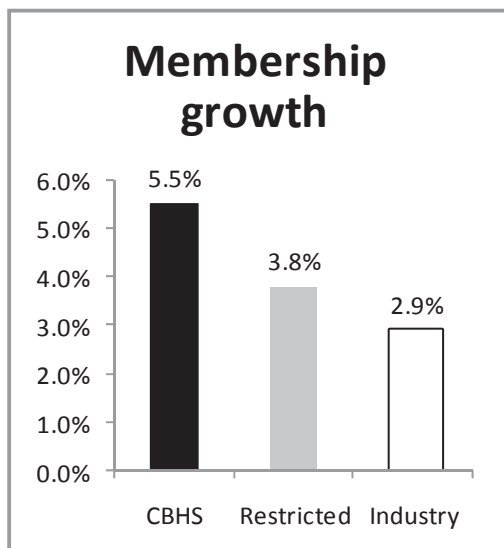
CBHS' commitment to members is to deliver value; in fact we are that confident that we have put what we stand for in writing and commit to delivering a certified **Value Promise**: 1. *Better Benefits* 2. *Lower Costs* 3. *Member Focused*. This is CBHS' promise to all members; it is what we stand for and is the foundation on which we make our business decisions.

We believe our commitment to the value promise can be measured by examining membership growth and retention, premium levels and benefits paid against industry averages and business sustainability (measured by management expenses, surplus, investments and reserves).

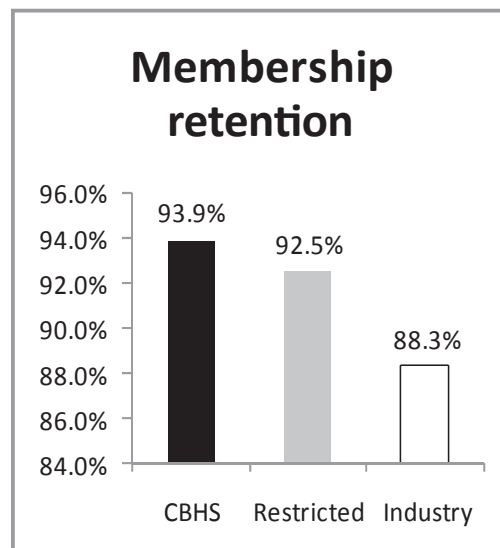
The following comparisons are made on the basis of 2009-10 data.

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.

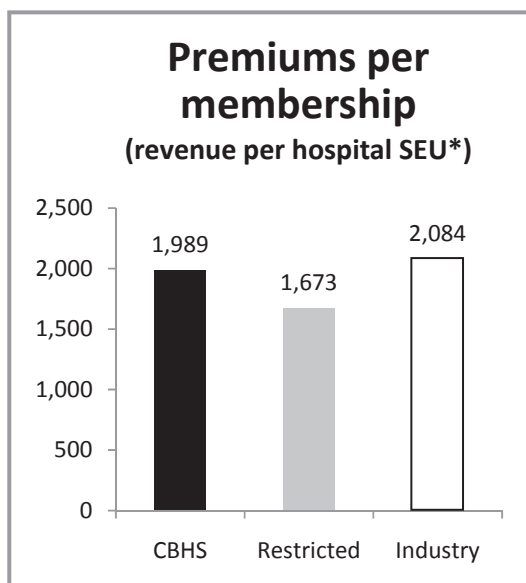


CBHS has defied industry growth averages again. CBHS' ability to attract members is a testament to our commitment to value.

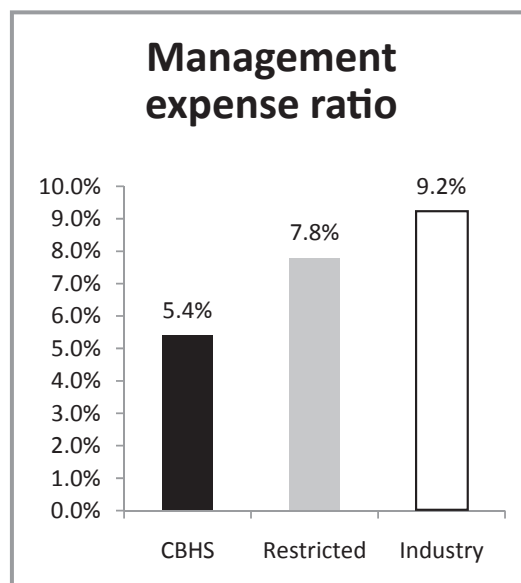


CBHS boasts one of the highest member retention rates, not only compared with industry averages but also compared with other restricted funds.

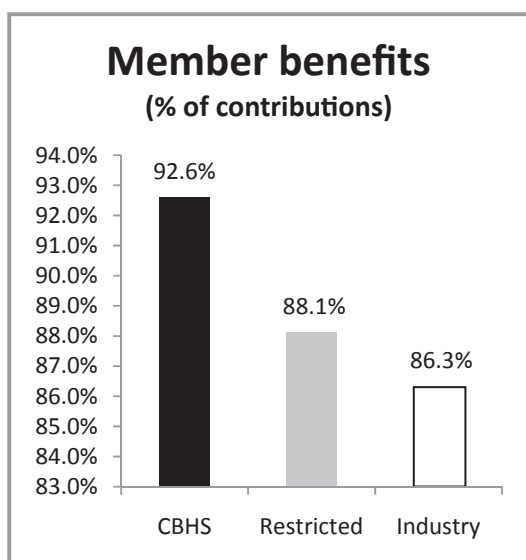
# CBHS Delivering Value (cont...)



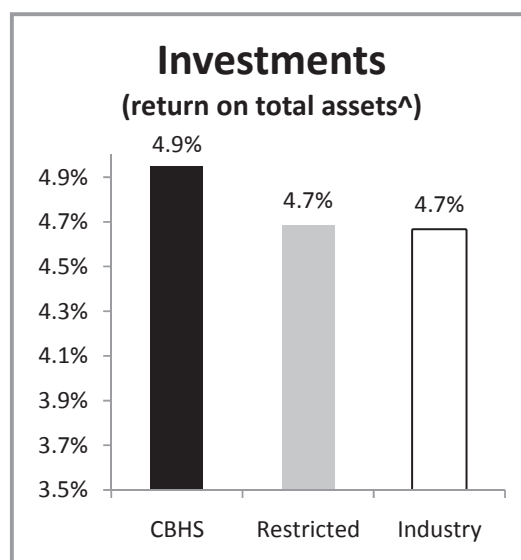
Our average premiums per membership, whilst slightly higher than the average restricted funds (and certainly lower than industry averages), reflects the high proportion of members with Comprehensive cover and the fact that we generally offer more benefits. Our commitment to value.



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



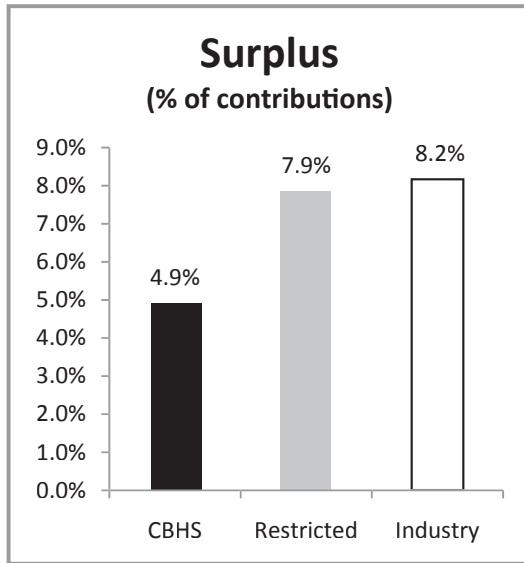
CBHS returned more to members in terms of benefits.



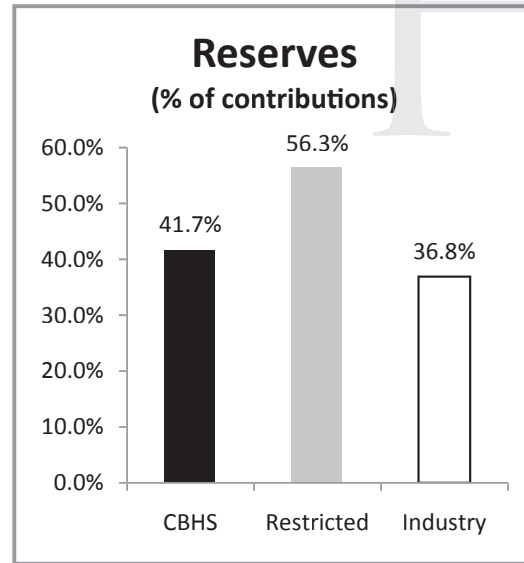
Following the Global Financial Crisis, investment earnings recovered across the industry. CBHS' strongly defensive investment portfolio provided protection from ongoing market volatility.

\* SEU denotes single equivalent unit and is a standard measure adopted by the private health insurance industry as the number of persons covered under a policy may vary. For example, single and single parent policies are counted as one SEU and couple and family policies are counted as 2 SEUs

^ Represents earnings from the investment of a Fund's assets as a proportion of total Fund assets. (Note: Benchmarking of investment returns is constrained by the availability of industry data. It should be noted that some Fund assets may not generate investment income and, as a result, calculated returns will be understated.)



CBHS' small underwriting surplus is a reflection of our not-for-profit philosophy. We return as much of our contribution revenue as is commercially sustainable back to members.



CBHS maintained a prudent level of reserves that is required to achieve a good balance between members' short and long term interests. Our result is lower than other restricted funds simply because we are committed to returning more to our members in the way of better benefits, highly competitive premiums and improved service delivery technology.

# Results at a Glance

Premium Revenue  
\$205 million

Total Claims  
\$191 million

Benefits per Member  
\$2,848

No. Hospital Episodes  
41,228

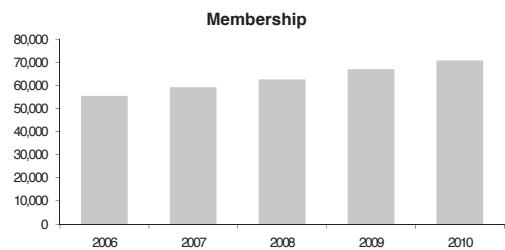
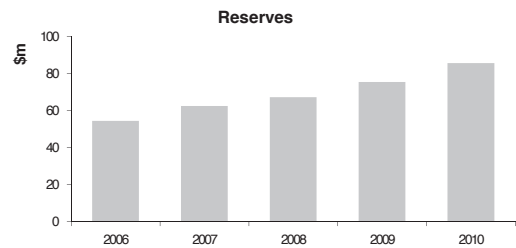
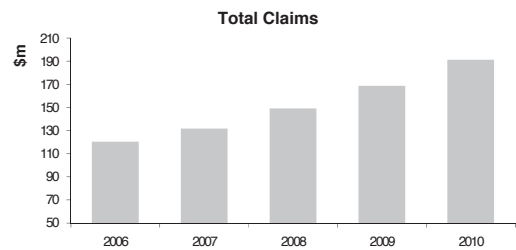
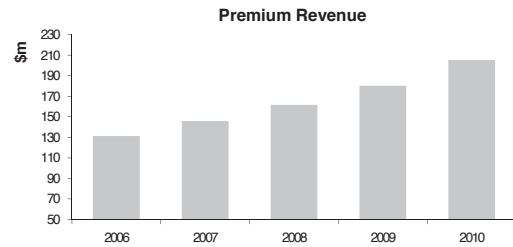
No. General Services  
1,201,951

Surplus  
\$10.5 million

Reserves per member  
\$1,217

People Covered  
167,823

Market Share  
1.3%





# Five Year History

	2010	2009	2008	2007	2006
<b>INCOME STATEMENT</b>					
Premium revenue	205,367,339	180,282,354	161,609,834	145,979,645	131,247,167
<b>Claims expenses</b>					
Fund benefits paid to members	156,939,535	141,443,710	125,231,790	113,669,379	97,449,815
Health benefits risk equalisation trust fund	26,701,157	23,033,093	20,716,290	17,247,404	15,817,526
Net movement in outstanding claims liability	4,666,120	1,486,564	749,747	(1,603,453)	5,154,683
Government levies	2,959,269	2,755,649	2,537,476	2,292,496	2,062,155
<b>Total claims incurred</b>	<b>191,266,081</b>	<b>168,719,016</b>	<b>149,235,303</b>	<b>131,605,826</b>	<b>120,484,179</b>
Net movement in unexpired risk liability	(988,583)	(4,546,850)	2,693,000	4,116,766	-
Underwriting expenses	10,380,654	9,997,643	8,757,113	7,639,059	7,189,836
<b>Underwriting profit/(loss)</b>	<b>4,709,187</b>	<b>6,112,545</b>	<b>924,418</b>	<b>2,617,994</b>	<b>3,573,152</b>
Other operating expenses	(709,568)	(632,569)	(466,377)	(431,206)	(381,851)
Investment and other income	4,275,883	4,972,575	5,322,853	4,063,195	3,451,386
Fair value gains/(losses) on financial assets	2,223,731	(1,845,171)	(1,440,660)	1,562,078	472,497
<b>Operating (deficit)/ surplus</b>	<b>10,499,233</b>	<b>8,607,380</b>	<b>4,340,234</b>	<b>7,812,061</b>	<b>7,115,184</b>
Retained surplus at beginning of year	74,874,025	66,266,645	61,926,411	54,114,350	46,999,166
<b>Retained surplus at end of year</b>	<b>85,373,258</b>	<b>74,874,025</b>	<b>66,266,645</b>	<b>61,926,411</b>	<b>54,114,350</b>
<b>BALANCE SHEET</b>					
Current assets	97,270,279	75,505,440	53,055,018	34,639,020	33,401,410
Non current assets	25,863,740	31,035,699	47,470,496	56,429,053	45,611,383
<b>Total assets</b>	<b>123,134,019</b>	<b>106,541,139</b>	<b>100,525,514</b>	<b>91,068,073</b>	<b>79,012,793</b>
Current liabilities	36,646,830	30,524,491	32,882,207	28,220,248	24,241,555
Non current liabilities	396,415	519,232	347,396	386,274	315,873
<b>Total liabilities</b>	<b>37,043,245</b>	<b>31,043,723</b>	<b>33,229,603</b>	<b>28,606,522</b>	<b>24,557,428</b>
<b>Net assets</b>	<b>86,090,774</b>	<b>75,497,416</b>	<b>67,295,911</b>	<b>62,461,551</b>	<b>54,455,365</b>
<b>Reserves</b>					
Asset revaluation reserve	717,516	623,391	1,029,266	535,140	341,015
Retained surplus	85,373,258	74,874,025	66,266,645	61,926,411	54,114,350
<b>Total reserves</b>	<b>86,090,774</b>	<b>75,497,416</b>	<b>67,295,911</b>	<b>62,461,551</b>	<b>54,455,365</b>
<b>OTHER INFORMATION</b>					
Benefits paid ratio (%)	93.1%	93.6%	92.3%	90.2%	91.8%
Expense ratio (%)	5.4%	5.9%	5.7%	5.5%	5.8%
Net return on average investment assets (%)	6.1%	3.2%	4.4%	7.2%	6.1%
Members	70,725	67,050	62,617	59,132	55,449
Claims processed	773,115	706,419	631,351	539,464	470,810
Reserves per member (\$)	1,217	1,126	1,075	1,056	982
Total income per member (\$)	2,996	2,731	2,667	2,564	2,438
Total expenditure per member (\$)	2,848	2,602	2,597	2,432	2,309
Operating surplus/(deficit) per member (\$)	148*	128*	69*	132	128

# Corporate Governance

## Framework

At the October 2009 Annual General Meeting (AGM) Members of CBHS approved the adoption of a new Constitution. The Constitution sets out various matters relating to the corporate governance practices of CBHS and can be viewed on the CBHS website ([www.cbhs.com.au](http://www.cbhs.com.au)) within the Corporate Governance section.

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

- approving the strategies and financial objectives of CBHS;
- approving the annual business plan and budget;
- approving major corporate and capital initiatives;
- endorsing corporate governance programs; 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 along with developing and maintaining 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.

From 1 January 2010, private health insurers (including CBHS) were required to comply with a Governance Standard developed by the Private Health Insurance Administration Council (PHIAC). The Governance Standard is intended to ensure that private health insurers are managed prudently, that boards have access to appropriate independent expertise and that the boards of insurers include directors who have suitable competencies and experience to understand the relevant business issues and risks.

The Board also endeavours, where applicable, to conform to the corporate governance principles issued by the ASX Corporate Governance Council in 2007 (the 2nd edition of Corporate Governance Principles and Recommendations). It regularly reviews its practices by reference to these principles.

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

## Board of Directors

The Board comprises seven Directors. Each of the Directors is a non-executive director. Throughout 2010 each Director 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 judgement). 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 prior to the start 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.

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

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

The Board has adopted a requirement that each Director make an annual "fit and proper" declaration. This declaration (also to be made by new Director nominees) ensures that Members are represented by Directors of suitable character, integrity and competence.

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

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

The Constitution provides that the maximum aggregate term of a director is 12 years. For directors in office at the time of this change, the 12 year aggregate is to be calculated from 20 November 2003. The Board periodically assesses its performance policies and practices along with the skills, experience and expertise that are required to competently discharge the Board's duties, having regard to the strategic direction of the Company. Directors participate in an induction program upon appointment and in 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

# Corporate Governance (cont...)

actively participate in education sessions and courses offered by the Australian Institute of Company Directors and other relevant professional institutions.

## Relationship with Management

The Board has delegated to the CEO 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 matters. Each Committee operates under a Charter, approved by the Board, which is reviewed from time-to-time. Board Committees have delegated authority within their Charter of responsibilities and make recommendations to the Board. Activities of each Committee are reported to the Board.

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

## Audit Committee

The Charter of the Audit Committee specifies that it 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. This Charter meets the requirements for the responsibilities of an Audit Committee set out in the PHIAC Governance Standard. 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. While 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, it does have the responsibility for evaluating the effectiveness and scope of work of the Auditors.

The Committee periodically meets separately with the External Auditor and the Internal Auditor in the absence of Management. In addition, the Committee considers, in the absence of Management and the Auditors, 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. In accordance with the PHIAC Governance Standard the Chairman of the Committee is an independent Director. The Board has also decided that at least one Director must have expertise in financial accounting and reporting. The Chairman of the Board is not permitted to be Chairman of the Audit Committee. The CEO, Executive Managers, Appointed Actuary, Internal Auditor and External Auditor attend by invitation.

**Nomination Committee**

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

During 2009/2010 the Nominations Committee was responsible for identifying and recommending appropriate candidates to fill a casual vacancy on the Board which arose in April 2010 following the retirement of Director Adrian Walker. The Nominations Committee was also responsible for ensuring that CBHS had appropriate succession processes in place to cover the retirement of the CEO, Keith Stockall, from 2 July 2010.

The work of the Nomination Committee has included the evaluation of Director succession planning together with the “renewal” policy requirements of the new PHIAC Governance Standard. With respect to Director appointments, the Constitution requires that Directors must stand for re-election at least every three years on a rotation basis. In addition to the three year re-election requirement, new Directors appointed by the Board to fill casual vacancies must seek election at the Annual General Meeting of Members which immediately follows their appointment.

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

Key responsibilities of the Committee include making recommendations to the Board on the appropriate investment objectives, strategic benchmarks, investment structure, investment target allocations and investment delegations for CBHS’ investment portfolio. The work of the Committee includes reviewing and recommending investment managers and reviewing the performance of those managers and the investment portfolio as a whole.

# Corporate Governance (cont...)

Following the Board's endorsement of a revised Capital Management Plan and Investment Policy, the Investment Committee's work in 2009/2010 focussed on transitioning the investment portfolio towards a new target asset allocation.

## 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 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 the 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

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

During the year the Board engaged a specialist governance consulting firm to review its performance and related practices. The aim of the review was to identify areas whereby the Board could maximise its effectiveness. The recommendations of the consulting firm have been reviewed by the Board and a detailed implementation approach was adopted in early 2010.

## Directors' Remuneration

The aggregate remuneration of independent non-executive Directors is determined, from time-to-time, by a general meeting, as specified in the Constitution. The aggregate sum is divided between the Directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. The last determination was at the AGM held on 30 November 2006, when members approved an aggregate remuneration of \$200,000 per annum. Details of Directors' remuneration are set out in note 25. 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.

### **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 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 October 2009. These payments related to the performance of each employee for the 2008/2009 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 Company, Directors, the Company Secretary and employees (as defined by the policy). The premium covered the insured against liabilities incurred in defined situations (but 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.

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.

### **Deed of Indemnity for Directors**

At the 2009 AGM, Members approved CBHS entering into a deed of indemnity (in the form tabled at the meeting) with current and future Directors. The deed is intended to provide an appropriate indemnity for a Director and to clarify the rights and obligations of Directors concerning access to documents and records, confidentiality, indemnity, notification and conduct of claims, advances of legal costs until the finalisation of a claim and insurance against claims. While the 2009 approval of Members will expire in January 2011, any deeds executed in accordance with the Members' approval will remain in force after that date.

# Corporate Governance (cont...)

## **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 also utilises risk management software. The various risk management practices are undertaken within the overriding principle that business risk is a basic line management responsibility - all managers, not just the CEO, share that responsibility.

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 for the financial reports, Management completes a Directors' Questionnaire on various matters relevant to the financial statements. Also included 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.

## **CBHS Workplace Philosophy**

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

## **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.

## **Private Health Insurance 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 by requiring 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

The Directors of CBHS Health Fund Limited (CBHS) submit their report together with the financial report of CBHS for the year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

## Board of Directors

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

- Kerry Brinkley (Chairman)
- Leslie Moth (Deputy Chairman)
- Kevin Bourke
- Michelene Hart
- Marielle Latour<sup>1</sup>
- John Matthews
- Ronda Ryan
- Adrian Walker<sup>2</sup>

## Information on Directors

### Kerry Maree Brinkley

Ms Brinkley has been a member of CBHS since February 1973. She has been a Director of CBHS since January 1993, and was elected Chairman on 25 November 2008. She is the Chairman of the Nomination Committee and a member of the People and Remuneration Committee and the Investment Committee. Ms Brinkley is the Managing Director of Directioneering Queensland Pty Ltd and also operates her own consultancy specialising in human resources and industrial relations. Ms Brinkley has had 20 years of experience in various roles within the Commonwealth Bank (the Bank). Following her time in the Bank, Ms Brinkley occupied the roles of CBA Section Secretary and Queensland Branch Secretary (CBA Section) within the Finance Sector Union of Australia. She is a graduate of Harvard University, Trade Union Program 1997, which included topics of law, economics and the American Health Systems. Ms Brinkley is a graduate and fellow of the Australian Institute of Company Directors 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 Bank in 2004 following a career spanning 36 years. During this time he performed senior roles including leadership roles within a number of subsidiary companies of the Bank Group. Mr Moth holds a Bachelor of Economics with Honours, is a Fellow of the Financial Services Institute of Australasia and is a Certified Professional Member of the Australian Human Resources Institute.

<sup>1</sup> Ms Latour was appointed to fill a casual vacancy on the Board on 20 May 2010.  
<sup>2</sup> Mr Walker retired from the Board on 29 April 2010.

# Directors' Report (cont...)

## **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 Bank Group and held executive positions in Branch Management, Property Project Management, Corporate Finance, Human Resources and Financial Services. He was the Company Secretary of the Financial Services group of subsidiary companies for seven years and the Assistant Company Secretary of the Bank from 1996 until his retirement in November 2001. He is also a Fellow of Chartered Secretaries Australia, a Fellow of the Financial Services Institute of Australasia, and a Professional National Accountant of the National Institute of Accountants.

## **Michelene Hart**

Ms Hart has been a member of CBHS since April 2005. She has been a Director of CBHS since December 2006 and is a member of the Audit, Investment and Nomination Committees. Ms Hart has over 25 years experience in financial services (including over 20 years within the Bank and the Colonial Group). She has operated for the last 15 years at a board and general management level in asset management, superannuation, insurance and banking. Most recently she has been the Chief Executive Officer of a listed investment company, Managing Director of a listed property trust and is currently the principal and co-founder of Yorkway Partners, an independent investment advisory firm. Ms Hart's professional experience includes general business management, strategy development, finance, governance, risk management and corporate finance. Ms Hart is a CPA and holds a Bachelor of Economics, an Executive MBA and a Graduate Diploma in Applied Finance and Investments.

## **Marielle Desiree Latour**

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

## **John Eric Matthews**

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

## **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 was a member of the People and Remuneration Committee and the Nomination Committee until May 2010. She is a Program Manager with a history of aligning strategy to business change. Mrs Ryan has an MBA and is also a graduate member of the Australian Institute of Company Directors.

### Adrian Tolver Walker

Mr Walker retired in April 2010. He has been a member of CBHS since December 1954 and was a Director of CBHS from November 2001. From November 2006, Mr Walker was Chairman of CBHS and he remained in that role until November 2008 – at which time he decided not to re-nominate for the position of Chairman. Mr Walker was a member of the Audit Committee up until his retirement. Mr Walker’s work for the Members of CBHS as a Director followed a Bank 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	7	7	2	2	-	-
K. M. Brinkley	7	7	-	1	2	2
M. Hart	7	7	2	2	-	-
M. D. Latour	1	1	-	-	-	-
J. E. Matthews	7	7	-	1	2	2
L. G. Moth	7	6	2	1	-	-
R. J. Ryan	7	7	-	1	1	1
A. T. Walker	6	6	2	2	-	-

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	5	5	3	3
M. Hart	5	5	3	3
M. D. Latour	-	-	-	-
J. E. Matthews	3	3	-	-
L. G. Moth	5	5	3	3
R. J. Ryan	5	3	-	-
A. T. Walker	-	-	-	-

# Directors' Report (cont...)

## **Company Secretaries**

Mr Nick Elvin was appointed Company Secretary in June 2008. He joined CBHS following a 16 year career in the public and private sectors encompassing areas such as risk management, legal and industrial advocacy, employee relations and human resources. Mr Elvin worked in the Bank for over 5 years and held governance responsibilities while working in the Bank's global markets risk team. 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 was also a Company Secretary and was first appointed in December 1996. He had over 23 year's 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. Mr Stockall resigned as a Secretary on 2 July 2010.

## **Indemnification of officers or auditor**

During the financial year, CBHS paid a premium in respect of a contract insuring all past, present and future directors, company secretaries, and executive officers of CBHS against any liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. In accordance with commercial practice the contract of insurance prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

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

## **Principal activities**

The principal activity of CBHS during the financial year was the provision of health insurance 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 \$10,499,233 (2009: \$8,607,380 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 Acting CEO's message.

## **Changes in state of affairs**

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

## **Subsequent events**

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

**Environmental regulation**

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

**Non-audit services**

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

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are provided in note 24) to the accounts.

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

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

**Auditor's independence declaration**

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20 of the annual report.

**Future developments**

Disclosure of information regarding likely developments in the operations of CBHS in future financial years and the expected results of those operations would result in unreasonable prejudice to CBHS. Accordingly, this information has not been disclosed in this report.

Signed in accordance with a resolution of the directors made pursuant to Section 298 (2) of the Corporations Act 2001.

On behalf of the Directors.



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K. M. Brinkley  
Chairman



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K. G. Bourke  
Director

Dated at Sydney 26th day of August 2010

# Auditor's Independence Declaration



PricewaterhouseCoopers  
ABN 52 780 433 757

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201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
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[www.pwc.com/au](http://www.pwc.com/au)

## Auditor's Independence Declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of CBHS Health Fund Limited during the period.

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

R Balding  
Partner  
PricewaterhouseCoopers

Sydney  
26 August 2010

# Statement of Comprehensive Income

	Notes	2010 \$	2009 \$
Direct premium revenue		205,367,339	180,282,354
Direct claims expense		(156,939,535)	(141,443,710)
Net movement in outstanding claims liability (claims & other component)		(3,755,878)	(1,147,235)
Net movement in outstanding claims liability (risk equalisation component)		(910,242)	(339,329)
Health benefits risk equalisation trust fund		(26,701,157)	(23,033,093)
Government levies	(5)	(2,959,269)	(2,755,649)
<b>Net claims incurred</b>	(2)	<b>(191,266,081)</b>	<b>(168,719,016)</b>
Net movement in unexpired risk liability	(20)b	988,583	4,546,850
Salaries and employee benefit expense		(5,952,872)	(5,900,272)
Other underwriting expenses	(7)	(4,427,782)	(4,097,371)
<b>Underwriting result</b>		<b>4,709,187</b>	<b>6,112,545</b>
Investment income	(3)	4,228,239	4,917,334
Fair value gains/(losses) on financial assets at fair value through profit & loss	(4)	2,223,731	(1,845,171)
Other income	(3)	47,644	55,241
Depreciation and amortisation expense	(6)	(560,212)	(498,328)
Other operating expenses	(7)	(149,356)	(134,241)
<b>Operating surplus attributable to members of CBHS</b>		<b>10,499,233</b>	<b>8,607,380</b>
<b>Other comprehensive income</b>			
Gain/(loss) on revaluation of building	(21)	94,125	(405,875)
Surplus for the period		10,499,233	8,607,380
<b>Total comprehensive income for the year</b>		<b>10,593,358</b>	<b>8,201,505</b>

# Balance Sheet

	Notes	2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	(8)	11,579,852	6,829,079
Trade and other receivables	(9)	7,579,188	6,999,340
Financial assets at fair value through profit or loss	(10)	77,952,498	61,489,085
Other	(11)	158,741	187,936
<b>Total current assets</b>		<b>97,270,279</b>	<b>75,505,440</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	(12)	21,593,521	26,474,882
Property, plant & equipment	(13)	3,981,535	4,064,733
Intangible assets	(14)	288,684	496,084
<b>Total non-current assets</b>		<b>25,863,740</b>	<b>31,035,699</b>
<b>TOTAL ASSETS</b>		<b>123,134,019</b>	<b>106,541,139</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	(15)	7,620,795	6,028,658
Outstanding claims liability	(18)	20,492,981	15,826,861
Unearned premium liability	(19)	6,350,353	5,735,030
Unexpired risk liability	(20)a) (20)c)	1,365,469	2,354,052
Provisions	(16)	817,232	579,890
<b>Total current liabilities</b>		<b>36,646,830</b>	<b>30,524,491</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	(17)	396,415	519,232
<b>Total non-current liabilities</b>		<b>396,415</b>	<b>519,232</b>
<b>TOTAL LIABILITIES</b>		<b>37,043,245</b>	<b>31,043,723</b>
<b>NET ASSETS</b>		<b>86,090,774</b>	<b>75,497,416</b>
<b>RESERVES</b>			
Assets revaluation reserve		717,516	623,391
Retained surpluses		85,373,258	74,874,025
<b>TOTAL RESERVES</b>	(21)	<b>86,090,774</b>	<b>75,497,416</b>



# Cash Flow Statement

	2010 \$	2009 \$
Notes	Inflows (Outflows)	Inflows (Outflows)
<b>Cash flows from operating activities</b>		
Receipts from members	205,766,204	179,612,056
Payments to members, employees and suppliers	(194,765,861)	(176,500,541)
Net cash flow provided by operating activities	(22)b 11,000,343	3,111,515
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(166,376)	(291,480)
Proceeds from sale of property, plant & equipment	355	2,046
Payments for intangible assets	(9,469)	(288,011)
Interest and investment income received	3,284,241	5,436,495
Payments for investments	(9,358,321)	(7,316,941)
Net cash flow used in investing activities	(6,249,570)	(2,457,891)
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>4,750,773</b>	<b>653,624</b>
Cash and cash equivalents at beginning of financial year	6,829,079	6,175,455
<b>Cash and cash equivalents at the end of financial year</b>	(22)a <b>11,579,852</b>	<b>6,829,079</b>

# Notes to the Financial Statements

## 1) Summary of Significant accounting policies

### Statement of compliance

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

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

The financial statements were authorised for issue by the Directors on 26 August 2010.

### 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.

#### **New Accounting Standards and Interpretations:**

The following standards, interpretations and amendments were available for early adoption and applicable to CBHS but have not been applied in these financial statements:

#### *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9*

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. This standard applies to annual reporting periods on or after 1 January 2013. CBHS' financial assets back general insurance liabilities. In accordance with AASB 1023, CBHS measures its financial assets at fair value through profit or loss. It is expected that adoption of this standard will not have a material impact on CBHS's financial statements.

#### *Revised AASB 124 Related Party Disclosure and AASB 2009-12 Amendments to Australian Accounting Standards*

This revised standard and amendment improves the disclosure of related party transactions. It is effective on or after 1 January 2011. Adoption of this standard is not expected to have a material impact on the financial statements of CBHS.

#### *AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

This amendment is applicable to reporting periods on or after 1 January 2011. Amendments contained within this standard include enhancements in the disclosure of financial instruments and changes in equity notes. These enhancements are not expected to have a material impact to the financial statements of CBHS.

## Significant accounting policies

### Insurance Policies

#### a. Insurance Policies

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

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

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

#### b. Revenue

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

##### Premium revenue

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

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

The Australian Government provides a rebate in respect of the premium paid for private health insurance. The rebate is 30% for persons aged under 65, 35% for persons aged from 65 to 69 and 40% for persons aged 70 and above. This rebate is recognised in the Statement of Comprehensive Income as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

##### Investment income

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

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

# Notes to the Financial Statements (cont...)

## **c. Goods and services tax**

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

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

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

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

## **d. Claims**

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

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

## **e. Health Benefits Risk Equalisation Trust Fund**

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

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

## **f. Other underwriting expenses**

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

## **g. Taxation**

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

## **h. Trade and other payables**

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

## **i. Financial assets**

Investments are recognised and derecognised on trade date where 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 or loss'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

CBHS has classified its investments (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.

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.

### Financial Assets – trade and other receivables

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

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

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

# Notes to the Financial Statements (cont...)

## j. Property, plant and equipment

### Land and building

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 their assessment of the current market selling price. The fair value is recognised in the financial statements and is reviewed at the end of each reporting period to ensure that the carrying value of land and building is not materially different from the fair value.

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

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

### Plant and equipment

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:

<u>Description</u>	<u>Useful life</u>
Buildings	30 years
Computer Equipment	3 years
Furniture and Fittings	7 years
Office Equipment	4 years

## k. Employee benefits

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

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

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

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

#### **l. Outstanding claims liability**

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

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

#### **m. Provisions**

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

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

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

#### **n. 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 instead categorised as financial assets at fair value through profit or loss, given these term deposits are not utilised as business working capital in the same way as cash and cash equivalents.

# Notes to the Financial Statements (cont...)

## **o. Impairment of non-financial assets**

Intangible assets that have an indefinite useful life are subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## **p. Liability adequacy test and unexpired risk liability**

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

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

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

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

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

## **q. Deferred acquisition cost**

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

## **r. 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.



#### **s. Intangible assets**

Software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life of 3 years. 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.

#### **t. 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:

##### **i) Outstanding claims liability**

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

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

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

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to CBHS, where more information about the claim event is generally available. IBNR claims may often not be apparent to CBHS until several months later. In calculating the estimated cost of unpaid claims CBHS uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however for changes or uncertainties which may create distortions in the underlying assumptions or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

# Notes to the Financial Statements (cont...)

- 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 28)a).

## ii) Unexpired risk liability

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

Details of specific assumptions used in deriving the unexpired risk liability during the year are detailed in note 28)b).

## iii) Discount factors for managed fund investments

In estimating the fair value of one of the managed fund investments, CBHS has discounted the fund value of the investments (represented by unit prices) with a discount factor to more closely represent the market or realisable value. Details of specific assumptions utilised in deriving the fair value of the investments is set out in note 31).

## 2) Net Claims Incurred

	2010 Current Year		2010 Prior Years		2010 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	-	145,172,141	11,767,394	-	11,767,394	145,172,141
Outstanding claims provided for	(17,122,981)	17,122,981	1,499,467	(1,499,467)	(15,623,514)	15,623,514
Risk equalisation and gov't levies	-	27,389,766	2,270,660	-	2,270,660	27,389,766
Risk equalisation and gov't levies provided for	(3,370,000)	3,370,000	289,340	(289,340)	(3,080,660)	3,080,660
<b>Net claims incurred</b>	<b>(20,492,981)</b>	<b>193,054,888</b>	<b>15,826,861</b>	<b>(1,788,807)</b>	<b>(4,666,120)</b>	<b>191,266,081</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:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Opening balance	(15,826,861)	(14,340,295)
Prior year claims, risk equalisation and levies paid	14,038,054	13,547,464
Write back to profit and loss	1,788,807	792,833
2010 provision established claims, risk equalisation and levies paid	(20,492,981)	(15,826,861)
Closing balance	(20,492,981)	(15,826,859)
Net movement	(4,666,120)	(1,486,564)

See Note 18) for detail

	<b>2009</b>		<b>2009</b>		<b>2009</b>	
	<b>Current Year</b>		<b>Prior Years</b>		<b>Total</b>	
	<b>Provision</b>	<b>Profit and</b>	<b>Provision</b>	<b>Profit and</b>	<b>Provision</b>	<b>Profit and</b>
	<b>Movement</b>	<b>loss</b>	<b>Movement</b>	<b>loss</b>	<b>Movement</b>	<b>loss</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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 levies	-	23,295,467	2,153,946	-	2,153,946	23,295,467
Risk equalisation and 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>

### 3) Investment and other income

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Interest revenue:		
Cash and cash equivalents	540,506	447,468
Term deposits	2,009,988	544,254
Floating rate notes and bank bills	1,677,745	3,925,612
Licence fee revenue	47,644	55,241
<b>Total</b>	<b>4,275,883</b>	<b>4,972,575</b>

### 4) Fair value gains / (losses) on financial assets

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Managed share funds gains/(loss) (a)	(111,147)	(533,481)
Managed cash funds gains/(loss) (a)	1,310,297	(1,628,889)
Managed bond fund gains/(loss) (a)	152,901	-
Floating rate notes and bank bills gains/(loss) (b)	871,680	317,199
<b>Net increment – gains/(losses)</b>	<b>2,223,731</b>	<b>(1,845,171)</b>

# Notes to the Financial Statements (cont...)

- a) Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2010. One of the funds categorised as managed cash funds above, has had a discount factor applied to reflect fair value at 30 June 2010.
- b) 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. The market or fair value of CBHS' existing FRNs is below the face value of the notes.

## 5) Government levies

	2010 \$	2009 \$
NSW, ACT ambulance levies	2,858,311	2,673,659
Other levies	100,958	81,990
<b>Total</b>	<b>2,959,269</b>	<b>2,755,649</b>

## 6) Depreciation and amortisation expense

	2010 \$	2009 \$
<b>Depreciation expense</b>		
Building	94,125	94,125
Plant and equipment	248,856	276,421
<b>Amortisation expense</b>		
Software	217,231	127,782
<b>Total</b>	<b>560,212</b>	<b>498,328</b>

## 7) Underwriting and other expenses from ordinary activities

	2010 \$	2009 \$
Information technology	766,398	745,035
Financial charges and taxes	194,602	172,468
Postage & telephone	346,028	449,958
Printing and stationery	389,896	430,344
Property expense	217,623	204,769
Research, advertising and publicity	147,809	133,730
Consultant, actuarial, audit and legal fees	643,488	653,856
Electronic claims processing fees	501,138	407,456
Subscriptions for industry & purchasing associations	493,078	450,009
Insurance	108,209	94,714
Loss/(Gain) on disposal of plant & equipment	(644)	3,241
Other expenses	769,513	486,032
<b>Total</b>	<b>4,577,138</b>	<b>4,231,612</b>

## 8) Cash and cash equivalents

	2010	2009
	\$	\$
Cash at bank	2,081,220	1,961,096
Cash deposits – “24 hour At-Call”	9,498,082	4,867,433
Cash on hand	550	550
<b>Total</b>	<b>11,579,852</b>	<b>6,829,079</b>

## 9) Current trade and other receivables

	2010	2009
	\$	\$
Premium receivable (a)	6,265,646	6,623,664
Investment income receivable	1,304,091	360,094
Sundry debtors	9,451	15,582
<b>Total</b>	<b>7,579,188</b>	<b>6,999,340</b>

Premium receivable comprises two components, the Federal Government’s 30% Private Health Insurance rebate \$4,950,017 (2009: \$4,271,433) and members who pay for their contributions in arrears or who are non-financial \$1,315,629 (2009: \$2,352,231).

- 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. 22% of CBHS’ members pay for their contributions in arrears while the other 78% pay their contributions in advance. Members who fall into arrears by more than 14 days are not charged interest however they are classified as “non-financial” and no benefit will be paid. CBHS Fund Rules state that if a member is non-financial for more than two months membership may be terminated. Consequently, for members who are non-financial for more than two months, the accrued premium income is reversed out of the profit and loss account and no allowance for impairment is provided.

Premium receivable for members in arrears at year end is made up of approximately 15,557 (2009: 17,124) members.

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 2010 the amount owing to CBHS from Medicare Australia was \$4,950,017. This amount is guaranteed by the Federal Government.

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

	2010	2009
	\$	\$
Term deposits (a)	58,000,000	34,034,926
Floating rate notes and bank bills at fair value (b)	15,958,350	15,081,235
Managed cash funds at market value (c)	3,994,148	12,372,924
<b>Total</b>	<b>77,952,498</b>	<b>61,489,085</b>

- a) These term deposits have maturity dates ranging from 5 July 2010 to 28 April 2011. The weighted average interest rate on these term deposits is 6.07% (2009: 4.01%).
- b) As at 30 June 2010 the fair value of floating rates notes totalled \$15,958,350 (2009: \$15,081,235). The weighted average interest rate on these floating rate notes is 5.09% (2009: 3.45%). These floating rate notes have maturity dates ranging between 20 July 2010 and 24 March 2011.

# Notes to the Financial Statements (cont...)

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.

- c) As at 30 June 2010, CBHS had \$3,994,148 (2009: \$12,372,924) invested in two managed cash funds. Both funds are managed by ING.

As a consequence of the Global Financial Crisis, the fund manager temporarily suspended the funds in late 2008. Unit holders in one fund agreed to changes proposed by the fund manager that allowed the fund to be managed in the interest of all unit holders in the changed market environment. Unit holders in the second fund failed to agree to the changes and as a result ING terminated the fund in early 2009. The underlying securities in both funds are sound.

For details on the method of assessing fair value in accordance with applicable Australian accounting standards see Note 31.

## 11) Other current assets

	2010 \$	2009 \$
Prepayments	99,598	141,721
GST Recoverable	59,143	46,215
<b>Total</b>	<b>158,741</b>	<b>187,936</b>

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

	2010 \$	2009 \$
Managed share funds at market value (a)	4,895,498	1,428,416
Managed cash funds at market value (b)	3,804,091	-
Managed bond fund at market value (c)	3,152,902	-
Bank bills & floating rate notes at fair value (d)	9,741,030	25,046,466
<b>Total</b>	<b>21,593,521</b>	<b>26,474,882</b>

- a) As at 30 June 2010 CBHS had \$4,895,498 (2009: \$1,428,416) invested in externally managed share funds. This balance is comprised of a managed Australian share fund (\$4,435,148) (2009: \$1,428,416) and a managed International share fund (\$460,350) (2009: Nil). The funds are managed by professional fund managers.
- b) As at 30 June 2010 CBHS had \$3,804,091 (2009: Nil) invested in an externally managed cash fund. The fund is managed by professional fund managers.
- c) As at 30 June 2010 CBHS had \$3,152,902 (2009: Nil) invested in an externally managed bond fund. The fund is managed by professional fund managers.
- d) As at 30 June 2010 the fair value of floating rate notes totalled \$9,741,030 (2009: \$25,046,466). The weighted average interest rate on these floating rate notes is 5.30% (2009: 3.44%). These floating rate notes have maturity dates ranging between 28 September 2011 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.

### 13) Property, plant and equipment

#### 30 June 2010

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
<b>Gross carrying amount</b>				
Balance as at 30 June 2009 at cost	1,747,874	1,000,000	2,500,000	5,247,874
Additions	171,387	-	-	171,387
Disposals	(20,138)	-	-	(20,138)
Net adjustment from revaluation (decrement)/increment	-	-	-	-
<b>Balance as at 30 June 2010</b>	<b>1,899,123</b>	<b>1,000,000</b>	<b>2,500,000</b>	<b>5,399,123</b>
<b>Accumulated depreciation</b>				
Balance as at 30 June 2009	1,183,141	-	-	1,183,141
Disposals	(14,408)	-	-	(14,408)
Depreciation expense	248,855	-	94,125	342,980
Net adjustment from revaluation (decrement)	-	-	(94,125)	(94,125)
<b>Balance as at 30 June 2010</b>	<b>1,417,588</b>	<b>-</b>	<b>-</b>	<b>1,417,588</b>
<b>Net book value</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>
<b>Balance as at 30 June 2010</b>	<b>481,535</b>	<b>1,000,000</b>	<b>2,500,000</b>	<b>3,981,535</b>

#### 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 increment/(decrement)	-	-	(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 increment/(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>

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

# Notes to the Financial Statements (cont...)

## 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 in accordance with Australian accounting standards. The valuation, which also conforms to Australian Valuation Standards, was determined by reference to the market selling price. The effective date of the valuation is 30 June 2010.

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

	2010	2009
	\$	\$
Freehold land	1,000,000	1,000,000
Buildings	1,782,484	1,876,609

## 14) Intangible assets

	2010	2009
	\$	\$
<b>Software</b>		
<b>Gross carrying amount</b>		
Balance as at 30 June 2009 at cost	640,531	350,653
Additions	9,831	289,878
Disposals	-	-
Net adjustment from revaluation increment	-	-
<b>Balance as at 30 June 2010</b>	<b>650,362</b>	<b>640,531</b>
<b>Accumulated amortisation</b>		
Balance as at 30 June 2009	144,447	16,666
Disposals		
Amortisation expense	217,231	127,781
Net adjustment from revaluation increment	-	-
<b>Balance as at 30 June 2010</b>	<b>361,678</b>	<b>144,447</b>
<b>Net book value</b>		
<b>Balance as at 30 June 2009</b>	<b>496,084</b>	<b>333,987</b>
<b>Balance as at 30 June 2010</b>	<b>288,684</b>	<b>496,084</b>



## 15) Current trade & other payables

	2010 \$	2009 \$
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	6,554,693	5,347,754
Accruals (b)	682,040	493,272
Trade payables (b)	384,062	187,632
<b>Total</b>	<b>7,620,795</b>	<b>6,028,658</b>

- a) 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 14% on the outstanding balance. CBHS has procedures in place to ensure this payment is made by the due date.
- b) For other trade creditors, the credit period on purchases of goods and services 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 7%, however this only applies to no more than four trade suppliers. CBHS has procedures in place to ensure these payments are made by the due date.

## 16) Current provisions

	2010 \$	2009 \$
Employee benefits (a)	292,005	163,456
Provision for employee performance payments	525,227	416,434
<b>Total</b>	<b>817,232</b>	<b>579,890</b>

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

	<b>Provision for Employee Performance Payments</b>
	<b>\$</b>
Balance as at 30 June 2009	416,434
Additional provision for 2009 recognised through profit and loss in 2010	82,290
Reductions arising from payment or usage	(498,724)
Additional provision recognised	525,227
<b>Balance as at 30 June 2010 (a)</b>	<b>525,227</b>

- (a) The provision for employee performance payments includes \$525,227 expected to be paid within 12 months.

# Notes to the Financial Statements (cont...)

## 17) Non-current provisions

	2010	2009
	\$	\$
Employee benefits	396,415	519,232
<b>Total</b>	<b>396,415</b>	<b>519,232</b>

## 18) Outstanding claims provision

### a) Outstanding claims liability

	2010	2009
	\$	\$
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	15,397,981	11,961,001
Risk margin (ii)	1,160,000	895,860
Claims handling costs	505,000	410,000
Risk equalisation	3,430,000	2,560,000
<b>Gross outstanding claims liability</b>	<b>20,492,981</b>	<b>15,826,861</b>

- i) The expected future payments are not discounted due to the short tail nature of health insurance, as claims are generally settled within twelve months.
- ii) The risk margin of 6.00% (2009: 6.00%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2009: 75%).

### b) Risk margin

#### Process for determining risk margin

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

Although there are some claims paid for health insurance services that have been incurred for more than 12 months, these claims are 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 0.20% 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.

	2010	2009
Risk margin	6.00%	6.00%

**c) Reconciliation of movement**

	<b>2010</b>	<b>2009</b>
	\$	\$
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	15,826,861	14,340,295
Claims incurred during the year	191,266,081	168,719,016
Claims paid during the year	(186,599,961)	(167,232,450)
<b>As at 30 June</b>	<b>20,492,981</b>	<b>15,826,861</b>

**19) Unearned premium liability**

	<b>2010</b>	<b>2009</b>
	\$	\$
Unearned premium liability as at 1 July	5,735,030	4,781,586
Deferral of premiums on contracts written in the period	6,350,353	5,735,030
Earning of premiums written in previous periods	(5,735,030)	(4,781,586)
<b>Unearned premium liability as at 30 June</b>	<b>6,350,353</b>	<b>5,735,030</b>

**20) Unexpired risk liability**

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

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

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

CBHS performed the liability adequacy test and has recognised a reduction of \$988,583 in the unexpired risk liability as at 30 June 2010 (2009: reduction of \$4,546,850).

**a) Unexpired risk liability**

	<b>2010</b>	<b>2009</b>
	\$	\$
Unexpired risk liability as at 1 July	2,354,052	6,900,902
(Decrease)/increase recognition of additional risk liability in the period	(988,583)	(4,546,850)
<b>Unexpired risk liability as at 30 June</b>	<b>1,365,469</b>	<b>2,354,052</b>

Unexpired risk liability includes a risk margin of 3.0% (2009: 3.0%)

# Notes to the Financial Statements (cont...)

## b) Movement recognised in the income statement

	2010 \$	2009 \$
Gross movement in unexpired risk liability	(988,583)	(4,546,850)
Net movement in unexpired risk liability	(988,583)	(4,546,850)
<b>Total movement recognised in the income statement</b>	<b>988,583</b>	<b>4,546,850</b>

## c) Calculation of deficiency

	2010 \$	2009 \$
<b>(a) Unearned premium liability component</b>		
Unearned premium liability (A)	6,021,402	5,300,000
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	5,879,147	5,215,399
Risk margin of 3.0% at 75% PoA* (C) (2009: 3.0%)	172,751	153,162
<b>Net deficiency (B+C-A)</b>	<b>(30,496)</b>	<b>(68,561)</b>
<b>(b) Unclosed business liability component</b>		
Unclosed business liability (A)	328,952	435,200
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	321,180	428,253
Risk margin of 3.0% at 75% PoA* (C)	9,437	12,577
<b>Net deficiency (B+C-A)</b>	<b>(1,665)</b>	<b>(5,630)</b>
<b>(c) Insurance contracts renewable before the next pricing review</b>		
Insurance contracts renewable before the next pricing review (A)	166,551,444	145,377,946
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	163,037,100	143,355,324
Risk margin 3.0% at 75% PoA* (C)	4,847,652	4,302,483
<b>Net deficiency (B+C-A)</b>	<b>(1,333,308)</b>	<b>(2,279,861)</b>
<b>Total deficiency (a)+(b)+(c)</b>	<b>(1,365,469)</b>	<b>(2,354,052)</b>

\* Probability of Adequacy

## 21) Total reserves

	2010 \$	2009 \$
<b>Assets revaluation reserve</b>		
Balance at beginning of financial year	623,391	1,029,266
Revaluation increments / (decrements)	94,125	(405,875)
Balance at end of financial year	<b>717,516</b>	<b>623,391</b>

The asset revaluation reserve comprises revaluations of land and building.

	2010 \$	2009 \$
<b>Retained surplus</b>		
Balance at beginning of financial year	74,874,025	66,266,645
Operating surplus	10,499,233	8,607,380
Total retained surplus end of financial year	<b>85,373,258</b>	<b>74,874,025</b>
<b>Balance at end of financial year</b>	<b>86,090,774</b>	<b>75,497,416</b>

## 22) 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.

	2010 \$	2009 \$
Cash and cash equivalents	11,579,852	6,829,079
<b>Total</b>	<b>11,579,852</b>	<b>6,829,079</b>

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

	2010 \$	2009 \$
Operating surplus	10,499,233	8,607,380
Interest received and receivable	(4,228,239)	(4,917,334)
Depreciation and amortisation	560,212	498,328
Net (increment)/decrement arising from the revaluation of current and non-current financial assets	(2,223,731)	1,845,171
Decrease/(increase) in current receivables	364,149	(731,549)
Decrease/(increase) in other current assets	29,196	(4,601)
(Decrease)/Increase in amount payable for HBREE*	1,206,939	(173,209)
(Decrease)/Increase in accounts payable and accruals	385,198	(71,220)
Increase in unearned premium liability	615,324	953,444
Increase in outstanding claim liability	4,666,120	1,486,566
Decrease in unexpired risk liability	(988,583)	(4,546,850)
(Decrease)/Increase in current provisions	237,342	(6,447)
Increase/(Decrease) in non current provisions	(122,817)	171,836
<b>Total</b>	<b>11,000,343</b>	<b>3,111,515</b>

\* HBREE – Health Benefits Risk Equalisation Expense

## 23) Related Parties

### Transactions with Directors

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

# Notes to the Financial Statements (cont...)

## 24) Remuneration of auditors

	2010	2009
	\$	\$
Auditing the financial report	78,800	105,625
Other audit services	19,700	28,870
Other non-audit services	4,500	35,689
<b>Total</b>	<b>103,000</b>	<b>170,184</b>

The auditor of CBHS is PricewaterhouseCoopers who were appointed in October 2009. Prior to this appointment, Deloitte Touche Tohmatsu were the auditors of CBHS.

## 25) Remuneration of Directors and other key management personnel

The Directors of CBHS during the year were:

- K G Bourke
- K M Brinkley
- M Hart
- M D Latour (appointed 20 May 2010)
- J E Matthews
- L G Moth
- R J Ryan
- A T Walker (retired 29 April 2010)

Other key management personnel of CBHS were:

- K D Stockall Chief Executive Officer and Company Secretary (retired 02 July 2010)
- L Casmiri Business Systems Support Consultant
- M L Coombs Chief Financial Officer
- N A Elvin Company Secretary
- A Lavenuta Marketing and Sales Manager
- J Terzis Finance Manager

a) Directors remuneration	2010	2009
	\$	\$
Short-term employment benefits	183,015	175,872
Post-employment benefits (9% statutory superannuation guarantee)	15,129	15,828
<b>Total directors remuneration</b>	<b>198,144</b>	<b>191,700</b>
b) Other key management personnel remuneration	2010	2009
	\$	\$
Short-term employment benefits	944,434	1,047,855
Post-employment benefits (9% statutory superannuation guarantee)	84,999	94,307
<b>Total key management personnel remuneration</b>	<b>1,029,433</b>	<b>1,142,162</b>
<b>Total directors and other key management personnel Remuneration</b>	<b>1,227,577</b>	<b>1,333,862</b>

**c) Other transactions with key management personnel**

A member of the key management personnel, Lou Casmiri, is a shareholder of Bareda Pty Ltd which trades as Network Logic. CBHS has entered into an agreement with Network Logic for the ongoing provision of information system development and support services. This contract is based on normal commercial terms and conditions.

**26) 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).

**27) Contingent liability**

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

**28) Actuarial assumptions and methods**

**a) Outstanding claims liability**

**Hospital, Medical, Ambulance and Ancillary Cover**

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

**Actuarial assumptions**

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

Estimate	Key Variable
Estimated Medical and Ancillary Incurred Claims Cost for June 2010	\$6,718,000
Estimated Hospital Incurred Claims Cost for June 2010	\$7,446,000
Claims Handling Expense – Hospital	2.50%
Claims Handling Expense – Medical and Ancillary	5.00%
Risk equalisation (Outstanding Claims Component)	27.00%

**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.

# Notes to the Financial Statements (cont...)

## *Claims Handling Expense Rate*

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

## *Risk equalisation (Outstanding Claims Component)*

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

## **Sensitivity analysis**

### *Summary*

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

### *Impact of changes in key variables*

	Key Variable Change	Changes in Outstanding Claims Component*
Incurred claims for June 2010	+10%	\$1,714,000
	-10%	(\$1,714,000)
Expense rate	+10%	\$53,000
	-10%	(\$53,000)
Risk equalisation (OSC Component)	+10%	\$353,000
	-10%	(\$353,000)

\*Excludes risk margin

## **b) Unexpired Risk Liability**

### **Actuarial assumptions**

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

Estimate	Key Variable
Estimated Claims Cost	\$133,489,000
Risk equalisation (relating to above estimated claim)	\$22,478,000
Risk margin	\$4,853,000

### **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.

*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.

	2010	2009
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%	\$14,626,000
	-10%	(\$1,365,000)
Risk equalisation (relating to above estimated claim)	+10%	\$2,510,000
	-10%	(\$1,365,000)

\* Excludes risk margin

# Notes to the Financial Statements (cont...)

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

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

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

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

- Audit Committee's responsibility is to assist the Board statutory and fiduciary duties relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance;
- Investment Committee's responsibility to monitor investment-related activities;
- annual endorsement of a Risk Management Plan which sets out the ways in which CBHS will mitigate strategic and operational risks;
- monitoring and management of risk through sophisticated risk management software; and
- various internal policies, procedures and information systems including:
  - CBHS Management's regular assessment and reporting on key risks. Risk profiles are reviewed regularly and where necessary policies and procedures are implemented to mitigate the risk;
  - the specific identification and addressing of insurance risk within the CBHS risk profile;
  - the Internal Audit function which provides management and the Board independent assurance of the internal control environment;
  - the annual Directors' Questionnaire provides representation to the Board from management about the accuracy of the representation of financial data and the effectiveness of internal controls;
  - an investment strategy heavily weighted to defensive investment assets and capital preservation;
  - the monitoring and review of compliance with Solvency and Capital Adequacy standards as required by the Private Health Insurance Act 2007, and the strategic benchmarks set by the Board;
  - the setting of key performance indicators under the annual Business Plan together with the monitoring and re-forecasting of targets throughout the course of the year;
  - a product design and approval process that includes sign-off by marketing, finance, the Appointed Actuary, legal, and operations prior to Board approval;
  - a rigorous pricing review;
  - review and approval of the budget and forecast/s compiled by management; and
  - continuous monitoring of performance against budget and forecast/s.

## **Insurance Risk**

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

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

### *Concentration Risk*

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

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

## **Credit Risk**

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

CBHS is exposed to credit risk through the operation of its Private Health Insurance business and management of its financial assets (credit risk of financial assets is addressed in Note 31).

In terms of non financial assets, credit risk relates to HIC Rebate Receivable (a government organisation administering the Private Health Insurance Govt 30% rebate) and Premium Receivable from policyholders. Premiums in arrears are continuously monitored. No claims are paid on policies with contributions in arrears.

## **Interest Rate Risk**

CBHS's interest rate risk is limited to those of its financial assets (see note 31d).

All other receivables are non interest bearing.

## **Compliance Risk**

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

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

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

## **Other**

Market Risk and Liquidity Risk are addressed at Note 31.

# Notes to the Financial Statements (cont...)

## 30) Segment information

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

## 31) Financial instruments

### a) Capital Risk Management

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 2009.

### 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, bond 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 2010 the fair value of investments with a fixed interest rate was \$58,000,000 (2009: \$34,034,926) while the fair value of investments with a floating interest rate was \$25,699,381 (2009: \$40,127,701).

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

	<b>Weighted average effective interest rate</b>	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>\$</b>	<b>\$</b>
Cash deposits – "24 hour at call"	4.50%	9,498,082	4,867,433
Term deposits & Floating Rate Notes designated at fair value through profit or loss	5.84%	83,699,381	74,162,627

#### 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>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
+0.25% (25 basis points) per annum	210,000	188,337
-0.25% (25 basis points) per annum	(210,000)	(188,337)

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

# Notes to the Financial Statements (cont...)

## e) Price risks

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

### Price risk sensitivity - managed funds

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

	<b>Surplus Higher/(Lower)</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
+5% per annum	319,920	73,854
-5% per annum	(319,920)	(73,854)

## 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.

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

As at 30 June 2010 deposits of \$14,000,000 were covered by the Federal Government's deposit guarantee arrangements.

The quality of trade and other receivables and financial assets at fair value through profit or loss have been discussed under Notes 9), 10) and 12).

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

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Carrying amount of financial instruments designated as at "fair value through profit or loss"	83,699	74,163
Principal amount of financial instruments designated as at "fair value through profit or loss"	84,000	75,335
Cumulative changes in fair value attributed to changes in credit risk	540	1,050
Changes in fair value attributable to changes in credit risk recognised during the period	(510)	36

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.

#### Liquidity and interest risk tables

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

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
<b>2010</b>					
Trade and other payables	701,849	6,918,946	-	-	-
<b>2009</b>					
Trade and other payables	680,904	5,347,754	-	-	-

#### h) Fair value control framework

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

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. 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 to the Financial Statements (cont...)

## i) Fair value of financial instruments

As at 30 June 2010, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2010	Level 1: quoted prices in active markets (i)	Level 2: valuation techniques based on observable market data (ii)	Level 3: valuation techniques incorporating information other than observable market data (iii)	Total
<i>Assets</i>				
<i>Fair value through profit or loss</i>				
Term deposits	\$58,000,000	-	-	\$58,000,000
Floating rate notes	\$25,699,381	-	-	\$25,699,381
Managed share funds	\$4,895,498	-	-	\$4,895,498
Managed bond fund	\$3,152,902	-	-	\$3,152,902
Managed cash funds	\$3,804,092	\$3,994,147	-	\$7,798,239
<b>Total</b>	<b>\$95,551,873</b>	<b>\$3,994,147</b>	-	<b>\$99,546,020</b>

- i) 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 funds are provided by the respective fund manager. The unit price is determined based on the sum of the last traded prices of the underlying shares at the end of the trading day divided by the number of units issued to unit holders. When determining the fair value of the managed fund the exit unit price is used.
- ii) 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. This category is comprised of two managed cash funds.
- The fair value of the investment in one cash fund as at 30 June 2010 has been calculated utilising unit prices advised by the fund manager at this date discounted by a factor of 2.63%. The discount factor is the weighted average discount to fund value experienced by CBHS in redeeming capital from the fund over the course of 2010 and represents an estimate of the discount between fund value (represented by unit prices) and market or realisable value.
  - The second cash fund was terminated in 2009 and as a result unit prices are no longer quoted. In order to determine the fair value of this financial asset, CBHS independently verified the value of individual securities as advised by the fund manager at 30 June 2010. This verification showed that the values were in line with market value. CBHS's proportion of the total fund value was taken to represent fair value for the financial statements at 30 June 2010.



- iii) 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.

### **32) Solvency Reserve**

The Solvency Reserve, with respect to the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$9,481,501. Net assets are \$86,090,774 representing an excess of \$76,609,666 over the Solvency Reserve.

### **33) 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

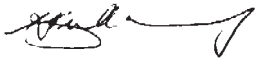
In the director's opinion:

- (a) the financial statements and notes set out between pages 21 and 55 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as when they become due and payable

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

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

This declaration is made in accordance with a resolution of the directors.



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**K. M. Brinkley**  
Chairman



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**K. G. Bourke**  
Director

Dated at Sydney 26th day of August 2010

# Independent Audit Report



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

### Report on the financial report

We have audited the accompanying financial report of CBHS Health Fund Limited (the fund), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income and the cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for CBHS Health Fund Limited.

#### *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 controls 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 the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 fund'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 fund'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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

# Independent Audit Report



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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

### *Independence*

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

### *Auditor's opinion*

In our opinion:

- (a) the financial report of CBHS Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the fund's financial position as at 30 June 2010 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.

A handwritten signature in black ink, appearing to read 'R. Balding'.

PricewaterhouseCoopers

A larger, more detailed handwritten signature in black ink, appearing to read 'R. Balding'.

R Balding  
Partner

Sydney  
26 August 2010

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**Health Fund Limited**

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