



CBHS Health Fund Limited
Annual Report 2012

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CBHS Health Fund Limited

ACN 087 648 717
ABN 87 087 648 717
A Registered Private Health Insurer
Registered Office: Level 5,
79 George Street,
Parramatta NSW 2150

About CBHS

In 1950 an idea was born from within one of Australia's most trusted financial institutions, the Commonwealth Bank of Australia.

The idea was simple; to provide the employees of the Commonwealth Bank with access to affordable health insurance from a trusted organisation whose sole purpose was that of serving its members. A shared not-for-profit cooperative, which employees could exclusively belong to and call their own. On the 1st of January 1951, the Commonwealth Bank Health Society (CBHS or the fund) was formed. In November 1996 CBHS became a standalone friendly society.

Today, well over 70,000 members, and their families, trust CBHS to provide them with complete peace of mind that CBHS will be there when it is needed most. In times of uncertainty, CBHS has provided thousands of Australian families with financial relief so that they can focus on what's most important, their wellbeing.

For CBHS it's not about being the biggest health fund, it's about being a market leader in ways that are important to its members. CBHS has one of the highest claims payout ratios and one of the lowest management expense ratios allowing it to return more value to members. It is not surprising then, that CBHS is regularly awarded higher member satisfaction scores than most funds in the industry by some of Australia's highly respected research companies such as Roy Morgan and Choice Magazine.

CBHS will never stop striving to improve. Renowned for innovation and a tenacious attitude towards constant and never-ending improvement, it will always be committed to delivering on its Value Promise, without compromising its not-for-profit philosophy and business sustainability.

Ultimately, we'll always be there for you at each stage of your life's journey, like a loyal companion, always ready to help.

01

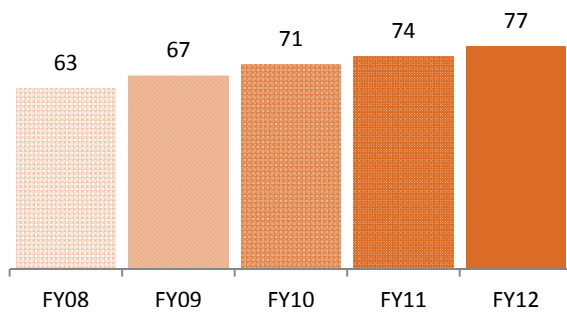
Highlights

Highlights

CBHS continues to provide more members with peace of mind, now with more than 180,000 persons covered.

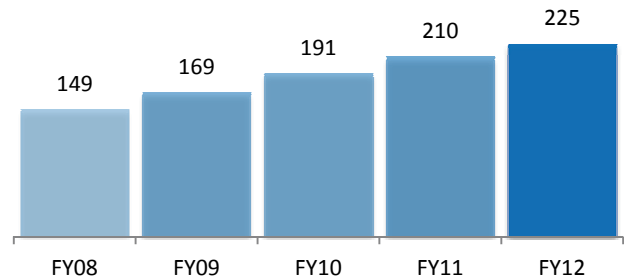
4.8% increase in Membership

Membership (thousands)



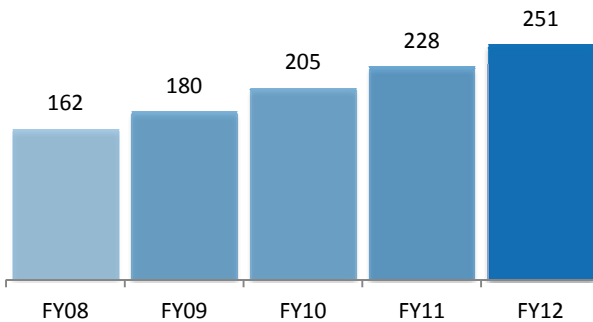
7.0% increase in benefits incurred

Benefits incurred (millions)



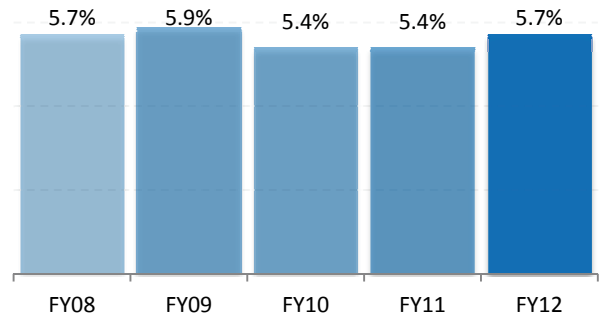
Revenue Increased by 10.3%

Contribution income (millions)



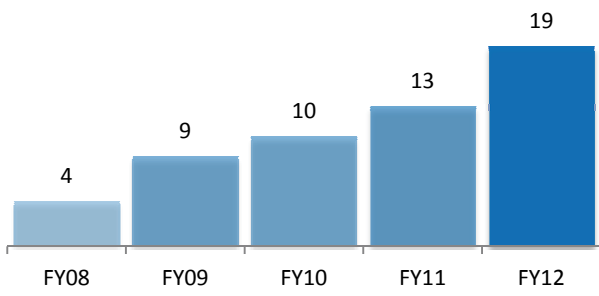
Low management expenses

MER (%)



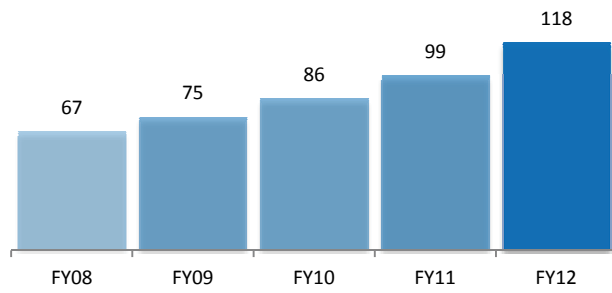
Surplus increased by 43.1%

(millions)



Net assets increased by 19.1%

(millions)



02

Five Year History

Five Year History

	2012	2011	2010	2009	2008
INCOME STATEMENT					
Earned contribution	251,488,025	227,983,184	205,367,339	180,282,354	161,609,834
Benefits incurred	191,011,740	177,989,149	160,617,072	138,383,424	128,674,537
Health benefits risk equalisation trust fund	30,651,139	29,282,266	26,701,157	23,033,093	20,716,290
Government levies	3,339,350	3,161,989	2,959,269	2,755,649	2,537,476
Net claims incurred	225,002,229	210,433,404	190,277,498	164,172,166	151,928,303
Management expenses	14,501,871	12,347,342	11,090,222	10,630,212	9,223,490
Underwriting surplus / (loss)	11,983,925	5,202,438	3,999,619	5,479,976	458,041
Investment and other income	7,232,569	8,230,950	6,499,614	3,127,404	3,882,193
Operating surplus attributable to members of CBHS	19,216,494	13,433,388	10,499,233	8,607,380	4,340,234
BALANCE SHEET					
Current assets	129,179,389	96,990,909	97,270,279	75,505,440	53,055,018
Non-current assets	58,542,602	51,621,752	25,863,740	31,035,699	47,470,496
Total assets	187,721,991	148,612,661	123,134,019	106,541,139	100,525,514
Current liabilities	69,213,969	49,120,239	36,646,830	30,524,491	32,882,207
Non-current liabilities	484,882	374,134	396,415	519,232	347,396
Total liabilities	69,698,851	49,494,373	37,043,245	31,043,723	33,229,603
Net assets	118,023,140	99,118,288	86,090,774	75,497,416	67,295,911
Reserves					
Asset revaluation reserve	-	311,642	717,516	623,391	1,029,266
Retained surpluses	118,023,140	98,806,646	85,373,258	74,874,025	66,266,645
Total reserves	118,023,140	99,118,288	86,090,774	75,497,416	67,295,911

03

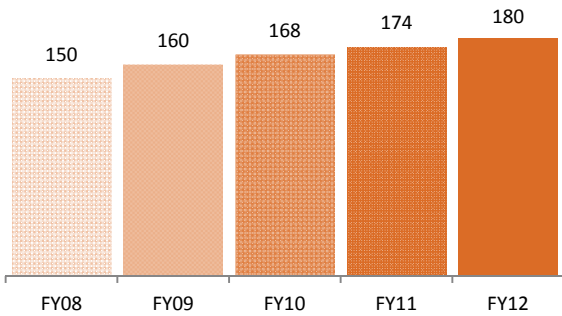
CBHS Delivering Value

Delivering Value to Members

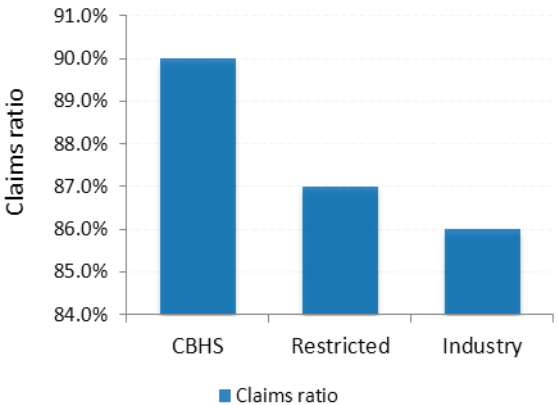
In 2012 CBHS continued to focus on delivering upon its value promise.

180,000 people now experience the benefits of CBHS membership. That's an increase of 3.7%

Persons covered (thousands)

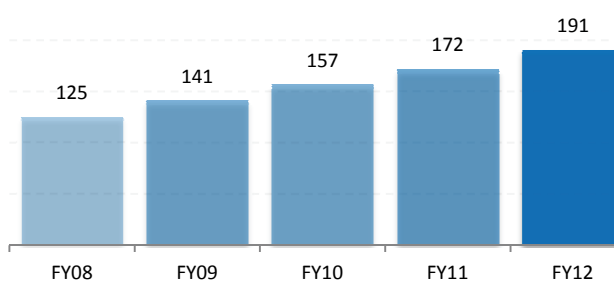


CBHS' member focus ensures we give back more to members than the industry average. In 2012 we paid out 90 cents in claims for every premium dollar received.



Total benefits paid to members increased by 11.1% to \$191m

Benefits paid (millions)

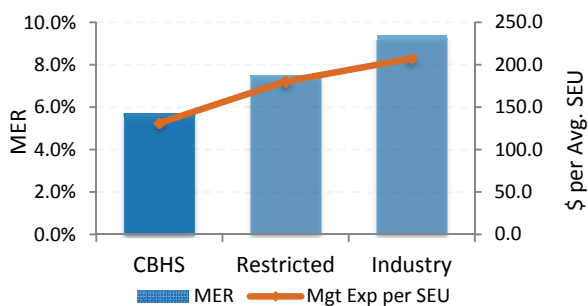


In 2012 CBHS funded 47,622 hospital admissions, an increase of 15%

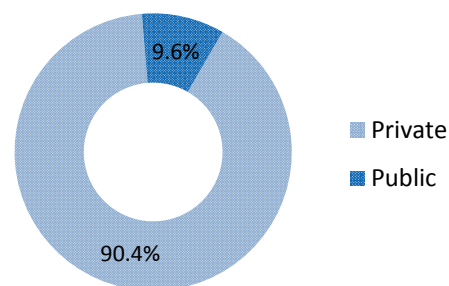
Total number of hospital admissions

Year	Admissions	Increase (%)
2011	41,423	6.0%
2012	47,622	15.0%

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



90.4% of hospital benefits were for private hospital admissions.



Message from the Chairman

In February 2012, the Federal Government passed the bills for the means-testing of the Private Health Insurance Rebate. While the decision may potentially have consequences for many of our members and, therefore, our business, it did at least end a prolonged period of great uncertainty for our industry. However, the implications of the decision will not be fully understood until every member has experienced the taxation effects of the decision, and that may not be until the end of the 2013 financial year.

What is certain is that the means-testing of the rebate has come at a time when a large number of Australians can ill afford any premium increases, let alone the significant potential increases imposed by the means-testing. While Australia's economic conditions appear to be the envy of most other developed nations, Australians generally remain very cautious; resulting in a continued trend to saving rather than spending, and a focus on price rather than value.

The Board and Management of CBHS understand, and take very seriously, the economic pressures faced by our members and that is why each and every premium increase is not only subjected to intense actuarial review as to how it will impact on the fund, it is also considered in the context of how it will affect members. This genuine concern for our members is perhaps the single biggest differentiator between a not-for-profit fund like CBHS, which pursues the lowest possible profit, and those funds which seek to balance value for members with the need to maximise profits.

The trend to saving rather than spending has already had an impact on our business with both an increase in the number of people cancelling their cover and also in a reducing claims frequency as members defer potentially expensive elective procedures. For example, CBHS' biggest single cost, dental, was down by nearly 1% indicating that perhaps some members are foregoing an annual dental check-up. Benefits for obstetrics were also down by nearly 5%,

perhaps indicating that people are delaying their plans for a family until their confidence in the economy is stronger? While our claims costs are down this year, there is only so long that some treatments can be deferred before they become essential rather than preventative, and so we expect claims costs to ultimately return to long-term averages in the future.

Although the reduced claims frequency may have a positive financial impact on our business in the short term, the cost of treatment continues to rise at a significant pace. Notwithstanding current economic conditions our surplus of \$19m is a record in CBHS' history. The story of this surplus can be seen in our key ratios.

- **Management expense ratio (MER).** At 5.7% I am proud to say that we still lead the industry which operates at an average of approximately 9%. And our MER has been achieved despite a growth in headcount (one of our initiatives to enhance the member experience) and a commitment to the fit-out of a new leased office premises. Again, this achievement is testimony to the Board's and management's diligent cost conscious culture borne out of our not-for-profit status.
- **Underwriting margin.** At 4.8% this is above our target level for reasons already outlined yet it is still likely to be one of the lowest in the industry and certainly still commensurate with a not-for-profit philosophy.
- **Benefit/Contributions ratio.** At 90% this is lower than we would like – we target 92% – but again reflects the lower claims being submitted by members.

- With regard to our investments portfolio, we have seen enormous volatility in global and domestic markets during the last 12 months. I am pleased to say, however, that while we have seen our fair share of volatility, our conservative and long-term investment philosophy has ensured that we are well diversified and that we have been able to endure volatility without realising losses. In fact, our investment return for the year is only marginally below our budgeted return, quite an amazing result when considered in the context of the generally negative sentiment we have all been hearing for the last 12 months.

Clearly, the surplus has exceeded our expectations and positions us well for the inevitable return of claiming patterns to long-term average levels.

But, how do we reconcile such a surplus with our not-for-profit status? In answering this question, it is important to note some important points.

- 1 Not-for-profit does not mean “no profit”. In fact, PHIAC, our industry regulator, imposes some very strict capital adequacy requirements on each fund and these requirements dictate that we must generate reasonable profit in order to maintain an appropriate buffer to ensure we meet our future liabilities.
- 2 Our target underwriting margin is just that, a target. As such, it represents an average across time and, as an average, there will be some years where the return is higher to offset years in which the return is lower.

Our main concern is sustainability of the fund. Premium increases must reflect expectations for the future rather than a recognition of past performance. Also, while past performance is a consideration and an input to projections for the future, we must use long-term averages rather than single year experience. To do otherwise would see our premiums fluctuating substantially – a sign of poor management and certainly not what our members want to see. Therefore, while we consider the recent past we must model and project for the future based on long-term averages. So, in short, a good year does not necessarily translate to a lower premium increase.

What we can do, however, is to invest some of the surplus back into the business. We have done this in two ways:

- 1 A move to new, bigger office premises within Parramatta which will facilitate ongoing growth.
- 2 A benefit review. In January of this year we increased our benefits by almost \$2m per annum and we will again be seeking to further improve our product and benefit structure as a result of the 2013 benefit review process.

While not-for-profit creates some constraints with regard to funding of investment, CBHS remains committed to its not-for-profit status. We recognise and value the ongoing support of our stakeholder, the Commonwealth Bank Group (the Bank). We are very grateful to the Bank for the access it affords to us to communicate with our members and we are proud to be amongst the top 10 staff benefits – quite a feat when you consider the range of staff benefits and the financial value of many of them. While our commitment to the Bank is stronger than ever, we also see great growth potential in accessing the significant number of eligible members who do not work within the Bank – these are past employees and their families. Unfortunately, while we know that there are a lot of them, perhaps up to half a million potential members, we don’t know who they are or where they live! Conquering this challenge will therefore again be a focus for us in the coming year.

The task of winning these potential new members is made more difficult by the seemingly endless 'noise' in the marketplace made by our larger competitors. The private health insurance industry continues to be very competitive with the five largest companies controlling 80% of the market and battling (mostly with each other) to maintain or grow their share. To this end, the battle has recently shifted into what's called 'wellbeing' services. Bupa, Medibank and HCF in particular are now all promoting additional services such as 24 hour medical advice hotlines. These services are provided free-of-charge but of course they cost a lot of money to deliver. So, the funds, and therefore all members, are paying for these services indirectly. CBHS is yet to be convinced of the value of these services in terms of member need and expectation and is therefore conducting research to determine if we should also enter this new arena. The alternative is for us to continue to do what we believe we do better than anyone else which is to offer the best products at an affordable price with the best service.

We have for a long time been confident in making this claim based on member feedback but recently we have been very proud to receive a number of independent external awards. Roy Morgan research, Australia's largest research company, awarded CBHS its "Best Private Health Insurer" award five months in succession from January to May 2012. And, in May 2012, Choice Magazine identified CBHS as having the highest customer satisfaction scores in both Hospital and General products. While these awards are most gratifying and tell us that we are on the right track, we do not rest easily on our laurels. We know we face stiff competition and a difficult economy and so we must stay on top of our game.

I indicated last year that I was confident that CBHS' management team and staff could successfully steer our company through the uncertain economic and political conditions and I believe they have done an admirable job. This year, the challenges may be different but I am equally confident in their ability to achieve the best outcomes for the Fund and its members.



Kerry Brinkley
Chairman

Message from the CEO

Everyone likes to be told they are doing a good job and CBHS is no exception. This is why we are so pleased with the recent recognition provided by Roy Morgan Research and Choice Magazine. Even more gratifying is the encouragement we enjoy by way of the feedback we receive from satisfied members who take the time to thank and compliment us. Not only is this affirmation that we are doing something right, it is also very motivating for our staff. Of course we receive the odd complaint as well but, to be honest, we would rather receive a complaint that we can resolve rather than receive a policy cancellation when it's too late to do anything about it. So, all feedback is good and even the criticism is treated positively.

In an effort to maximise the compliments and minimise the criticism, we have in the last 12 months built on the foundations of our value promise of greater benefits, lower costs and member focus.

Greater benefits

From January 1st 2012, CBHS implemented a number of benefit enhancements to the value of almost \$2m per year. These enhancements were spread across the most widely used extras items ie, dental, optical, physiotherapy and chiropractic treatments. At the time of writing, we are engaged in the 2013 benefit review and we will again be looking to increase our benefits to ensure we maintain what we believe is a true competitive advantage in terms of value for money. In our review, we focus on overall limits, as well as on 'per service' limits, to ensure that members not only receive value at each service but that they can utilise their cover multiple times. CBHS' philosophy is to provide value, but also to provide useability and practicality, to provide a product which doesn't just look good on paper but one which will actually be useful even after that fifth trip to the physio. Here again it is our mutual status which helps; we say to ourselves "what would we expect in a product for ourselves?" In fact, with over 90% of CBHS staff holding CBHS policies, our product value, functionality and practicality is also an important element contributing to staff satisfaction.

Lower costs

As the Chairman has already noted, we are very aware of the economic difficulties facing many of our members and so we do not increase our prices lightly. However, CBHS, like every other business and individual in Australia, is experiencing increased costs. While business overhead costs have all increased in the last 12 months, by far the fastest rising costs have been the direct claims costs associated with hospital and other medical treatments. Indeed, The Honorable Ms Tanya Plibersek, Minister for Health, commented in her announcement of the 2012 rate review "*...this year's increase was lower than last year (5.56%), and lower than the rising amounts charged by doctors and hospitals in the last year.*" She further commented "*the benefits paid to private health insurance members increased by 7.6% to more than \$13 billion in 2010-11. Benefits paid are forecast to further increase by 9% for 2012-13, which is significantly more than the average premium increase.*"

These comments demonstrate quite clearly that the private health insurance industry has been asked to absorb some of the cost increases being imposed by hospitals and medical specialists.

As the Chairman noted in her message, our rate increases are the result of detailed financial modelling which is subject to independent actuarial review and also to board review and approval. The objective that drives our rate review process is ensuring that we impose as low a rate increase as is commercially sustainable. We also aim for consistency such that a low increase in one year is not followed the next year by a large increase. The fact that CBHS was one of only 10 funds (of the total 34 funds) not required to resubmit their applications is evidence of the transparency of our process and of the fact that our margins are as lean as we can prudently make them.

One of the main contributors to our lower prices is our industry leading management expense ratio (MER). For FY 2012, our MER was 5.7% and this was achieved even after allowing for a significant investment in the fit-out of our new office accommodation (see below). As a not-for-profit organisation, our culture serves us very well in this regard; there is a genuine regard for “our members’ money” which translates to diligent and cautious spending patterns. Further, we are very proud of the value we provide and we understand very well that a blow-out in costs doesn’t just impact on our annual profit and loss statement, it also impacts on our ability to maintain affordable premiums. Balancing this is of course a need to continually invest in our business to maintain our value promise.

While our MER is a major positive influence on our prices, rising hospital and medical costs are the biggest negative influence. We aim to control claims costs in two ways:

- 1 By ensuring that each claim is legitimate and appropriate; some providers may inadvertently be charging excessively while some providers and even members may be submitting fraudulent claims. New technology is now employed to analyse our claims data looking for claims outside of normal patterns as an indication of potentially inappropriate claiming behaviour. Such claims are then further investigated and ultimately funds may be recovered or, at the very least, inappropriate behaviour is identified and moderated.
- 2 Increasingly, claims from hospitals are now being submitted electronically rather than via hardcopy claim forms. This is obviously designed to improve throughput and efficiency for the hospital and the fund. As time progresses and we become more confident with the hospitals’ data integrity, we will be more willing to accept such claims without assessor intervention, thereby resulting in significant productivity improvements at our end.

Member focus

One of the member focus initiatives of which I am most proud is an investment in services and processes designed to improve our members’ wellbeing. An example serves to illustrate our approach: rather than simply paying claims for oxygen cylinder refills (an ongoing requirement for members suffering from chronic pulmonary disease), we researched alternatives and identified a device called an ‘oxygen concentrator’. This device basically extracts pure oxygen from the surrounding air and provides the oxygen, as required, to the user. The device greatly improves the member’s mobility as it weighs just a couple of kilos and can be worn on the belt as opposed to the member having to wheel around heavy oxygen cylinders. While there is a larger up-front cost, much of which is rebated by CBHS, the cost compared to the ongoing cost of oxygen tank refills is substantially lower. So, as well as improving the member’s wellbeing, we are reducing costs for all members. We have also had success in identifying in-home alternatives to hospital visits for wound management and massage therapy etc, resulting in a much more convenient, more relaxing, less stressful, and ultimately cheaper, solution for the member. These are just some early examples of success which help to demonstrate our aspiration “to be acknowledged for improving our members’ wellbeing rather than just paying their claims”.

We have also committed to trials of Chronic Disease Management Programs (CDMPs). These CDMPs are designed to assist members suffering from chronic disease like cardiac disease and diabetes. The programs are provided free of charge to members and comprise specialist advisory services aimed at reducing the frequency of hospital admissions and, where an admission is necessary, the overall length of stay. Ultimately the member enjoys better health and the fund, and therefore all members, enjoys the benefit of lower costs.

More generally, a major difference between a mutual fund like CBHS and a privately owned fund is the member focus and, in particular, the desire to do the right thing by the member. Having said that, we also have an obligation to all members to protect their interests and so we manage our fund using a comprehensive set of rules for determining benefit entitlements. The most difficult situation we can face is when our rules say that a particular member’s claim should not be paid yet the member has a genuine argument for why they should be paid. While it would be easy to point to the rules and say “the rules say no”, that is not the mutual way and it is certainly not the CBHS way. To ensure a “fair go for

all” ie, to protect the interests of all members while doing as much as we can to “do the right thing by the member”, we adopt a philosophy of “how would I expect to be treated by a fund that I own?” Contentious claims are dealt with by a committee of management to validate the circumstances of the claim and the entitlements of the member, and to ensure that our rules are being applied correctly, but also fairly. Even with this approach there will be occasions when we just cannot satisfy an individual member’s concerns and this may lead to a complaint to the Private Health Insurance Ombudsman (PHIO). Any complaint lodged with PHIO has more than likely already been considered in depth by CBHS and where we can “do the right thing”, we will have already done so. Consequently, complaints for which PHIO has overturned our decision are rare indeed. It is worth noting that CBHS complaints represent approximately 1% of all PHIO complaints, this number being significantly lower than our market share of 1.3% indicating that we do a good job of dealing with complaints without escalation.

To ensure a sustainable fund, our member service must be complemented by sales growth and CBHS achieves most of its new business sales via its Member Care call centre operation. Up until late 2011 we had just one mobile sales representative who would travel the country visiting as many Commonwealth Bank Group locations as she could reasonably accommodate. Not only is this a very successful sales channel for CBHS, it is also extremely well regarded by the members who have experienced the wonderful service. So pleased were we with the results and the feedback that we decided to increase our mobile sales representatives to two. Members really appreciate that CBHS is prepared to come to them, to explain what can be a potentially complex product and to do most of the work for them. We are now thinking about how far we can expand this sales channel, most likely with at least one other sales representative, and potentially based in another metropolitan area rather than travelling from Sydney.

Having said this, we are very mindful of the fact that our current sales channels are biased toward current Commonwealth Bank employees and that, if we want to make headway into the vast market of past employees, then we need to explore alternate communication channels. We have, therefore, started to explore the communications potential of, for example, social networks and targeted email.

Our major stakeholders

While our members are our primary focus, there are several other stakeholders without whom we just could not operate and so we devote a lot of time and energy to them.

The Commonwealth Bank Group

Our relationship with the Bank is of strategic importance to us and so we work very hard to maintain and strengthen it, working primarily through the HR Benefits team within the HR Division. Thanks to this team’s support we are able to communicate regularly and directly with existing and potential members within the Group. The HR Benefits team conducts regular surveys among staff seeking feedback on usage of and satisfaction with the various benefits. We are proud of our most recent results from this survey which show that we have increased our membership as a proportion of all employees to 55% and that CBHS continues to be ranked as the most highly valued non-bank staff benefit.

We were also delighted to be invited to attend a meeting of the Retired Officers’ Association, a highly respected group which includes a large number of long term members and, indeed, a number of founding members. We are therefore keen to maintain and strengthen this association in the future.

Our staff

A focus on our people during the past 12 months has resulted in a significant uplift in our staff engagement score from 3.88 in 2011 to 4.16 this year. It is widely acknowledged that a highly engaged work force is more productive, delivers higher quality and is more loyal than a lesser engaged work force. We have achieved this increase through investment in training, involvement of staff in matters that affect their daily lives, ensuring that our remuneration and benefits are appropriate and working to remove factors which inhibit productivity.

One such influence on our productivity was our office accommodation. In August 2012, CBHS relocated its head office to 79 George Street Parramatta, having outgrown our previous accommodation at 10 Pitt Street where we had been since 2000. Over the last 12 years CBHS had grown from around 40 staff to just over 100 staff and we had exhausted every possible avenue for growth at 10 Pitt Street, a building which had started to become a physical constraint on our business. We have entered into a 10 year lease over two of the 9 floors at 79 George Street in Parramatta. At the time of writing, 10 Pitt Street was being marketed for sale.

The AHSA

The Australian Health Services Alliance (AHSA) provides a wide range of services of great value to CBHS, the most significant being the hospital contract negotiations undertaken on our behalf. As a relatively small fund it is a great comfort to know that we are enjoying hospital costs which are at least on a par with the costs that have been negotiated by our much larger competitors, some of which are up to twenty times our size. Given the significance of this relationship we work closely with AHSA to ensure that it remains strong.

Our regulators

In late February 2012, the Federal Government passed bills to means test the Private Health Insurance Rebate, effective from 1 July 2012. However, the full detail of how this new regime was to be implemented was still being discussed between the department of Health and Ageing, the Australian Tax Office and the Private Health Insurance industry as late as June 2012. Consequently, the whole industry had to “drop everything” in order to ensure not just compliance with the new legislation but also to ensure that members had as much information and support as possible. As a result of the ATO’s communication to tax payers and the significant media coverage, CBHS received thousands of additional calls from members wanting to pre-select their income level, or to enquire as to the effect of the changes or even to pre-pay their premium. During June in particular we struggled to maintain our usual standard of service due to the unprecedented volume

of calls. In fact, we had to call in additional staff and implement additional shifts just to keep our heads above water. I would like to honour the efforts of all CBHS staff who put in extra hours or who were impacted in any number of ways without complaining, and I would like to thank all members for their patience during what was undoubtedly one of the busiest periods in CBHS’ history.

Conclusion

The move to 79 George Street marks the start of a new chapter in CBHS’ long and proud history. The larger, fresher premises are symbolic of the growth and commitment to excellence that we will be pursuing in the coming years. Its closer proximity to Commonwealth Bank in Parramatta is also symbolic of a deepening commitment to the Bank while our focus on building additional sales channels shows that we do not take this partnership for granted. Finally, I’d like to thank all members for their ongoing support of the fund over the last 12 months and I look forward to being of further service to you in the next 12 months.



Paul Gladman
CEO

04

Corporate Governance

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
- 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.

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 regularly to a schedule agreed prior to the start of each calendar year. The meeting agenda is designed to provide adequate information about operations and the environment in which CBHS operates and to allow the Board to guide and monitor management and assist in involvement in discussions and decisions on strategy. Matters of a strategic nature including implementation of key strategic initiatives are given priority on the agenda. In addition, scheduled meetings are supplemented by special purpose meetings where required and at least one meeting annually has a detailed strategy review focus.

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 sessions where appropriate. Industry education includes sessions with experts in the particular fields relevant to CBHS operations. The training and education programs ensure Directors keep up to date with developments in a dynamic and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by the Australian Institute of Company Directors and other relevant professional institutions.

Relationship with Management

The Board has delegated to the CEO the authorities and powers necessary to achieve the vision of CBHS. The authorities are designed to accelerate decision-making processes, improve efficiency and service to 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 to fulfil its statutory and fiduciary responsibilities relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance.

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

The Charter of the Audit Committee meets the requirements for the responsibilities of an Audit Committee set out in the PHIAC Governance Standard. The Audit 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 the internal control environment
- evaluating the independence of the external auditor.

During the 2012 financial year, the Audit Committee reviewed its work program in respect of the risk management framework and has been focusing on material strategic and cross-functional risks. More details are provided below.

The Audit Committee relies on the information provided by Management, the Internal Auditor and the External Auditor and a critical part of its oversight function includes meeting separately with both the External and the Internal Auditors, in the absence of Management, on a regular basis. In addition, the Audit 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 Audit 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 Nomination 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
- review of the succession planning requirements for the CEO.

The work of the Nomination Committee includes an assessment of CBHS' compliance with the "renewal" policy requirements of the PHIA Governance Standard (i.e. the renewal of directors on the board). 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.

The Investment Committee's work program over the financial year was conducted against considerable volatility in financial markets, as has been the case for the last few years. The Investment Committee has regularly held unscheduled meetings to consider the impact of global economic and financial market events on the CBHS investment portfolio.

Key responsibilities of the Investment Committee include making recommendations to the Board on appropriate risk and return objectives, strategic benchmarks, investment structures, investment target allocations and investment delegations for CBHS' investment portfolio. The work of the Investment 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, the CBHS Investment Committee has for a number of years been supported by an external investment advisor. Recognising the changing nature of investment markets and experiences, and the benefits of pre eminent advice in the management of the investment portfolio, during the second half of the year the Investment Committee and Board developed a relationship with Towers Watson Australia Pty Ltd. Towers Watson enjoys investment advice mandates from a large number of Australia's largest superannuation funds and investment vehicles and is part of the global Towers Watson group. Towers Watson was formally appointed as CBHS's investment advisor effective 1 July 2012 and is currently working with the Investment Committee and Board to review the appropriateness of current investment goals and strategies.

People & Remuneration Committee

The principal responsibilities of the People and Remuneration 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 People and Remuneration 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 PHAC 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 26. 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 and company-wide 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 usually 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 September 2011. These payments related to the performance of each employee for the 2010/2011 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

The board and management of CBHS see risk management as a discipline for ensuring achievement of business objectives rather than as an administrative compliance exercise. To this end the Board and Management have spent considerable time over the past 12 months evaluating the various risks facing the business, with particular focus on material strategic risks. This has helped formulate the Board's risk appetite for operating in the current environment and has created a discipline for the Board to review and focus on those higher level strategic risks that could ultimately jeopardise the viability of the business and to explore the opportunities that can be pursued whilst mitigating the risk. This strategic approach to risk management has helped direct our efforts to just those initiatives that will truly ensure the sustainability of our business.

CBHS also has a comprehensive system of operational 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. Independent review of the way in which Management has assessed risks and implemented internal controls within the risk management framework is carried out through Internal Audit.

Both the Board and the Audit Committee receive frequent updates about the management of operational and strategic 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 during each Audit Committee meeting.

As part of the sign-off for the financial reports, Management completes a Management Certification and Representation questionnaire on various matters relevant to the financial statements and internal control framework. Also included in the Certification is an assurance from the CEO and Chief Financial Officer 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 and is accredited 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.

05

Directors' Report

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 2012. 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. Ms Brinkley is the Managing Director of Directioneering Queensland Pty Ltd. 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.

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.

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 a member and a former Chairman of the Audit Committee. He has had over 38 years experience with the Commonwealth 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.

Micheline Hart

Ms Hart has been a member of CBHS since April 2005. She has been a Director of CBHS since December 2006 and is Chairman of the Audit Committee and a member of the Investment Committee and Nomination Committee. 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 and Investment 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 and a member of the Nomination 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

Ms Ryan has been a member of CBHS since July 1997 and has been a Director since November 2000. Ms Ryan has also participated as a member in a number of CBHS committees. She 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	-	1 ¹	2	2
M. Hart	8	8	3	3	-	-
M. D. Latour	8	7	3	2	-	-
J. E. Matthews	8	7	-	1 ¹	2	2
L. G. Moth	8	8	3	3	-	-
R. J. Ryan	8	8	-	1 ¹	-	-

¹ Attended Audit Committee of 31 August 2011

Directors	Nomination		Investment	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
K. G. Bourke	-	-	-	-
K. M. Brinkley	2	2	3	3
M. Hart	2	2	7	7
M. D. Latour	-	-	4	5 ²
J. E. Matthews	2	2	-	-
L. G. Moth	2	2	7	7
R. J. Ryan	-	-	-	-

² Attended Investment Committee of 12 October 2011 as an invitee.

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 \$19,216,494 (2011: \$13,433,388 surplus). CBHS is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax.

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

Changes in state of affairs

During the financial year there was no significant change in the affairs of 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 25) 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 34 of the annual report.

Future developments

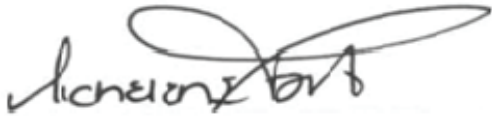
Disclosure of information regarding likely developments in the operations of CBHS in future financial years and the expected results of those operations would result in unreasonable prejudice to CBHS. Accordingly, this information has not been disclosed in this report.

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



M Hart
Director

Dated at Sydney 30th day of August 2012

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Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'R Balding', with a large, sweeping flourish extending to the right.

R Balding
Partner

Sydney
30 August 2012

PricewaterhouseCoopers

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Statement of Comprehensive Income

Statement of Comprehensive Income

		2012	2011
	Notes	\$	\$
Direct premium revenue		251,488,025	227,983,184
Direct claims expense		(190,780,320)	(171,754,230)
Net movement in outstanding claims liability (claims & other component)		(256,420)	(4,990,919)
Net movement in outstanding claims liability (risk equalisation component)		(175,000)	(1,244,000)
Health benefits risk equalisation trust fund		(30,651,139)	(29,282,266)
Government levies	(5)	(3,339,350)	(3,161,989)
Net claims incurred	(2)	(225,202,229)	(210,433,404)
Net movement in unexpired risk liability	(21)b)	200,000	-
Salaries and employee benefit expense		(8,126,889)	(6,489,059)
Other underwriting expenses	(7)	(5,880,764)	(5,141,742)
Underwriting result		12,478,143	5,918,979
Investment income	(3)	7,822,053	5,631,976
Fair value gains/(losses) on financial assets at fair value through profit or loss	(4)	(671,908)	2,549,164
Other income	(3)	82,424	49,810
Depreciation and amortisation expense	(6)	(396,346)	(540,219)
Other operating expenses	(7)	(97,872)	(176,322)
Operating surplus attributable to members of CBHS		19,216,494	13,433,388
Other comprehensive income			
Gain/(loss) on revaluation of building	(22)	(311,642)	(405,874)
Surplus for the period		19,216,494	13,433,388
Total comprehensive income for the year		18,904,852	13,027,514

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Balance Sheet

Balance Sheet

		2012	2011
	Notes	\$	\$
Current assets			
Cash and cash equivalents	(8)	27,165,871	15,270,391
Trade and other receivables	(9)	15,550,679	10,228,502
Financial assets at fair value through profit or loss	(10)	83,450,000	71,176,400
Other	(12)	418,606	315,616
Assets classified as held for sale	(11)	2,594,233	-
Total current assets		129,179,389	96,990,909
Non-current assets			
Financial assets at fair value through profit or loss	(13)	57,793,523	48,126,526
Property, plant & equipment	(14)	749,079	3,423,212
Intangible assets	(15)	-	72,014
Total non-current assets		58,542,602	51,621,752
Total assets		187,721,991	148,612,661
Current liabilities			
Trade and other payables	(16)	10,041,003	9,201,794
Outstanding claims liability	(19)	27,159,320	26,727,900
Unearned premium liability	(20)	29,878,806	10,937,074
Unexpired risk liability	(21)a) & c)	1,165,469	1,365,469
Provisions	(17)	969,371	888,002
Total current liabilities		69,213,969	49,120,239
Non-current liabilities			
Provisions	(18)	484,882	374,134
Total non-current liabilities		484,882	374,134
Total liabilities		69,698,851	49,494,373
Net assets		118,023,140	99,118,288
Reserves			
Assets revaluation reserve		-	311,642
Retained surpluses		118,023,140	98,806,646
Total reserves	(22)	118,023,140	99,118,288

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Cash Flow Statement

Cash Flow Statement

		2012 \$	2011 \$
	Notes	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		265,056,892	226,543,384
Payments to members, employees and suppliers		(237,865,578)	(209,879,829)
Net cash flow provided by operating activities	(23)b	27,191,314	16,663,555
Cash flows from investing activities			
Payments for property, plant and equipment		(654,132)	(173,323)
Proceeds from sale of property, plant & equipment		187	2,221
Interest and investment income received		7,872,743	4,405,827
Payments for investments		(22,514,632)	(17,207,743)
Net cash flow used in investing activities		(15,295,834)	(12,973,016)
Increase/(decrease) in cash and cash equivalents		11,895,480	3,690,539
Cash and cash equivalents at beginning of financial year		15,270,391	11,579,852
Cash and cash equivalents at the end of financial year	(23)a	27,165,871	15,270,391

10

Notes to the Financial Statements

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 30 August 2012.

Basis of preparation

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

The 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. Legislative changes have been made to the rebate scheme with effective date being 1 July 2012. 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.

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 the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

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

Financial assets at fair value through profit or loss

CBHS has classified its investments (term deposits and managed funds) as financial assets at fair value through profit or loss 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 (when classified as property, plant & equipment) 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.

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. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are presented separately from the other assets in the balance sheet and are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

I. 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.

m. 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.

n. 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.

o. Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to CBHS as lessee are classified as operating leases (see note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

p. 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.

q. 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.

r. Liability adequacy test and unexpired risk liability

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

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

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

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

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

s. Acquisition cost for health insurance contracts

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

t. 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).

u. 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.

v. 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.

w. 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 30) 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 30(b).

2) Net claims incurred

	2012		2012		2012	
	Current Year		Prior Years		Total	
	Provision Movement	Profit and loss	Provision Movement	Profit and loss	Provision Movement	Profit and loss
	\$	\$	\$	\$	\$	\$
Gross claims expense	-	173,849,252	16,931,069	-	16,931,069	173,849,252
Outstanding claims provided for	(22,310,320)	22,310,320	5,122,831	(5,122,831)	(17,187,489)	17,187,489
Risk equalisation and gov't levies	-	30,402,197	3,588,291	-	3,588,291	30,402,197
Risk equalisation and gov't levies provided for	(4,849,000)	4,849,000	1,085,709	(1,085,709)	(3,763,291)	3,763,291
Net claims incurred	(27,159,320)	231,410,769	26,727,900	(6,208,540)	(431,420)	225,202,229

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.

	2011		2011		2011	
	Current Year		Prior Years		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

Outstanding claims liability movements are as follows:

	2012	2011
	\$	\$
Opening balance	(26,727,900)	(20,492,981)
Prior year claims, risk equalisation and levies paid	20,519,360	18,451,183
Write back to profit and loss	6,208,540	2,041,798
Provision established claims, risk equalisation and levies paid	(27,159,320)	(26,727,900)
Closing balance	(27,159,320)	(26,727,900)
Net movement	(431,420)	(6,234,919)

See Note 19 for further detail

3) Investment and other income

	2012	2011
	\$	\$
Interest revenue:		
Cash and cash equivalents	967,059	596,499
Term deposits	5,499,178	4,238,320
Floating rate notes and bank bills	103,458	797,157
Distributions	1,252,358	-
Licence fee revenue	82,424	49,810
Total	7,904,477	5,681,786

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

	2012	2011
	\$	\$
Managed share funds gains/(loss) (a)	(1,053,931)	897,540
Managed cash funds gains/(loss) (a)	32,409	968,895
Managed bond fund gains/(loss) (a)	326,014	405,710
Floating rate notes and bank bills gains/(loss) (b)	23,600	277,019
Net gains/(losses)	(671,908)	2,549,164

a Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2012.

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.

5) Government levies

	2012	2011
	\$	\$
NSW, ACT ambulance levies	3,256,782	3,041,407
Other levies	82,568	120,582
Total	3,339,350	3,161,989

6) Depreciation and amortisation expense

	2012	2011
	\$	\$
Depreciation expense		
Building	94,125	94,125
Plant and equipment	230,207	229,424
Amortisation expense		
Software	72,014	216,670
Total	396,346	540,219

7) Underwriting and other expenses from ordinary activities

	2012	2011
	\$	\$
Information technology	715,828	1,009,733
Financial charges and taxes	333,967	212,309
Postage & telephone	430,278	410,137
Printing and stationery	438,044	403,503
Property expense	221,401	319,308
Research, advertising and publicity	204,135	154,243
Consultant, actuarial, audit and legal fees	1,592,426	767,943
Electronic claims processing fees	612,715	560,520
Subscriptions for industry & purchasing associations	573,129	514,097
Insurance	98,914	103,421
Loss/(Gain) on disposal of plant & equipment	97,872	(3,678)
Other expenses	659,927	866,528
Total	5,978,636	5,318,064

8) Cash and cash equivalents

	2012	2011
	\$	\$
Cash at bank	1,434,922	3,790,799
Cash deposits – “24 hour At-Call”	25,730,399	11,479,042
Cash on hand	550	550
Total	27,165,871	15,270,391

9) Current trade and other receivables

	2012	2011
	\$	\$
Premium receivable (a)	12,974,988	7,603,379
Investment income receivable	2,479,549	2,530,240
Sundry debtors	96,142	94,883
Total	15,550,679	10,228,502

(a) Premium receivable comprises two components, the Federal Government’s Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$10,495,491 (2011: \$7,236,394) and members who pay for their contributions in arrears or who are non-financial \$2,479,497 (2011: \$366,985).

- 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. 16% of CBHS’ members pay for their contributions in arrears while the other 84% 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 12,335 (2011: 925) 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 2012 the amount owing to CBHS from Medicare Australia was \$10,495,491. This amount is guaranteed by the Federal Government.

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

	2012	2011
	\$	\$
Term deposits (a)	83,450,000	61,200,000
Floating rate notes and bank bills at fair value (b)	-	9,976,400
Total	83,450,000	71,176,400

(a) These term deposits have maturity dates ranging from 11 July 2012 to 10 May 2013. The weighted average interest rate on these term deposits is 5.73% (2011: 6.25%).

(b) As at 30 June 2012 CBHS had no floating rate note investments (2011: \$9,976,400).

11) Assets classified as held for sale

	2012	2011
	\$	\$
Non-current assets held for sale		
Building	1,594,233	-
Land	1,000,000	-
Total	2,594,233	-

In May 2012, the Board of CBHS decided to sell its office premises at 10 Pitt St Parramatta. This asset was held as property, plant and equipment and subsequent to the decision reclassified as asset held for sale. The Board expect the sale process to be finalised within 12 months.

12) Other current assets

	2012	2011
	\$	\$
Prepayments	288,890	239,839
GST Recoverable	129,716	75,777
Total	418,606	315,616

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

	2012	2011
	\$	\$
Term deposits (a)	22,300,000	11,950,000
Managed cash funds at market value (b)	-	6,613,504
Managed bond fund at market value (c)	14,638,428	13,144,985
Managed share funds at market value (d)	20,855,095	16,418,037
Total	57,793,523	48,126,526

- (a) These term deposits have maturity dates ranging from 19 July 2013 to 19 August 2016. The weighted average interest rate on these term deposits is 6.64% (2011: 6.75%).
- (b) As at 30 June 2012 CBHS had nil (2011: \$6,613,504) invested in externally managed cash fund.
- (c) As at 30 June 2012 CBHS had \$14,638,428 (2011: \$13,144,985) invested in two externally managed bond funds. The funds are managed by professional fund managers.
- (d) As at 30 June 2012 CBHS had \$20,855,095 (2011: \$16,418,037) invested in externally managed share funds. This balance is comprised of two managed Australian share funds (\$12,854,028) (2011: \$10,188,482) and a managed International share fund (\$8,001,067) (2011: \$6,229,555). The funds are managed by professional fund managers.

14) Property, plant and equipment

30 June 2012

	Plant and Equipment at cost \$	Land at fair value \$	Building at fair value \$	Total \$
Gross carrying amount				
Balance as at 30 June 2011 at cost	1,893,190	1,000,000	2,000,000	4,893,190
Additions	654,132	-	-	654,132
Disposals	(882,854)	-	-	(882,854)
Net adjustment from revaluation (decrement)/increment	-	-	(405,767)	(405,767)
Assets reclassified as held for sale	-	(1,000,000)	(1,594,233)	(2,594,233)
Balance as at 30 June 2012	1,664,468	-	-	1,664,468
Accumulated depreciation				
Balance as at 30 June 2011	1,469,978	-	-	1,469,978
Disposals	(784,796)	-	-	(784,796)
Depreciation expense	230,207	-	94,125	324,332
Net adjustment from revaluation (decrement)	-	-	(94,125)	(94,125)
Balance as at 30 June 2012	915,389	-	-	915,389
Net book value				
Balance as at 30 June 2011	423,212	1,000,000	2,000,000	3,423,212
Balance as at 30 June 2012	749,079	-	-	749,079

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 increment/(decrement)	-	-	(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 increment/(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

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

Freehold land and building carried at fair value

In May 2012, the Board resolved to revalue the land and building assets based on advice from commercial agents. This decision was confirmed after considering the independent valuation of John Virtue Valuers Pty Ltd. Subsequently the Board resolved to sell the land and building. As a result the land and building has been reclassified as a non-current asset held for sale. See note 11 for further detail.

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

	2012	2011
	\$	\$
Freehold land	-	1,000,000
Buildings	-	1,688,358

15) Intangible assets

	2012	2011
	\$	\$
Software		
Gross carrying amount		
Balance as at 30 June 2011 at cost	650,362	650,362
Additions	-	-
Disposals	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2012	650,362	650,362
Accumulated amortisation		
Balance as at 30 June 2011	578,348	361,678
Disposals	-	-
Amortisation expense	72,014	216,670
Net adjustment from revaluation increment	-	-
Balance as at 30 June 2012	650,362	578,348
Net book value		
Balance as at 30 June 2011	72,014	288,684
Balance as at 30 June 2012	-	72,014

16) Current trade & other payables

	2012	2011
	\$	\$
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	7,699,658	7,700,000
Accruals (b)	1,048,054	847,098
Trade payables (b)	1,293,291	654,696
Total	10,041,003	9,201,794

- (a) The credit period provided to CBHS by PHIAC for amounts due to the Health Benefits Risk Equalisation Trust Fund is 65 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.

17) Current provisions

	2012	2011
	\$	\$
Employee benefits (a)	414,183	329,783
Provision for employee performance payments (b)	555,188	558,219
Total	969,371	888,002

- (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 is expected to be paid within 12 months.

18) Non-current provisions

	2012	2011
	\$	\$
Employee benefits	484,882	374,134
Total	484,882	374,134

19) Outstanding claims provision

a) Outstanding claims liability

	2012	2011
	\$	\$
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	20,136,000	19,898,000
Risk margin (ii)	1,537,320	1,512,900
Claims handling costs	637,000	643,000
Risk equalisation	4,849,000	4,674,000
Gross outstanding claims liability	27,159,320	26,727,900

- (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% (2011: 6.00%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2011: 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 0.40% 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.

	2012	2011
Risk margin	6.00%	6.00%

c) Reconciliation of movement

	2012	2011
	\$	\$
Changes in the gross outstanding claims liabilities can be analysed as follows:	26,727,900	20,492,981
As at 1 July	225,202,229	210,433,404
Claims incurred during the year	(224,770,809)	(204,198,485)
Claims paid during the year		
As at 30 June	27,159,320	26,727,900

20) Unearned premium liability

	2012	2011
	\$	\$
Unearned premium liability as at 1 July	10,937,074	6,350,353
Deferral of premiums on contracts written in the period	29,878,806	10,937,074
Earning of premiums written in previous periods	(10,937,074)	(6,350,353)
Unearned premium liability as at 30 June	29,878,806	10,937,074

21) 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 has recognised a reduction of \$200,000 in the unexpired risk liability as at 30 June 2012 (2011: Nil).

a) Unexpired risk liability

	2012	2011
	\$	\$
Unexpired risk liability as at 1 July	1,365,469	1,365,469
(Decrease)/increase recognition of additional risk liability in the period	(200,00)	-
Unexpired risk liability as at 30 June	1,165,469	1,365,469
Unexpired risk liability includes a risk margin of 3.0% (2011: 3.0%)		

b) Movement recognised in the income statement

	2012	2011
	\$	\$
Gross movement in unexpired risk liability	(200,000)	-
Net movement in unexpired risk liability	(200,000)	-
Total movement recognised in the income statement	(200,000)	-

c) Calculation of deficiency

	2012	2011
	\$	\$
(i) Unearned premium liability component		
Unearned premium liability (A)	28,008,587	10,730,108
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	27,588,642	10,465,368
Risk margin of 3.0% at 75% PoA* (C) (2011: 3.0%)	1,011,380	307,016
Net deficiency (B+C-A)	(591,435)	(42,276)
(ii) Unclosed business liability component		
Unclosed business liability (A)	1,870,219	206,966
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,814,011	201,860
Risk margin of 3.0% at 75% PoA* (C)	53,138	5,922
Net deficiency (B+C-A)	-	(816)
(iii) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	5,387,217	185,896,671
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	5,783,764	181,374,649
Risk margin 3.0% at 75% PoA* (C)	177,487	5,844,399
Net deficiency (B+C-A)	(574,034)	(1,322,377)
Total deficiency (i)+(ii)+(iii)	(1,165,469)	(1,365,469)

* Probability of Adequacy

22) Total reserves

	2012	2011
	\$	\$
Assets revaluation reserve		
Balance at beginning of financial year	311,642	717,516
Revaluation increments /(decrements)	(311,642)	(405,874)
Balance at end of financial year	-	311,642

The asset revaluation reserve comprised revaluations of land and building.

	2012	2011
	\$	\$
Retained surplus		
Balance at beginning of financial year	98,806,646	85,373,258
Operating surplus	19,216,494	13,433,388
Total retained surplus end of financial year	118,023,140	98,806,646
Balance at end of financial year	118,023,140	99,118,288

23) 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;

	2012	2011
	\$	\$
Cash and cash equivalents	27,165,871	15,270,391
Total	27,165,871	15,270,391

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

	2012	2011
	\$	\$
Operating surplus	19,216,494	13,433,388
Interest received and receivable	(7,822,053)	(5,631,976)
Depreciation and amortisation	396,346	540,219
Net (increment)/decrement arising from the revaluation of current and non-current financial assets	671,908	(2,549,164)
(Increase)/decrease in current receivables	(5,372,868)	(1,423,165)
(Increase)/decrease in other current assets	(102,990)	(156,875)
Increase in amount payable for HBREE*	(342)	1,145,307
Increase in accounts payable and accruals	839,550	435,692
Increase in unearned premium liability	18,941,732	4,586,721
Increase in outstanding claim liability	431,420	6,234,919
(Decrease) in unexpired risk liability	(200,000)	-
Increase in current provisions	81,369	70,770
Decrease in non-current provisions	110,748	(22,281)
Total	27,191,314	16,663,555

* HBREE Health Benefits Risk Equalisation Expense

24) 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.

25) Remuneration of auditors

	2012	2011
	\$	\$
Auditing the financial report	95,600	87,200
Other audit services	23,900	21,800
Other non-audit services	4,500	4,500
Total	124,000	113,500

The auditor of CBHS is PricewaterhouseCoopers.

26) Remuneration of Directors and other key management personnel

The Directors of CBHS during the year were:

- K G Bourke
- K M Brinkley
- M Hart
- M D Latour
- J E Matthews
- L G Moth
- R J Ryan

Other key management personnel of CBHS were:

- P A Gladman Chief Executive Officer
- M L Coombs Chief Operations Officer
- N A Elvin Company Secretary
- A Lavenuta Marketing and Sales Manager
- D Molina Chief Financial Officer
- M Thomas Chief Information Officer (appointed 6 February 2012)

a) Directors remuneration

	2012	2011
	\$	\$
Short-term employment benefits	254,041	236,689
Post-employment benefits (9% statutory superannuation guarantee)	22,864	21,302
Total directors remuneration	276,905	257,991

b) Other key management personnel remuneration

	2012	2011
	\$	\$
Short-term employment benefits	1,184,331	1,005,598
Post-employment benefits (9% statutory superannuation guarantee)	99,440	78,413
Total key management personnel remuneration	1,283,771	1,084,011
Total directors and other key management personnel remuneration	1,560,676	1,342,002

27) 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).

28) Contingent liability

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

29) Lease Commitments

Non-cancellable operating leases

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

	2012	2011
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:		-
Within one year	459,273	-
Later than one year but not later than five years	2,296,365	
Later than five years	1,837,096	-
	4,592,734	-

30) 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 2012	Key Variable 2011
Estimated Medical and Ancillary Incurred Claims Cost for June 2012	\$7,719,000	\$5,804,000
Estimated Hospital Incurred Claims Cost for June 2012	\$10,848,000	\$14,094,000
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%	28.00%
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

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 2012	Changes in Outstanding Claims Component* 2012	Key Variable Change 2011	Changes in Outstanding Claims Component* 2011
Incurred claims for June 2012	+10%	\$2,278,000	+10%	\$1,955,000
	-10%	(\$2,278,000)	-10%	(\$1,955,000)
Expense rate	+10%	\$66,000	+10%	\$67,000
	-10%	(\$66,000)	-10%	(\$67,000)
Risk equalisation (OSC Component)	+10%	\$499,000	+10%	\$464,000
	-10%	(\$499,000)	-10%	(\$464,000)

*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 2012	Key Variable 2011
Estimated Claims Cost	\$154,137,000	\$145,163,000
Risk equalisation (relating to above estimated claim)	17.74%	17.13%
Risk margin	3.67%	3.60%

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.

	2012	2011
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 2012	Changes in unexpired Risk Component* 2012	Key Variable Change 2011	Changes in unexpired Risk Component* 2011
Estimated Claims Cost	+10%	\$19,146,000	+10%	\$16,245,000
	-10%	(\$1,165,000)	-10%	(\$1,301,000)
Risk equalisation (relating to above estimated claim)	+10%	\$2,472,000	+10%	\$2,834,000
	-10%	(\$1,165,000)	-10%	(\$1,133,000)

* Excludes risk margin

31) 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
- various internal policies, procedures and information systems including:
 - CBHS Management's regular assessment and reporting on key risks. Risk profiles are reviewed regularly and where necessary policies and procedures are implemented to mitigate the risk
 - the specific identification and addressing of insurance risk within the CBHS risk profile
 - the Internal Audit function which provides management and the Board independent assurance of the internal control environment
 - the annual Management Certification and Representation provides a statement of position 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
- 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 33f).

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

Interest Rate Risk

CBHS' interest rate risk is limited to those of its financial assets (see note 33d).

All other receivables are non interest bearing.

Compliance Risk

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

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

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

Other

Market Risk and Liquidity Risk are addressed at Note 33.

32) Segment information

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

33) 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 is reviewed annually. No changes were made to the strategy in 2012.

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 and long term deposits and units in managed share and bond 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 rate investments. The risk is managed by maintaining a high proportion in fixed interest rate investments. As at 30 June 2012 the fair value of investments with a fixed interest rate was \$105,750,000 (2011: \$73,150,000) while the fair value of investments with a floating interest rate was nil (2011: \$9,976,400).

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

	Weighted average effective interest rate	2012	2011
	%	\$	\$
Cash deposits – "24 hour at call"	4.16%	25,730,399	11,479,042
Term deposits & Floating Rate Notes designated at fair value through profit or loss	5.92%	105,750,000	83,126,400

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)	
	2012	2011
	\$	\$
+0.25% (25 basis points) per annum	264,375	207,875
-0.25% (25 basis points) per annum	(264,375)	(207,875)

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)	
	2012	2011
	\$	\$
+5% per annum	1,363,175	1,356,668
-5% per annum	(1,363,175)	(1,356,668)

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.

With the finalisation of the Federal Governments Deposit Guarantee Scheme, the Board has reduced its exposure to institutions with a credit rating below A. This strategy will continue in 2012-13 as investments mature.

Credit exposure by credit rating

	2012 \$'000	2011 \$'000
Cash and cash equivalents		
A series rating	25,730	15,270
B series rating	-	-
Unrated	-	-
	25,730	15,270
Financial assets at fair value through the profit or loss		
A series rating	97,250	66,347
B series rating	8,500	16,780
Unrated	35,494	36,177
	141,244	119,303

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

	2012 \$'000	2011 \$'000
Carrying amount of financial instruments designated as at “fair value through profit or loss”	105,750	83,127
Principal amount of financial instruments designated as at “fair value through profit or loss”	105,750	83,150
Cumulative changes in fair value attributed to changes in credit risk	(1,133)	258
Changes in fair value attributable to changes in credit risk recognised during the period	(1,391)	(282)

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
2012					
Trade and other payables	1,293,291	8,747,712	-	-	-
2011					
Trade and other payables	1,066,373	8,135,421	-	-	-

h) Fair value control framework

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

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. At 30 June 2012, all financial instruments held by CBHS were traded in active markets.

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

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

i) Fair value of financial instruments

As at 30 June 2012, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2012	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
Assets				
<i>Fair value through profit or loss</i>				
Term deposits	\$105,750,000	-	-	\$105,750,000
Floating rate notes	-	-	-	-
Managed share funds	\$20,855,095	-	-	\$20,855,095
Managed bond fund	\$14,638,428	-	-	\$14,638,428
Managed cash funds	-	-	-	-
Total	\$141,243,523	-	-	\$141,243,523

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:

2011	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
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

At 30 June 2012, all financial instruments held by CBHS are traded in active markets, hence level 1. Financial assets are valued using unadjusted quoted prices in active markets for identical assets. Financial assets in this category are managed funds.

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

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

34) Solvency Reserve

The Solvency Reserve, with respect to the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, is \$15,186,006. Net assets are \$118,023,140 representing an excess of \$102,837,134 over the Solvency Reserve.

35) Additional company information

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

Registered Office	Principal Place of Business
Level 5, 79 George Street	Level 5, 79 George Street
PARRAMATTA NSW 2150	PARRAMATTA NSW 2150
Tel: (02) 9843-7603	Tel (02) 9843-7603

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Directors' Declaration

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out between pages 35 and 73 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 2012 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as when they become due and payable.

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

The directors have been given the declarations by the chief executive officer and chief financial 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



M. Hart

Director

Dated at Sydney 30th day of August 2012

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Independent Audit Report



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 2012, the statement of comprehensive income and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the 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 opinion.

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of CBHS Health Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the fund's financial position as at 30 June 2012 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 fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

R Balding
Partner

Sydney
30 August 2012

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