

CBHS



CBHS
Health Fund Limited
Annual Report

2011

the key to greater health cover

Table of Contents

Message from the Chairman.....	1
Message from the CEO.....	3
CBHS Delivering Value	6
Results at a Glance	8
Five Year History.....	9
Corporate Governance.....	10
Directors' Report	17
Auditor's Independence Declaration	22
Statement of Comprehensive Income.....	23
Balance Sheet.....	24
Cash Flow Statement.....	25
Notes to the Financial Statements	26
Directors' Declaration	58
Independent Audit Report	59

CBHS Health Fund Limited

ACN 087 648 717
ABN 87 087 648 717

A Registered Private Health Insurer

Registered Office: 10 Pitt Street, Parramatta NSW 2150

Message from the Chairman

In September 2010, CBHS welcomed Mr Paul Gladman as its new CEO following the retirement of Mr Keith Stockall. While Paul has already made his mark in a number of ways, it is important to note that CBHS' commitment to its not-for-profit status, and to its mutual philosophy, is unwavering. It is still an overarching principle to return back to members, by way of claim benefits, as much of our premium contributions as is commercially sustainable. And we did this again very successfully in 2011, paying \$210m in benefits (a nearly 10% increase on 2010) at a benefits/contributions ratio of 92.3%.

As predicted in last year's annual report, 2010-2011 was indeed a challenging year, notably for the prevailing economic conditions. While Australia survived the GFC better than most, it did not escape completely unscathed. Business and consumer confidence is still at a low ebb while the summer's natural disasters and a range of economic pressures, including rising energy prices, higher interest rates and general market volatility, have all conspired to create economic uncertainty in the minds of many Australians. In fact, Australians are now saving at a rate of 18% of disposable income, a clear sign of caution. As a discretionary purchase, health insurance is often one of the early casualties when Australians start to save rather than spend. CBHS has seen evidence of this in its member terminations where the reason for one quarter of terminations is "financial hardship". Ironically, the strong Australian dollar has made overseas travel more attractive and so the second highest reason for termination is overseas travel.

The flip side of the economic coin is that member claim patterns have slowed in the last few months of the year. The reason for this changing pattern is not clear but it is conceivable that some members are delaying their discretionary treatments in order to save money. Of course, the actual cost of treatment continues to rise as providers (hospitals and doctors etc.) raise their fees and the cost of medical equipment, prostheses and pharmaceuticals continues to increase at a fast rate.

Notwithstanding these headwinds, CBHS has once again delivered a result of which we can all be rightly proud. Our net growth of 4.1% compares very well with the industry growth of 3.2%, we have one of the highest member retention rates in the industry (93.7%), we continue to have an industry leading benefits/contributions ratio (92.3%), and we run our business more efficiently than any other fund (Management Expense Ratio of 5.4%). These measures create a competitive advantage in our market and we will work hard to protect that advantage. However, we cannot rest on this advantage alone and so we must continually search for new opportunity for product and service improvement to ensure the sustainability of our fund.

Sustainability is front of mind as further industry consolidation will potentially continue into the near future, albeit perhaps not at the rate we have seen in recent years. In the year just passed, we saw a high profile hostile takeover attempt of GMHBA by NIB. The Board and Management remain committed to keeping CBHS independent and, in order to do that, we remain focussed on maintaining a compelling member value proposition, a sustainable financial position and our current advantage so as to give our members no reason to want change.

With respect to financial sustainability, CBHS has maintained a strong capital position with 1.68 times the regulator's required minimum capital. Our capital is invested to achieve a number of objectives including operational liquidity, capital preservation and acceptable risk returns which assist in limiting premium increases. Funds are invested in a variety of ways including cash, term deposits, bonds and equities with around 70% of the portfolio being conservatively invested. This is somewhat higher than the desired allocation and reflects the fact that defensive assets, for example, term deposits, have been generating exceptionally good returns during the past year.



As we head into the 2012 financial year, the economic outlook remains a significant uncertainty in the minds of all Australians. From an industry perspective, Government policy continues to be the great unknown. At the time of writing, the bill for the means testing of rebates has been introduced to parliament but not yet debated. The implications of this legislation have been modelled in different ways leading to different conclusions. CBHS shares the industry view that the rebate has been very successful in encouraging much greater utilisation of private health insurance, to the benefit of the public system. To remove it seems to be at odds with the Government's own objectives - the Medicare Levy Surcharge and the Lifetime Health Cover loading are both designed to encourage use of Private Health Insurance so as to reduce the burden on the public system. Means testing of the rebate can only *reduce* utilisation, regardless of the extent to which different models predict. CBHS' approach to this issue, and to the broader economic uncertainty, is to manage to what we know but to analyse the implications of what *could* be so that we are ready for any outcome.

In closing, I am confident that CBHS has a management team and staff who are capable of successfully steering our business through the uncertain economic and political conditions which lay ahead. Along with my board colleagues, I will work with management to both maintain this great company's current advantage and also to create the new advantage which will ensure our prosperity regardless of those conditions.



Kerry Brinkley
Chairman

Message from the CEO

It has been a privilege to join this great company in its 60th year, a privilege for which I sincerely thank the Board. My focus over the past year has been on how CBHS can leverage the strengths it has acquired over those 60 years to ensure we maintain our value proposition well into the future. In fact, this focus has now been reflected in our strategic approach which drives us to “maintain our current advantage while striving to create new advantage”.

While very much focused on the future, CBHS remains committed to its constitutional purpose of providing health insurance and related wellbeing services to eligible members. CBHS also remains committed to its mutual structure and to its not-for-profit status as we believe these most appropriately support our constitutional objectives ie, to return as much back to members, by way of benefits, as is commercially sustainable. A summary of our key performance measures is shown in the following pages under the heading “CBHS Delivering value”.

CBHS has sound business fundamentals, a great track record of results and excellent prospects for the future. With this strong foundation on which to build, I have focused my attention on the following areas:

Growth

CBHS has consistently out-performed the industry in terms of growth and has done so again this year. But, we do not take growth for granted. This year we have undertaken detailed analysis of our portfolio and, more significantly, our potential markets. This analysis has confirmed our primary market (for new sales) as current employees of the Commonwealth Bank Group (the Bank), and has quantified the potential growth which exists among *past* employees of the Bank, and among eligible family members. The two main challenges associated with past employees are i) we have no easy direct access to them, and ii) they often do not realise that they are still eligible to join. To address these challenges we will be supplementing our existing workplace promotions with targeted campaigns designed to reach people outside of Bank workplaces.

Our independent mystery shopping research tells us regularly that we deliver a high level of member service. However, it also suggests that we may be missing out on potential sales. We are proud of our service culture and we will continue to prioritise member service. However, we will also seek to improve our sales performance through making the purchase process easier for members.

Sales is only one side of the growth story with terminations being the other side. Every termination requires a new sale just to maintain a neutral position. As mentioned by the Chairman in her report, terminations have increased this year owing to the consequences of our prevailing economic conditions. While the absolute number of terminations is relatively small, we have not simply accepted this situation. We have been working with members in financial difficulty by, for example, recommending a cover downgrade rather than cancelling their membership, or providing temporary payment plans and only terminating cover as an absolute last resort. With suspensions due to long-term overseas travel, we actively contact the member shortly after their anticipated return date to ensure that they reinstate their cover as quickly as possible. We believe that this proactive approach is not just good for maintaining our growth, but that it also demonstrates the CBHS commitment to member service.

Insurance is an intangible product, and usually a grudge purchase as well. The way our people interact with members, through a sales process or a claims event, will create a lasting impression in the minds of members. It is these interactions which make the product more tangible. Therefore, every one of our staff is being encouraged and supported to treat each and every member interaction as though it were their most important interaction ever. Indeed, our overall customer satisfaction index, measured annually by Hirmma at 82.5, and our overall retention rate at 93.7%, are



Message from the CEO (cont...)

consistently among the highest in the industry. These measures are key components of our current advantage and we will be striving to maintain this market leading level of performance.

Value promise

During our strategy development process the board and management agreed to the following vision:

*“We will achieve our objectives and meet our purpose through **leadership** of our industry and of our people. Specifically....*

- *We will be the **preferred** health insurer for employees (past and present), and their immediate families, of the CBA Group.*
- *We will be seen to provide member benefits and service (our Value Promise) which are the **envy** of the industry*
- *We will be **acknowledged** for improving the health and well-being of our members rather than just paying claims”.*

Much of this vision relies on us maintaining our advantage in our product benefits, pricing and service, in other words, our value promise of “Greater Benefits, Lower Costs, Member Focused”.

During the last year we changed our limit bank on our Extras products from a rolling 12 month period to a calendar year basis, a change which not only delivered increased benefits but which also simplified our products. We believe that our products are already among the best in the market, however, we also acknowledge that if we want to remain a leader in our industry, and we believe we are a leader, then we must constantly improve our products to maintain that leadership. To this end, the benefit and rate review process for 2012 will be undertaken with the intention of giving back to members by way of increased benefits.

With respect to service, we receive numerous testimonies from members who express great satisfaction with our service. Hirmma, the industry association for restricted access funds, conducts independent mystery shopping surveys which help us to identify opportunities for improvement and allow us to track our progress. CBHS is consistently rated among the top performing funds. Of course, the ultimate measure of satisfaction is the very high retention rates we enjoy.

Most health funds, including CBHS, have identified the opportunity to reduce claims costs through working to improve the health of their members. It makes good commercial sense as lower claim frequency equals lower costs. In CBHS’ case, lower costs will lead to lower premium increases. But there’s more to it than that. As a mutual we feel an obligation to measurably improve our members’ lives in terms of their health and wellbeing. We want to *inspire* members to create life-improving behavioural changes and the only way we believe this can be achieved is to address the psychology of physical health. And so, in conjunction with the Bank, we have started to think about initiatives which will create real behavioural change and ultimately lead to improvements in members’ health.

People and culture

Our people are the foundation of our success and so it makes good commercial sense to invest in their personal and professional development. However, we also believe that a happy, engaged person will deliver results far in excess of those of a demotivated or disengaged person. Coupled with the fact that we spend half of our waking hours at work, it is management’s duty to provide a safe and healthy workplace, and one that is conducive to productive and harmonious work. To this end we have made a greater commitment to cultural development, to making CBHS a great place to work. “Rule 51” is the name given to our internal ‘code of practice’ on people matters and it supports a range of initiatives all designed to create a culture in which people feel a sense of pride in working for CBHS.

Productivity

CBHS has long enjoyed a market leading Management Expense Ratio (MER) and we will work to protect this advantage. However, at the same time we acknowledge the fact that investment in our future sustained growth will require increased expenditure. For example, product and process development, especially in a hard-fought competitive market, comes at a cost. Also, as we look to maintain our growth among ex-employees and eligible family members, the cost of our marketing activity will increase. While we will almost certainly have to spend more to grow the business, we believe we can maintain our advantage through growing at a rate well in excess of the industry for an MER which is still below that of our competitors.

During July and August 2010 the industry's HICAPS automated claiming system was down for an extended period resulting in a substantial increase in manual paper claims for all insurers. This created a significant backlog of claims processing which we eventually cleared but, more importantly, it identified an opportunity for us to significantly increase the resilience of our processing environment. Two major projects have resulted: first, the scanning, and use of optical character recognition technology, of paper claims which will reduce data entry effort; and second, a major reorganisation of our claims processing teams to ultimately deliver greater flexibility in workload management. This new structure will also facilitate a greater focus on proactive claims management, for example, early patient engagement, pre-procedure, enabling advice to members on potential pit-falls, gap costs and alternate service providers etc.

CBA relationship

CBHS' greatest asset is its unique relationship with the Bank. We enjoy exclusive access to workplaces around Australia and receive unwavering support from the HR Benefits team. This year we have worked hard to elevate the relationship to one more resembling a partnership than a supplier and we believe the benefits have been mutual. In fact, CBHS membership ranks as the 7th most valued benefit of all CBA staff benefits and ranks as 3rd highest in overall satisfaction. This position is particularly satisfying given the large number and range of benefits available to staff, and the high dollar value of many of them. Thanks to this more proactive relationship we have been invited to engage at a more strategic level, to assist the Bank in pursuit of its people-based objectives, something which will surely deliver mutual benefits in the coming years.

While CBHS is independent, we do not forget that our fortunes are inextricably tied to the fortunes of the Bank and we must, therefore, have every respect for the Bank's policies, procedures, staff, customers and, ultimately, the brand. To this end, we look at everything we do through a Bank lens to ensure we minimise any potential for damage to either the Bank or to our relationship with the Bank.

Conclusion

When all is said and done, CBHS exists to serve its members in times of need. It is our hope that we can in the first instance reduce that need by improving our members' health, but that when a claim event does occur we can meet or even exceed member expectations. While a few complaints are inevitable albeit, I assure you, treated very seriously as a learning opportunity, the vast majority of feedback we receive is of a very positive nature. It is this feedback that reassures us that we are on the right track and we remain committed to that track for 2012.

Paul Gladman
CEO

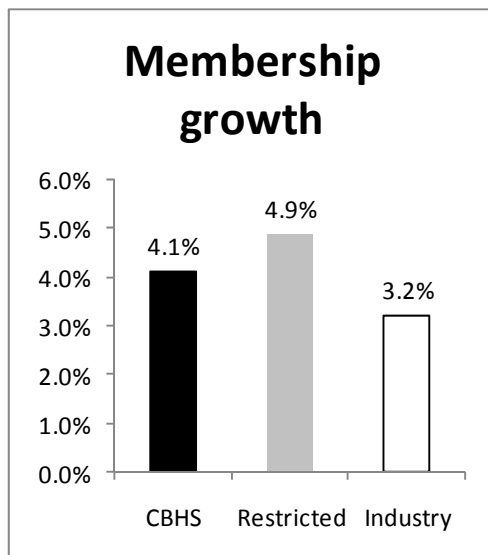
CBHS Delivering Value

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 we 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.

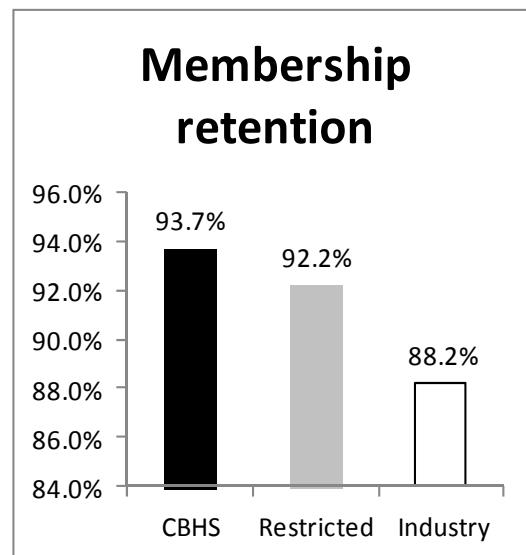
We believe our commitment to the value promise can be measured by comparing our key performance measures against industry averages. These measures include membership growth and retention, benefits paid, management expenses and surplus.

The following comparisons are made on the basis of 2010-11 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.

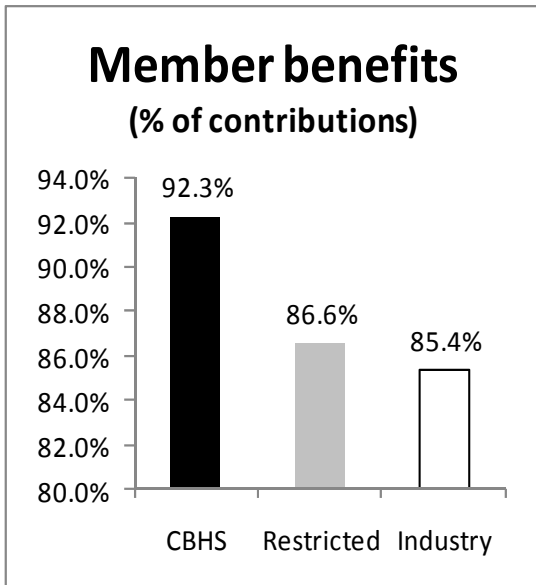
'Industry' data represents all private health insurers.



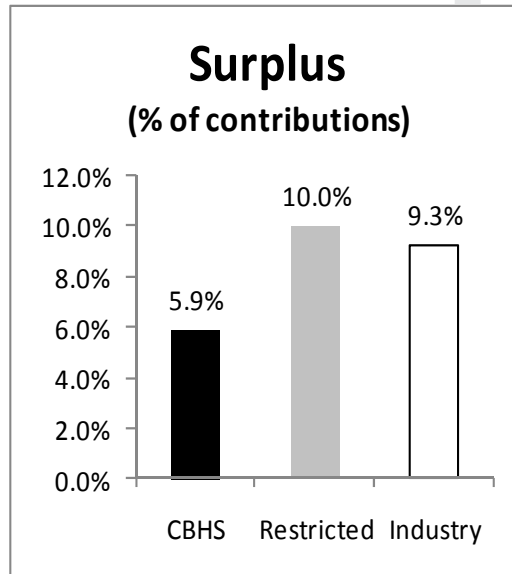
Consistently strong membership growth above industry growth is evidence of CBHS's ability to attract new members through delivery of compelling value.



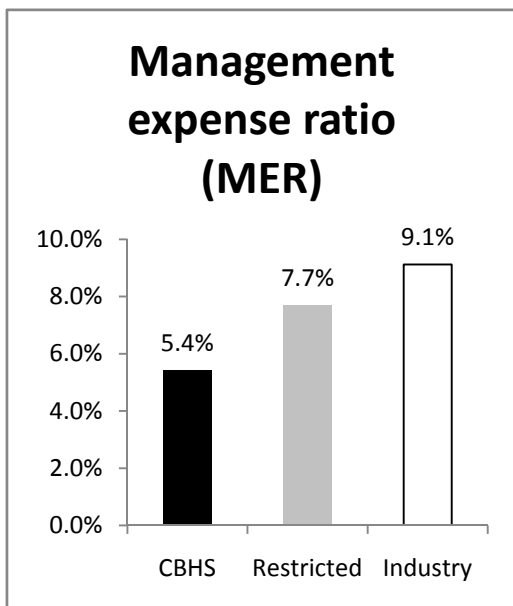
Reflecting our focus on value delivery and service, CBHS continues to generate a significantly higher retention rate than the industry. Our detailed analysis shows that 25% of our terminations are due to financial hardship while the number of people leaving because of dissatisfaction with CBHS is very small at less than 0.1%.



CBHS' not-for-profit status, and the mutual 'for the members' philosophy, drive us to give back to members as much as commercial sustainability allows. With no tax or shareholder dividends to pay, and a very efficient management expense ratio, CBHS was able to payback 92 cents of every premium dollar received as benefits to members.



CBHS' member focus ensures that our surplus is kept to the minimum required to maintain financial strength and security and to fund any investment necessary to sustain the company's growth and development into the future. In 2010-11, CBHS' surplus margin was amongst the lowest in the industry.



CBHS continually strives for efficiency allowing it to operate on one of the lowest cost bases in the industry.

Results at a Glance

Premium Revenue
\$228 million

Total Claims
\$210 million

Benefits per Member
\$3,026

No. Hospital Episodes
44,055

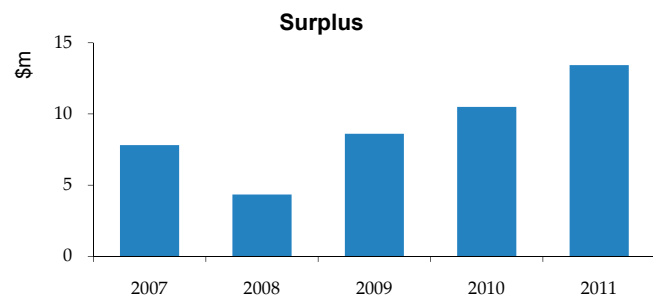
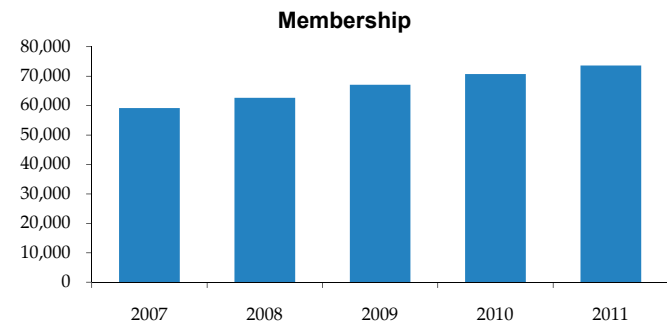
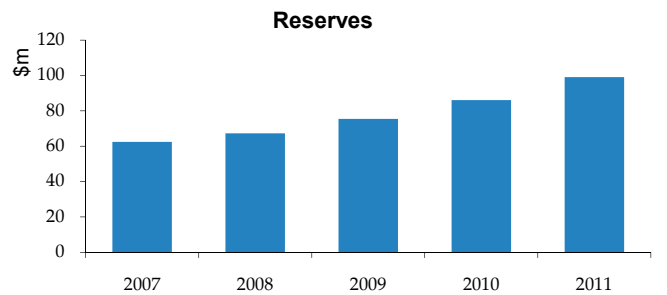
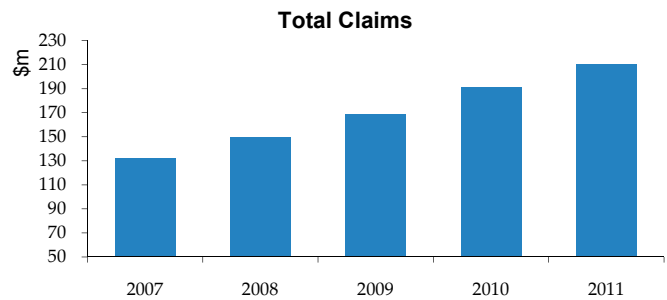
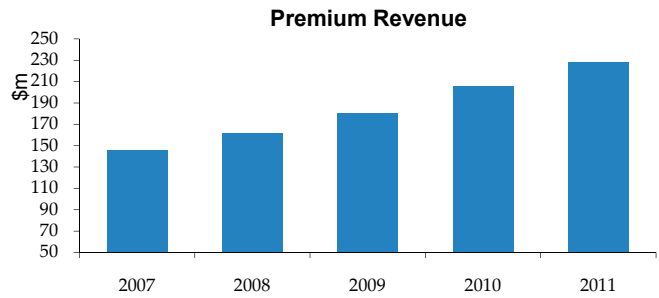
No. General Services
1,288,993

Surplus
\$13.4 million

Reserves per member
\$1,346

People Covered
173,462

Market Share
1.3%



Five Year History

	2011	2010	2009	2008	2007
INCOME STATEMENT					
Premium revenue	227,983,184	205,367,339	180,282,354	161,609,834	145,979,645
Claims expenses					
Fund benefits paid to members	171,754,230	156,939,535	141,443,710	125,231,790	113,669,379
Health benefits risk equalisation trust fund	29,282,266	26,701,157	23,033,093	20,716,290	17,247,404
Net movement in outstanding claims liability	6,234,919	4,666,120	1,486,564	749,747	(1,603,453)
Government levies	3,161,989	2,959,269	2,755,649	2,537,476	2,292,496
Total claims incurred	210,433,404	191,266,081	168,719,016	149,235,303	131,605,826
Net movement in unexpired risk liability	-	(988,583)	(4,546,850)	2,693,000	4,116,766
Underwriting expenses	11,630,801	10,380,654	9,997,643	8,757,113	7,639,059
Underwriting profit/(loss)	5,918,979	4,709,187	6,112,545	924,418	2,617,994
Other operating expenses	(716,541)	(709,568)	(632,569)	(466,377)	(431,206)
Investment and other income	5,681,786	4,275,883	4,972,575	5,322,853	4,063,195
Fair value gains/(losses) on financial assets	2,549,164	2,223,731	(1,845,171)	(1,440,660)	1,562,078
Operating (deficit)/surplus	13,433,388	10,499,233	8,607,380	4,340,234	7,812,061
Retained surplus at beginning of year	85,373,258	74,874,025	66,266,645	61,926,411	54,114,350
Retained surplus at end of year	98,806,646	85,373,258	74,874,025	66,266,645	61,926,411
BALANCE SHEET					
Current assets	96,990,909	97,270,279	75,505,440	53,055,018	34,639,020
Non current assets	51,621,752	25,863,740	31,035,699	47,470,496	56,429,053
Total assets	148,612,661	123,134,019	106,541,139	100,525,514	91,068,073
Current liabilities	49,120,239	36,646,830	30,524,491	32,882,207	28,220,248
Non current liabilities	374,134	396,415	519,232	347,396	386,274
Total liabilities	49,494,373	37,043,245	31,043,723	33,229,603	28,606,522
Net assets	99,118,288	86,090,774	75,497,416	67,295,911	62,461,551
Reserves					
Asset revaluation reserve	311,642	717,516	623,391	1,029,266	535,140
Retained surplus	98,806,646	85,373,258	74,874,025	66,266,645	61,926,411
Total reserves	99,118,288	86,090,774	75,497,416	67,295,911	62,461,551
OTHER INFORMATION					
Benefits paid ratio (%)	92.3%	93.1%	93.6%	92.3%	90.2%
Expense ratio (%)	5.4%	5.4%	5.9%	5.7%	5.5%
Net return on average investment assets (%)	6.5%	6.1%	3.2%	4.4%	7.2%
Members	73,614	70,725	67,050	62,617	59,132
Claims processed	840,511	773,115	706,419	631,351	539,464
Reserves per member (\$)	1,346	1,217	1,126	1,075	1,056
Total income per member (\$)	3,209	2,996	2,731	2,667	2,564
Total expenditure per member (\$)	3,026	2,848	2,602	2,597	2,432
Operating surplus/(deficit) per member (\$)	182	148	128	69	132

Corporate Governance

Framework

The Board has placed great 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 and this statement reflects the key aspects of that framework.

The Constitution sets out various matters relating to the corporate governance practices of CBHS and can be viewed on the CBHS website (www.cbhs.com.au) 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.

The functions performed by the Board are exercised within an appropriate risk management framework. To ensure that decisions are taken quickly and effectively, the Chief Executive Officer (CEO) 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.

From 2010, private health insurers (including CBHS) have been 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 that they encounter.

The Board also endeavours, where applicable, to conform to the corporate governance principles and recommendations issued by the ASX Corporate Governance Council from time-to-time. The Board 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 the financial year each Director also confirmed that he or she was independent (that is, free from any business or other association with CBHS that could materially interfere with the Director's independent judgment). Details of each Director's experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report. In accordance with the Constitution, all Directors are members of CBHS.

The Board meets according to a schedule determined 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 are generally dealt with by using appropriate communication technology to 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 Corporations Act 2001. Each Director regularly reviews his or her position in order to avoid any situation where an interest might affect, or appear to affect, a decision made by the Board.

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

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

The Constitution provides that the maximum aggregate term of a director is 12 years. For directors in office at the time of this change, the 12 year aggregate is to be calculated from 20 November 2003. The Board periodically assesses its performance, policies and practices along with the skills, experience and expertise that are required to competently discharge the Board's duties, having regard to the strategic direction of the Company. Directors participate in an induction program upon appointment and in relevant industry education on a regular basis. Industry education includes sessions with experts in the particular fields relevant to CBHS operations. The training and education programs ensure Directors keep up to date with developments in a dynamic and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by the Australian Institute of Company Directors and other relevant professional institutions.

Corporate Governance (cont...)

Relationship with Management

The Board has delegated to the CEO the authority and powers necessary to achieve the purpose of CBHS – namely, to provide health insurance and related wellbeing services to our members.

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

Board Committees

The Board is supported by four Committees which meet regularly to consider 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 purpose of the Audit Committee is to assist the Board fulfil its statutory and fiduciary responsibilities relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance. The Charter of the Audit Committee 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 and PHIAC statutory regulatory requirements;
- reviewing accounting policies adopted by CBHS to ensure compliance with relevant laws and accounting standards;
- reviewing all material accounting matters that require the exercise of judgement by Management together with the reporting of those matters to the Board;
- monitoring the effectiveness of the risk management framework (including the Risk Management Plan); and
- 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 Internal and External 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 the financial year the Committee facilitated the planning for the appointment of Mr Paul Gladman to the role of CEO.

The work of the Nomination Committee includes the evaluation of Director succession planning together with the "renewal" policy requirements of the 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, Executive Managers and other professionals 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, recommending investment managers and reviewing the performance of those managers and the investment portfolio as a whole. To assist in undertaking this work CBHS engage an external investment advisor.

The Committee's work program over the financial year was conducted against considerable volatility in financial markets.

Corporate Governance (cont...)

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 corporate reputation of CBHS, its ethical culture and business values, its executive leadership and other people policies.

Meetings of the People and Remuneration Committee may also include the CEO 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 each Annual General Meeting.

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 28 October 2010, when members approved an aggregate remuneration of \$300,000 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 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 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 2010. These payments related to the performance of each employee for the 2009/2010 financial year.

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. Deeds of indemnity have been executed by CBHS with each Director in a form consistent with the approval of Members. The deeds provide an appropriate indemnity for each Director and clarify the rights and obligations of a Director with respect to access to documents and records, confidentiality, notification and conduct of claims, advances of legal costs until the finalisation of a claim and insurance against claims. While the 2009 approval of Members expired in January 2011, any deeds executed in accordance with the Members' approval remained in force after that date.

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 strategic risks facing CBHS. The Audit Committee also reviews business 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

Corporate Governance (cont...)

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 acknowledges 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.

A system has been established which allows staff to maintain their confidentiality should they wish to report behaviour issues.

CBHS has a policy of diversity in employment tailored to the unique circumstances and requirements of the Company. This policy leads to a variety of skills, experience and personal qualities in its employees. This commitment allows CBHS to reap the corporate benefits of its employee and director talent – benefits which serve to enhance CBHS' capacity to provide a quality service to its Members.

Monitoring

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

Systems

The systems of information technology and internal financial controls are designed to provide assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of Management or the Board. These controls have been established by Management and are reviewed from time-to-time by the Audit 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 (PHIAC) 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. CBHS' compliance with the code of conduct was ratified in June 2011.

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 2011. 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
- John Matthews
- Ronda Ryan

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 Chairman of the Investment Committee, as well as a member of the Audit and Nomination Committees. Mr Moth retired from the Bank in 2004 following a career spanning 36 years. During this time he performed senior roles including leadership roles within a number of subsidiary companies of the Bank Group. Mr Moth holds a Bachelor of Economics with Honours, is a Fellow of the Financial Services Institute of Australasia and is a Certified Professional Member of the Australian Human Resources Institute.

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, Fellow of the Financial Services Institute of Australasia, and Fellow of Institute of Public 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/committee memberships. He holds a Bachelor of Economics degree from Sydney University, is a graduate of the International Advanced Management Programme (IMI Geneva), a Senior Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.

Ronda Jan Ryan

Mrs Ryan has been a member of CBHS since July 1997 and has been a Director of CBHS since November 2000. Ms Ryan has experience in a broad range of industries including financial services and media having worked for organisations including the Bank, Westpac, NAB, and News Limited. Her professional experience is in Project and Program Management and the Operational management of IT. Ms Ryan holds an MBA and is a graduate member of the Australian Institute of Company Directors.

Directors' Meetings

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

Directors	Board		Audit Committee		People & Remuneration Committee	
	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	8	8	3	3	-	-
K. M. Brinkley	8	8	-	2	4	4
M. Hart	8	8	3	3	-	-
M. D. Latour	8	8	3	3	-	-
J. E. Matthews	8	7	-	1	4	4
L. G. Moth	8	8	3	3	-	-
R. J. Ryan	8	8	-	-	-	-

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	3	3	6	6
M. Hart	3	3	6	6
M. D. Latour	-	-	-	-
J. E. Matthews	3	3	-	-
L. G. Moth	3	3	6	6
R. J. Ryan	-	-	-	-

Directors' Report (cont...)

Company Secretary

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.

Indemnification of officers or auditor

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

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

Principal activities

The principal activity of CBHS during the financial year was the provision of health insurance and related well being services to its members, their dependants and immediate family members.

Dividends

The Constitution of CBHS prohibits the payment of dividends.

Review of operations

The net amount of surplus for the financial year was \$13,433,388(2010: \$10,499,233surplus). CBHS is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax.

A review of operations and the results for the financial year are set out in the Chairman's and CEO's messages.

Changes in state of affairs

During the financial year there was no significant change in the affairs of 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 22 of the annual report.

Future developments

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

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

On behalf of the Directors.



K. M. Brinkley
Chairman



K. G. Bourke
Director

Dated at Sydney 31st day of August 2011

Statement of Comprehensive Income



Auditor's Independence Declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2011, 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', written over a faint circular stamp or watermark.

R Balding
Partner
PricewaterhouseCoopers

Sydney
31 August 2011

	Notes	2011 \$	2010 \$
Direct premium revenue		227,983,184	205,367,339
Direct claims expense		(171,754,230)	(156,939,535)
Net movement in outstanding claims liability (claims & other component)		(4,990,919)	(3,755,878)
Net movement in outstanding claims liability (risk equalisation component)		(1,244,000)	(910,242)
Health benefits risk equalisation trust fund		(29,282,266)	(26,701,157)
Government levies	(5)	(3,161,989)	(2,959,269)
Net claims incurred	(2)	(210,433,404)	(191,266,081)
Net movement in unexpired risk liability	(20)b	-	988,583
Salaries and employee benefit expense		(6,489,059)	(5,952,872)
Other underwriting expenses	(7)	(5,141,742)	(4,427,782)
Underwriting result		5,918,979	4,709,187
Investment income	(3)	5,631,976	4,228,239
Fair value gains/(losses) on financial assets at fair value through profit or loss	(4)	2,549,164	2,223,731
Other income	(3)	49,810	47,644
Depreciation and amortisation expense	(6)	(540,219)	(560,212)
Other operating expenses	(7)	(176,322)	(149,356)
Operating surplus attributable to members of CBHS		13,433,388	10,499,233
Other comprehensive income			
Gain/(loss) on revaluation of building	(21)	(405,874)	94,125
Surplus for the period		13,433,388	10,499,233
Total comprehensive income for the year		13,027,514	10,593,358

Balance Sheet

	Notes	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	(8)	15,270,391	11,579,852
Trade and other receivables	(9)	10,228,502	7,579,188
Financial assets at fair value through profit or loss	(10)	71,176,400	77,952,498
Other	(11)	315,616	158,741
Total current assets		96,990,909	97,270,279
NON-CURRENT ASSETS			
Financial assets at fair value through profit or loss	(12)	48,126,526	21,593,521
Property, plant & equipment	(13)	3,423,212	3,981,535
Intangible assets	(14)	72,014	288,684
Total non-current assets		51,621,752	25,863,740
TOTAL ASSETS		148,612,661	123,134,019
CURRENT LIABILITIES			
Trade and other payables	(15)	9,201,794	7,620,795
Outstanding claims liability	(18)	26,727,900	20,492,981
Unearned premium liability	(19)	10,937,074	6,350,353
Unexpired risk liability	(20)a (20)c	1,365,469	1,365,469
Provisions	(16)	888,002	817,232
Total current liabilities		49,120,239	36,646,830
NON-CURRENT LIABILITIES			
Provisions	(17)	374,134	396,415
Total non-current liabilities		374,134	396,415
TOTAL LIABILITIES		49,494,373	37,043,245
NET ASSETS		99,118,288	86,090,774
RESERVES			
Assets revaluation reserve		311,642	717,516
Retained surpluses		98,806,646	85,373,258
TOTAL RESERVES	(21)	99,118,288	86,090,774

Cash Flow Statement

	Notes	2011 \$ Inflows (Outflows)	2010 \$ Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		226,543,384	205,766,204
Payments to members, employees and suppliers		(209,879,829)	(194,765,861)
Net cash flow provided by operating activities	(22)b)	16,663,555	11,000,343
Cash flows from investing activities			
Payments for property, plant and equipment		(173,323)	(166,376)
Proceeds from sale of property, plant & equipment		2,221	355
Payments for intangible assets		-	(9,469)
Interest and investment income received		4,405,827	3,284,241
Payments for investments		(17,207,743)	(9,358,321)
Net cash flow used in investing activities		(12,973,016)	(6,249,570)
Increase / (decrease) in cash and cash equivalents		3,690,539	4,750,773
Cash and cash equivalents at beginning of financial year		11,579,852	6,829,079
Cash and cash equivalents at the end of financial year	(22)a)	15,270,391	11,579,852

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 31 August 2011.

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

Standards, interpretations and amendments available for early adoption were not applicable to CBHS and hence have not been applied in these financial statements.

Significant accounting policies

Insurance Policies

a. Insurance Contracts

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

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

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

b. 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.

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.

Notes to the Financial Statements (cont...)

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 'trade and other receivables' and 'financial assets at fair value through profit or loss'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

CBHS has classified its investments (floating rate notes and managed 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.

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, providing an assessment of the market environment at reporting date. 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.

Notes to the Financial Statements (cont...)

Depreciation is provided on property, plant and equipment, including freehold building but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

Description	Useful life
Buildings	30 years
Computer Equipment	3 years
Furniture and Fittings	7 years
Office Equipment	4 years

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.

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.

o. Impairment of non-financial assets

Non-financial 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. The inflows for these assets are largely independent of the cash inflows from other assets or groups of assets (cash-generating). Non-financial assets that suffered 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

Notes to the Financial Statements (cont...)

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. Acquisition cost for health insurance contracts

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

r. Assets backing general insurance liabilities

All investments held by CBHS, excluding land and building as this is 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 or fair value gains/(losses).

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.

u. 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:

- changes in internal or external processes which might accelerate or slow down the payment of claims, compared with the information from previous periods;
- the effects of inflation;
- medical and technological developments;
- increase in membership;
- increase in utilisation; and
- seasonal changes in utilisation.

Details of specific assumptions used in deriving the outstanding claims liability during the year are detailed in note 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).

Notes to the Financial Statements (cont...)

2) Net Claims Incurred

	2011 Current Year		2011 Prior Years		2011 Total	
	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$	Provision Movement \$	Profit and loss \$
Gross claims expense	-	156,391,302	15,362,928	-	15,362,928	156,391,302
Outstanding claims provided for	(22,053,900)	22,053,900	1,700,053	(1,700,053)	(20,353,847)	20,353,847
Risk equalisation and gov't levies	-	29,356,000	3,088,255	-	3,088,255	29,356,000
Risk equalisation and gov't levies provided for	(4,674,000)	4,674,000	341,745	(341,745)	(4,332,255)	4,332,255
Net claims incurred	(26,727,900)	212,475,202	20,492,981	(2,041,798)	(6,234,919)	210,433,404

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.

	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
Net claims incurred	(20,492,981)	193,054,888	15,826,861	(1,788,807)	(4,666,120)	191,266,081

Outstanding claims liability movements are as follows:

	2011 \$	2010 \$
Opening balance	(20,492,981)	(15,826,861)
Prior year claims, risk equalisation and levies paid	18,451,183	14,038,054
Write back to profit and loss	2,041,798	1,788,807
2011 provision established claims, risk equalisation and levies paid	(26,727,900)	(20,492,981)
Closing balance	(26,727,900)	(20,492,981)
Net movement	(6,234,919)	(4,666,120)

See Note 18 for detail

3) Investment and other income

	2011 \$	2010 \$
Interest revenue:		
Cash and cash equivalents	596,499	540,506
Term deposits	4,238,320	2,009,988
Floating rate notes and bank bills	797,157	1,677,745
Licence fee revenue	49,810	47,644
Total	5,681,786	4,275,883

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

	2011 \$	2010 \$
Managed share funds gains/(loss) (a)	897,540	(111,147)
Managed cash funds gains/(loss) (a)	968,895	1,310,297
Managed bond fund gains/(loss) (a)	405,710	152,901
Floating rate notes and bank bills gains/(loss) (b)	277,019	871,680
Net increment – gains/(losses)	2,549,164	2,223,731

- a) Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2011.
- 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

	2011 \$	2010 \$
NSW, ACT ambulance levies	3,041,407	2,858,311
Other levies	120,582	100,958
Total	3,161,989	2,959,269

6) Depreciation and amortisation expense

	2011 \$	2010 \$
Depreciation expense		
Building	94,125	94,125
Plant and equipment	229,424	248,856
Amortisation expense		
Software	216,670	217,231
Total	540,219	560,212

Notes to the Financial Statements (cont...)

7) Underwriting and other expenses from ordinary activities

	2011 \$	2010 \$
Information technology	1,009,733	766,398
Financial charges and taxes	212,309	194,602
Postage & telephone	410,137	346,028
Printing and stationery	403,503	389,896
Property expense	319,308	217,623
Research, advertising and publicity	154,243	147,809
Consultant, actuarial, audit and legal fees	767,943	643,488
Electronic claims processing fees	560,520	501,138
Subscriptions for industry & purchasing associations	514,097	493,078
Insurance	103,421	108,209
Loss/(Gain) on disposal of plant & equipment	(3,678)	(644)
Other expenses	866,528	769,513
Total	5,318,064	4,577,138

8) Cash and cash equivalents

	2011 \$	2010 \$
Cash at bank	3,790,799	2,081,220
Cash deposits – “24 hour At-Call”	11,479,042	9,498,082
Cash on hand	550	550
Total	15,270,391	11,579,852

9) Current trade and other receivables

	2011 \$	2010 \$
Premium receivable (a)	7,603,379	6,265,646
Investment income receivable	2,530,240	1,304,091
Sundry debtors	94,883	9,451
Total	10,228,502	7,579,188

(a) Premium receivable comprises two components, the Federal Government’s Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$7,236,394(2010:\$4,950,017) and members who pay for their contributions in arrears or who are non-financial \$366,985(2010: \$1,315,629).

- The rebate is accrued on a monthly basis and payment is due and payable within 30 days in the following month. Payment is normally received by the 15th day of the following month.
- The credit period for members who pay their contributions in arrears is 14 days. 19% of CBHS’ members pay for their contributions in arrears while the other 81% 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 925(2010: 15,557) members.

Medicare Australia is the only significant counterparty as at reporting date. Medicare Australia is the arm of the Federal Government that manages the PHI Rebate Scheme. As at 30 June 2011 the amount owing to CBHS from Medicare Australia was \$7,236,394. This amount is guaranteed by the Federal Government.

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

	2011	2010
	\$	\$
Term deposits (a)	61,200,000	58,000,000
Floating rate notes and bank bills at fair value (b)	9,976,400	15,958,350
Managed cash funds at market value (c)	-	3,994,148
Total	71,176,400	77,952,498

- a) These term deposits have maturity dates ranging from 22 July 2011 to 24 June 2012. The weighted average interest rate on these term deposits is 6.25% (2010: 6.07%).
- b) As at 30 June 2011 the fair value of floating rate notes totalled \$9,976,400 (2010: \$15,958,350). The weighted average interest rate on these floating rate notes is 5.34% (2010: 5.09%). 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 to maturity. It is extremely unlikely given these current investment practices that any unrealised losses will be realised.

11) Other current assets

	2011	2010
	\$	\$
Prepayments	239,839	99,598
GST Recoverable	75,777	59,143
Total	315,616	158,741

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

	2011	2010
	\$	\$
Managed share funds at market value (a)	16,418,037	4,895,498
Managed cash funds at market value (b)	6,613,504	3,804,091
Managed bond fund at market value (c)	13,144,985	3,152,902
Floating rate notes and bank bills at fair value	-	9,741,030
Term deposits (d)	11,950,000	-
Total	48,126,526	21,593,521

Notes to the Financial Statements (cont...)

- a)** As at 30 June 2011 CBHS had \$16,418,037 (2010: \$4,895,498) invested in externally managed share funds. This balance is comprised of a managed Australian share fund (\$10,188,482) (2010: \$4,435,148) and a managed International share fund (\$6,229,555) (2010: \$460,350). The funds are managed by professional fund managers.
- b)** As at 30 June 2011 CBHS had \$6,613,504 (2010: \$3,804,091) invested in externally managed cash fund. The fund is managed by professional fund managers.
- c)** As at 30 June 2011 CBHS had \$13,144,985 (2010: \$3,152,902) invested in externally managed bond funds. The funds are managed by professional fund managers.
- d)** These term deposits have maturity dates ranging from 21 September 2012 to 29 March 2016. The weighted average interest rate on these term deposits is 6.75% (2010: nil).

13)Property, plant and equipment

30 June 2011

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
Gross carrying amount				
Balance as at 30 June 2010 at cost	1,899,123	1,000,000	2,500,000	5,399,123
Additions	173,177	-	-	173,177
Disposals	(179,110)	-	-	(179,110)
Net adjustment from revaluation (decrement)/increment	-	-	(500,000)	(500,000)
Balance as at 30 June 2011	1,893,190	1,000,000	2,000,000	4,893,190
Accumulated depreciation				
Balance as at 30 June 2010	1,417,588	-	-	1,417,588
Disposals	(177,034)	-	-	(177,034)
Depreciation expense	229,424	-	94,125	323,549
Net adjustment from revaluation (decrement)	-	-	(94,125)	(94,125)
Balance as at 30 June 2011	1,469,978	-	-	1,469,978
Net book value				
Balance as at 30 June 2010	481,535	1,000,000	2,500,000	3,981,535
Balance as at 30 June 2011	423,212	1,000,000	2,000,000	3,423,212

30 June 2010

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
Gross carrying amount				
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 increment/(decrement)	-	-	-	-
Balance as at 30 June 2010	1,899,123	1,000,000	2,500,000	5,399,123
Accumulated depreciation				
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 increment/(decrement)	-	-	(94,125)	(94,125)
Balance as at 30 June 2010	1,417,588	-	-	1,417,588
Net book value				
Balance as at 30 June 2009	564,733	1,000,000	2,500,000	4,064,733
Balance as at 30 June 2010	481,535	1,000,000	2,500,000	3,981,535

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 2011.

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

	2011 \$	2010 \$
Freehold land	1,000,000	1,000,000
Buildings	1,688,358	1,782,484

14) Intangible assets

	2011 \$	2010 \$
Software		
Gross carrying amount		
Balance as at 30 June 2010 at cost	650,362	640,531
Additions	-	9,831
Disposals	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2011	650,362	650,362
Accumulated amortisation		
Balance as at 30 June 2010	361,678	144,447
Disposals	-	-
Amortisation expense	216,670	217,231
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2011	578,348	361,678
Net book value		
Balance as at 30 June 2010	288,684	496,084
Balance as at 30 June 2011	72,014	288,684

15) Current trade & other payables

	2011 \$	2010 \$
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	7,700,000	6,554,693
Accruals (b)	847,098	682,040
Trade payables (b)	654,696	384,062
Total	9,201,794	7,620,795

- 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 15% on the outstanding balance. CBHS has procedures in place to ensure this payment is made by the due date.
- b) For other trade creditors, the credit period on purchases of goods and services is up to 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged at 8%, however this only applies to a small number of suppliers. CBHS has procedures in place to ensure these payments are made by the due date.

16) Current provisions

	2011 \$	2010 \$
Employee benefits (a)	329,783	292,005
Provision for employee performance payments (b)	558,219	525,227
Total	888,002	817,232

- a) The current provision for employee benefits is annual leave accrued and expected to be paid within 12 months.
- b) The provision for employee performance payments includes \$558,219 expected to be paid within 12 months.

17) Non-current provisions

	2011 \$	2010 \$
Employee benefits	374,134	396,415
Total	374,134	396,415

Notes to the Financial Statements (cont...)

18) Outstanding claims provision

a) Outstanding claims liability

	2011	2010
	\$	\$
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	19,898,000	15,397,981
Risk margin (ii)	1,512,900	1,160,000
Claims handling costs	643,000	505,000
Risk equalisation	4,674,000	3,430,000
Gross outstanding claims liability	26,727,900	20,492,981

- 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% (2010: 6.00%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2010: 75%).

b) Risk margin

Process for determining risk margin

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

Although there are some claims paid for health insurance services that have been incurred for more than 12 months, these claims are small in number. Most activity in hospital and medical benefits after more than 12 months of the date of service are reversals due to 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.

	2011	2010
Risk margin	6.00%	6.00%

c) Reconciliation of movement

	2011 \$	2010 \$
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	20,492,981	15,826,861
Claims incurred during the year	210,433,404	191,266,081
Claims paid during the year	(204,198,485)	(186,599,961)
As at 30 June	26,727,900	20,492,981

19) Unearned premium liability

	2011 \$	2010 \$
Unearned premium liability as at 1 July	6,350,353	5,735,030
Deferral of premiums on contracts written in the period	10,937,074	6,350,353
Earning of premiums written in previous periods	(6,350,353)	(5,735,030)
Unearned premium liability as at 30 June	10,937,074	6,350,353

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" (URL).

CBHS performed the liability adequacy test and maintained the URL Provision as per prior year. As a result there has been nil movement in the provision at 30 June 2011 (2010: reduction of \$988,583).

a) Unexpired risk liability

	2011 \$	2010 \$
Unexpired risk liability as at 1 July	1,365,469	2,354,052
(Decrease)/increase recognition of additional risk liability in the period	-	(988,583)
Unexpired risk liability as at 30 June	1,365,469	1,365,469

Unexpired risk liability includes a risk margin of 3.0% (2010: 3.0%)

Notes to the Financial Statements (cont...)

b) Movement recognised in the income statement

	2011 \$	2010 \$
Gross movement in unexpired risk liability	-	(988,583)
Net movement in unexpired risk liability	-	(988,583)
Total movement recognised in the income statement	-	988,583

c) Calculation of deficiency

	2011 \$	2010 \$
(i) Unearned premium liability component		
Unearned premium liability (A)	10,730,108	6,021,402
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	10,465,368	5,879,147
Risk margin of 3.0% at 75% PoA* (C) (2010: 3.0%)	307,016	172,751
Net deficiency (B+C-A)	(42,276)	(30,496)
(ii) Unclosed business liability component		
Unclosed business liability (A)	206,966	328,952
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	201,860	321,180
Risk margin of 3.0% at 75% PoA* (C)	5,922	9,437
Net deficiency (B+C-A)	(816)	(1,665)
(iii) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	185,896,671	166,551,444
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	181,374,649	163,037,100
Risk margin 3.0% at 75% PoA* (C)	5,844,399	4,847,652
Net deficiency (B+C-A)	(1,322,377)	(1,333,308)
Total deficiency (i)+(ii)+(iii)	(1,365,469)	(1,365,469)

* Probability of Adequacy

21) Total reserves

	2011 \$	2010 \$
Assets revaluation reserve		
Balance at beginning of financial year	717,516	623,391
Revaluation increments / (decrements)	(405,874)	94,125
Balance at end of financial year	311,642	717,516

The asset revaluation reserve comprises revaluations of land and building.

	2011 \$	2010 \$
Retained surplus		
Balance at beginning of financial year	85,373,258	74,874,025
Operating surplus	13,433,388	10,499,233
Total retained surplus end of financial year	98,806,646	85,373,258
Balance at end of financial year	99,118,288	86,090,774

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;

	2011 \$	2010 \$
Cash and cash equivalents	15,270,391	11,579,852
Total	15,270,391	11,579,852

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

	2011 \$	2010 \$
Operating surplus	13,433,388	10,499,233
Interest received and receivable	(5,631,976)	(4,228,239)
Depreciation and amortisation	540,219	560,212
Net (increment)/decrement arising from the revaluation of current and non-current financial assets	(2,549,164)	(2,223,731)
(Increase)/decrease in current receivables	(1,423,165)	364,149
(Increase)/decrease in other current assets	(156,875)	29,196
Increase in amount payable for HBREE*	1,145,307	1,206,939
Increase in accounts payable and accruals	435,692	385,198
Increase in unearned premium liability	4,586,721	615,324
Increase in outstanding claim liability	6,234,919	4,666,120
(Decrease) in unexpired risk liability	-	(988,583)
Increase in current provisions	70,770	237,342
Decrease in non current provisions	(22,281)	(122,817)
Total	16,663,555	11,000,343

* HBREE – Health Benefits Risk Equalisation Expense

23) Related Parties

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

	2011	2010
	\$	\$
Auditing the financial report	87,200	78,800
Other audit services	21,800	19,700
Other non-audit services	4,500	4,500
Total	113,500	103,000

The auditor of CBHS is PricewaterhouseCoopers.

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
- MDLatour
- J E Matthews
- L G Moth
- R J Ryan

Other key management personnel of CBHS were:

- PA Gladman Chief Executive Officer (appointed 6 September 2010)
- K D Stockall Chief Executive Officer (retired 02 July 2010)
- M L Coombs Chief Operations Officer (appointed 1 February 2011)
- N A Elvin Company Secretary
- A Lavenuta Marketing and Sales Manager
- D Molina Chief Financial Officer (appointed 4 April 2011)
- L Casmiri Business Systems Support Consultant (resigned 31 August 2010)

a) Directors remuneration	2011	2010
	\$	\$
Short-term employment benefits	236,689	183,015
Post-employment benefits (9% statutory superannuation guarantee)	21,302	15,129
Total directors remuneration	257,991	198,144

b) Other key management personnel remuneration	2011	2010
	\$	\$
Short-term employment benefits	1,005,598	944,434
Post-employment benefits (9% statutory superannuation guarantee)	78,413	84,999
Total key management personnel remuneration	1,084,011	1,029,433
Total directors and other key management personnel Remuneration	1,342,002	1,227,577

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 IT services to CBHS. The agreement is for a period of 12 months commencing from 1 July 2011 and ending on 30 June 2012. The agreement is subject to annual renewal.

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 2011	Key Variable 2010
Estimated Medical and Ancillary Incurred Claims Cost for June 2011	\$14,094,000	\$10,306,000
Estimated Hospital Incurred Claims Cost for June 2011	\$5,804,000	\$4,911,000
Claims Handling Expense – Hospital	2.50%	2.50%
Claims Handling Expense – Medical and Ancillary	5.00%	5.00%
Risk equalisation (Outstanding Claims Component)	28.00%	27.00%
Risk Margin	6.00%	6.00%

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.

Claims Handling Expense Rate

Notes to the Financial Statements (cont...)

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 2011	Changes in Outstanding Claims Component* 2011	Key Variable Change 2010	Changes in Outstanding Claims Component* 2010
Incurring claims for June 2011	+10%	\$1,955,000	+10%	\$1,714,000
	-10%	(\$1,955,000)	-10%	(\$1,714,000)
Expense rate	+10%	\$67,000	+10%	\$53,000
	-10%	(\$67,000)	-10%	(\$53,000)
Risk equalisation (OSC Component)	+10%	\$464,000	+10%	\$353,000
	-10%	(\$464,000)	-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 2011	Key Variable 2010
Estimated Claims Cost	\$145,163,000	\$133,489,000
Risk equalisation (relating to above estimated claim)	17.13%	16.84%
Risk margin	3.60%	3.64%

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.

	2011	2010
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 2011	Changes in unexpired Risk Component* 2011	Key Variable Change 2010	Changes in unexpired Risk Component* 2010
Estimated Claims Cost	+10%	\$16,245,000	+10%	\$14,626,000
	-10%	(\$1,301,000)	-10%	(\$1,365,000)
Risk equalisation (relating to above estimated claim)	+10%	\$2,834,000	+10%	\$2,510,000
	-10%	(\$1,133,000)	-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 fulfil its statutory and fiduciary duties relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance;
- Investment Committee's responsibility to monitor investment-related activities;
- annual endorsement of a Risk Management Plan which sets out the ways in which CBHS will mitigate strategic and operational risks;
- monitoring and management of risk through 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 31f).

In terms of non financial assets, credit risk relates to HIC Rebate Receivable (a government organisation administering the Private Health Insurance Government 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...)

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 2010.

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 2011 the fair value of investments with a fixed interest rate was \$73,150,000 (2010: \$58,000,000) while the fair value of investments with a floating interest rate was \$9,976,400 (2010: \$25,699,381).

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

	Weighted average effective interest rate	2011	2010
	%	\$	\$
Cash deposits – "24 hour at call"	4.75%	11,479,042	9,498,082
Term deposits & Floating Rate Notes designated at fair value through profit or loss	6.24%	83,126,400	83,699,381

Interest rate sensitivity analysis

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

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

	Surplus Higher/(Lower)	
	2011	2010
	\$	\$
+0.25% (25 basis points) per annum	207,875	210,000
-0.25% (25 basis points) per annum	(207,875)	(210,000)

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:

	Surplus Higher/(Lower)	
	2011	2010
	\$	\$
+5% per annum	1,356,668	319,920
-5% per annum	(1,356,668)	(319,920)

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 2011 deposits of \$11,000,000 were covered by the Federal Government's deposit guarantee arrangements. The scheme is set to finalise in October 2011. CBHS has commenced to unwind the practise above as and when investments mature.

Credit exposure by credit rating

	2011	2010
	\$'000	\$'000
Cash and cash equivalents		
A series rating	15,270	11,580
B series rating	-	-
Unrated	-	-
	15,270	11,580
Financial assets at fair values through the profit or loss		
A series rating	66,347	71,909
B series rating	16,780	11,790
Unrated	36,177	15,847
	119,303	99,546

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

	2011 \$'000	2010 \$'000
Carrying amount of financial instruments designated as at “fair value through profit or loss”	83,127	83,699
Principal amount of financial instruments designated as at “fair value through profit or loss”	83,150	84,000
Cumulative changes in fair value attributed to changes in credit risk	258	540
Changes in fair value attributable to changes in credit risk recognised during the period	(282)	(510)

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 continues to review its Capital Management Plan to assist in managing the company’s medium and long term funding and liquidity requirements.

Liquidity and interest risk tables

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

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years
2011					
Trade and other payables	1,066,373	8,135,421	-	-	-
2010					
Trade and other payables	701,849	6,918,946	-	-	-

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.

Notes to the Financial Statements (cont...)

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

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

i) Fair value of financial instruments

As at 30 June 2011, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

	Level 1: quoted prices in active markets (i)	Level 2: valuation techniques based on observable market data (ii)	Level 3: valuation techniques incorporating information other than observable market data (iii)	Total
2011				
Assets				
<i>Fair value through profit or loss</i>				
Term deposits	\$73,150,000	-	-	\$73,150,000
Floating rate notes	\$9,976,400	-	-	\$9,976,400
Managed share funds	\$16,418,037	-	-	\$16,418,037
Managed bond fund	\$13,144,985	-	-	\$13,144,985
Managed cash funds	\$6,613,504	-	-	\$6,613,504
Total	\$119,302,926	-	-	\$119,302,926

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:

	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
2010				
Assets				
<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
Total	\$95,551,873	\$3,994,147	-	\$99,546,020

- 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. CBHS does not have any financial assets in this category.
- 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 \$11,480,321. Net assets are \$99,118,288 representing an excess of \$87,636,440 over the Solvency Reserve.

33) Additional company information

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

Registered Office	Principal Place of Business
10 Pitt Street PARRAMATTA NSW 2150 Tel: (02) 9843-7666	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 23 and 57 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 2011 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.

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

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



K. M. Brinkley
Chairman



K. G. Bourke
Director

Dated at Sydney 31st day of August 2011

Independent Audit Report



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 2011, 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.

Directors' responsibility for the financial report

The directors of the fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independent Audit Report (cont...)

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of CBHS Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 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 company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



PricewaterhouseCoopers



R Balding
Partner

Sydney
31 August 2011



Locked Bag 5014
Parramatta NSW 2124
T 1300 654 123
F 61 2 9842 7676

www.cbhs.com.au