

Annual Report

2017





CONTENTS

About CBHS	01	Auditor's Independence Declaration	26
Highlights	02	Consolidated Statement of Comprehensive Income	27
Five Year History	04	Consolidated Statement of Financial Position	28
Delivering Value to Members	05	Consolidated Statement of Changes in Equity	29
Message from the Chairman	06	Consolidated Statement of Cash Flows	30
Message from the Group CEO	09	Notes to the Financial Statements	31
The CBHS Health Hub	11	Directors' Declaration	70
Corporate Governance Statement	13	Independent Auditor's Report to the Members of CBHS Health Fund Limited	71
Directors' Report	20		

About CBHS

Members are at the heart of everything we do.

It's been 66 years since the establishment of CBHS Health Fund Limited ('CBHS')¹ by the Commonwealth Bank of Australia ('CBA Group').

During this time, we have remained true to the sentiment that opened our doors: providing CBA Group employees and their families access to high-quality, affordable health insurance. Recently we have extended our eligibility – CBHS now provides insurance to current and former employees and contractors of the CBA Group, and their extended family members, including partners, children and grandchildren.

In addition to being announced in 2016, as CHOICE magazine's best performing restricted health fund in both the Comprehensive Hospital policy and Comprehensive Extras policy categories, we continue this legacy by reaching for a simple goal – **to be the partner of choice for health insurance in Australia.**

Our aim is to develop a relationship with our members as a health partner and not just be a health insurer. To do this, we've recognised that the meaning of health has changed.

Our members want quality services that can provide a better quality of life, as well as quick, easy access to their health insurance. We have listened and taken steps to meet these desires. We reduced call waiting times, launched the CBHS Mobile App, allowing our members to check their benefits, make claims on the go and look up CBHS preferred suppliers and where they are located.

Lastly, we've developed member-friendly information packs on our CBHS Better Living and Hospital Substitute Treatment programs, which provide health support and rehabilitation solutions in the comfort of your own home.

This is only the beginning. As we move into next year, we will focus on ensuring that our members are being met with amazing service, whether it's face-to-face, on the phone or through one of our digital channels. For whatever stage of life you and your family are at, CBHS is ready to help.

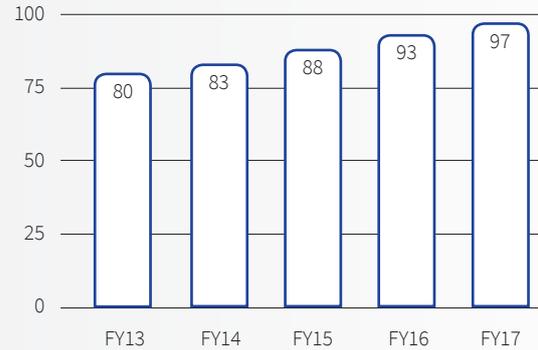
¹ Note: the financial information contained in the following sections include the subsidiary CBHS Corporate Health Pty Ltd (CBHS Corporate)

Highlights

CBHS continues to provide more members with peace of mind, with now more than 96,000 members.

4.4% increase in membership

Membership (thousands)

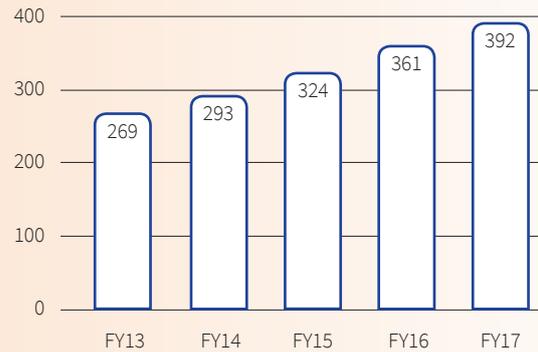


Membership growth has been better than industry average

Increase in premium revenue is driven by membership growth, members upgrading to more comprehensive policies and premium increases.

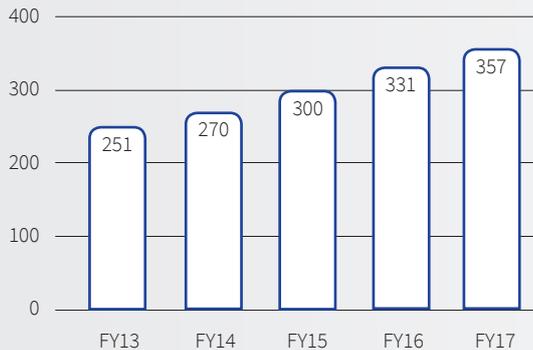
8.7% increase in premium revenue

Premium revenue (\$ millions)



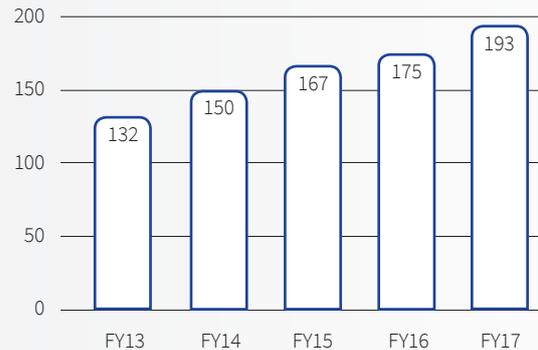
8.1% increase in net claims incurred

Net claims incurred (\$ millions)



10.3% increase in net assets

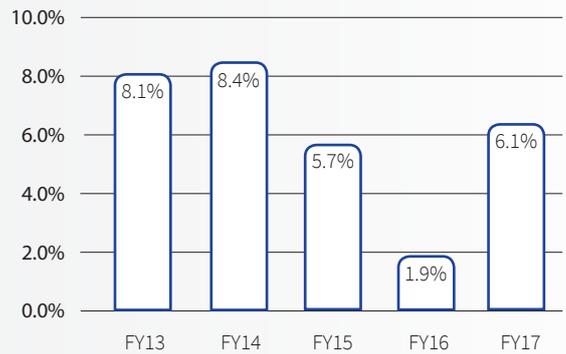
Net assets (\$ millions)



Growth in net assets is underpinned by strong investment returns.

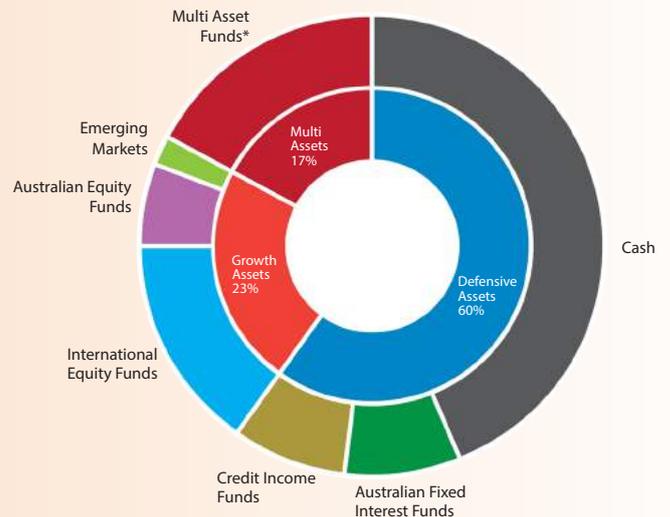
Investment returns in FY17 performed better than expected. However, we expect investment returns to trend lower given market uncertainties and volatility.

6.1% investment returns in 2017



CBHS' portfolio has a defensive weighting and has a bias towards asset protection.

Investments portfolio

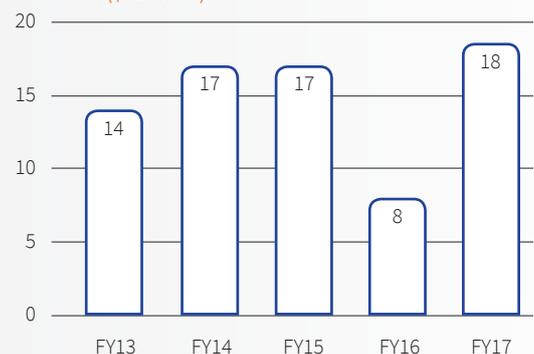


* As at 30 June 2017 more than 50% of funds within the Multi Asset Funds were in cash and bonds.

Increase in profit/surplus after tax in FY17 is underpinned by strong returns from funds invested.

Profit/surplus after tax increase by 131.0%

Profit (\$ millions)



Five Year History

	2017	2016*	2015*	2014*	2013*
Income Statement					
Direct premium revenue	392,015	360,713	324,147	293,044	269,044
Benefits incurred	(312,033)	(286,669)	(258,315)	(233,018)	(215,098)
Health benefits risk equalisation trust fund	(40,587)	(39,610)	(37,222)	(33,038)	(32,141)
Government levies	(4,797)	(4,465)	(4,064)	(3,790)	(3,513)
Net claims incurred	(357,417)	(330,744)	(299,601)	(269,846)	(250,752)
Net movement in unexpired risk liability	–	–	2,154	(2,154)	1,165
Management expenses	(31,201)	(26,043)	(21,074)	(19,139)	(18,078)
Underwriting profit	3,397	3,926	5,626	1,905	1,379
Investment and other income	14,765	4,300	12,087	15,858	13,464
Depreciation and amortisation	(594)	(471)	(495)	(500)	(472)
Profit/surplus before tax	17,568	7,755	17,218	17,263	14,371
Income tax benefit/(expense)	348	–	–	–	–
Profit/surplus after tax	17,916	7,755	17,218	17,263	14,371
Balance Sheet					
Current assets	92,234	142,713	104,581	88,197	113,009
Non current assets	192,219	116,257	135,437	131,770	85,138
Total assets	284,453	258,970	240,018	219,967	198,147
Current liabilities	90,398	83,665	72,536	69,773	65,132
Non current liabilities	1,508	674	606	537	621
Total liabilities	91,906	84,339	73,142	70,310	65,753
Net assets	192,547	174,631	166,876	149,657	132,394
Reserves					
Retained surpluses	192,547	174,631	166,876	149,657	132,394
Total reserves	192,547	174,631	166,876	149,657	132,394

(in \$'000 unless otherwise indicated)

*Values refer to parent entity result only as CBHS Corporate did not begin trading until 1 July 2017.

You will note many references to the term 'profit' throughout this report.

This is an accounting requirement.

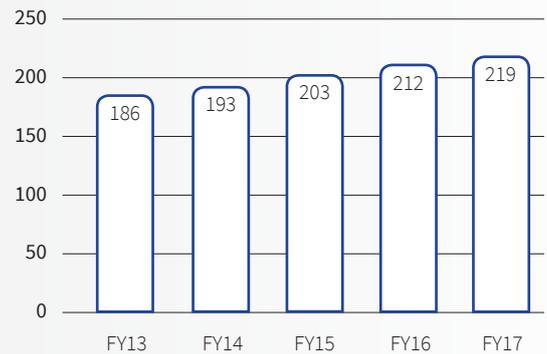
It reflects CBHS' investment in CBHS Corporate, which has been established as a 'for profit' business, for the long-term benefit of CBHS members.

The use of this terminology throughout the report does not change in any way the core values of the parent company, being a member owned, 'not for profit', organisation.

Delivering Value to Members

219,246 people now experience the benefits of CBHS membership

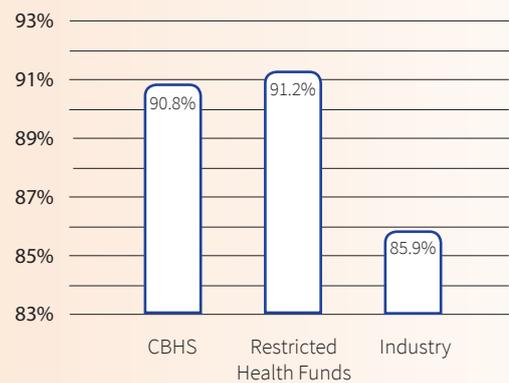
CBHS membership
Insured persons (thousands)



CBHS' member focus ensures we give back more to members than the industry average. In 2017 we paid out almost 91 cents in claims* for every premium dollar received.

* Standard industry basis including payments to government Risk Equalisation pool.

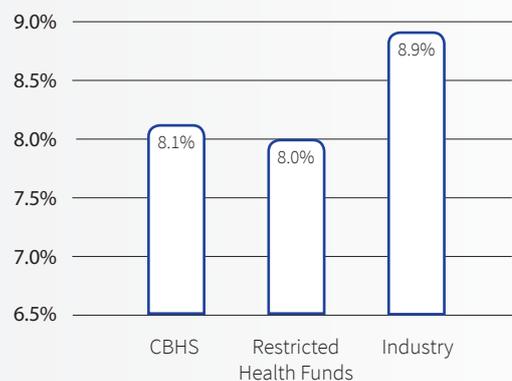
Claims ratio



Note: Industry data source APRA Private Health Insurance Quarterly Statistical Report

In keeping with our philosophy, we continually look to improve the way we operate. MER is comparable to the other Restricted Health Funds and significantly lower than the industry average.

Management Expense Ratio (MER)



Note: Industry data source APRA Private Health Insurance Quarterly Statistical Report

Message from the Chairman

“

In my second year as Chairman of CBHS, I couldn't be happier with how the company has come together to pursue its objectives. We continue to provide the great services and care that CBHS, as a member owned organisation, is famous for! The Directors and I remain as committed as ever to our values.

”



Leslie Moth Chairman

Financial position

Financially, the consolidated profit after tax in 2016/17 was \$17.9 million underpinned by stronger returns from our Investment portfolio of \$14.7 million (up 248%). Whilst this contributed to a strong result this year, we do not believe this type of return is sustainable and expect the outlook for investments to remain volatile and more subdued. Our investment portfolio continues to remain highly defensive in its structure.

CBHS' net underwriting result was a profit of \$3.4 million, which reflects the very fine margin we target as a member owned 'not for profit' company. Our contribution revenue was \$392.0 million (up 8.7%), benefits incurred were \$357.4 million (up 8.1%) and management expenses were \$31.8 million (up 19.9%). Management expenses were higher compared to last year due mainly to increased investment in the business (refer below for more details).

Our capital position remains strong with Total Assets of \$284.5 million (up 9.8%). As a not for profit, a well-capitalised business provides us with the opportunity to grow and continue to provide our members with quality services and benefits.

We now enjoy the support of 96,766 members – an increase of 4.4%.

Some of the highlights for the year include:

- This year we delivered the lowest premium rate rise in the industry. This was achieved by passing on all the expected savings from the recently announced prosthesis reform (which came into effect in February 2017), more effective member care through our Hospital Substitute Treatment program and the achievement of ongoing operational efficiencies.

We are acutely aware of the affordability challenges facing our members and continue to work with Government and various affiliated groups to deliver better services and efficiencies.

The Board is committed to delivering the lowest possible premium rate on a consistent basis.

- We have invested significantly in improving our core underwriting system, the CBHS Corporate business, our digital services, as well as systems security and member service. Each of these has long-term benefits to our members, but results in a higher management expense ratio in the short term.

- CBHS Corporate was successfully launched in 2016. CBHS Corporate provides private health insurance and wellness solutions to business-to-business partners of the CBA Group. It has successfully signed up 17 corporate partners as at June 2017.

Whilst CBHS Corporate sustained a financial loss this year, it was broadly in line with the business plan for this start up business. We continue to be committed to this investment, which we believe will improve membership value in the long term.

- As a company, as a corporate citizen and more importantly a health insurer, we recognise the role we play in environmental and social issues. We are becoming more aware of the risks of certain industries and their potential impact on chronic diseases and mental health issues. Going forward, the Board will be examining how it can make a more positive impact on Environmental, Social and Governance (ESG) factors that pose risks to the community. As a starting point, we are starting to embed ESG considerations within our Investment decision making processes.

CBHS has never been more unified towards its goal of providing excellent service for our members. CBHS will continue its efforts in lobbying the Government to keep members' premiums low and maintaining our relationships with industry regulators, associations and stakeholders to improve affordability.

This year, we have had two Directors resign. I would like to express our gratitude for their commitment and dedication to CBHS. Ms Terri Benson was a Director since 2015 and Ms Michelene Hart was a Director of CBHS since 2006. Ms Benson resigned from the Board following her relocation to take up an executive role as Managing Director of a major utility company in Victoria. Ms Hart continues her commitment to CBHS as the Chairman of our subsidiary health fund, CBHS Corporate.

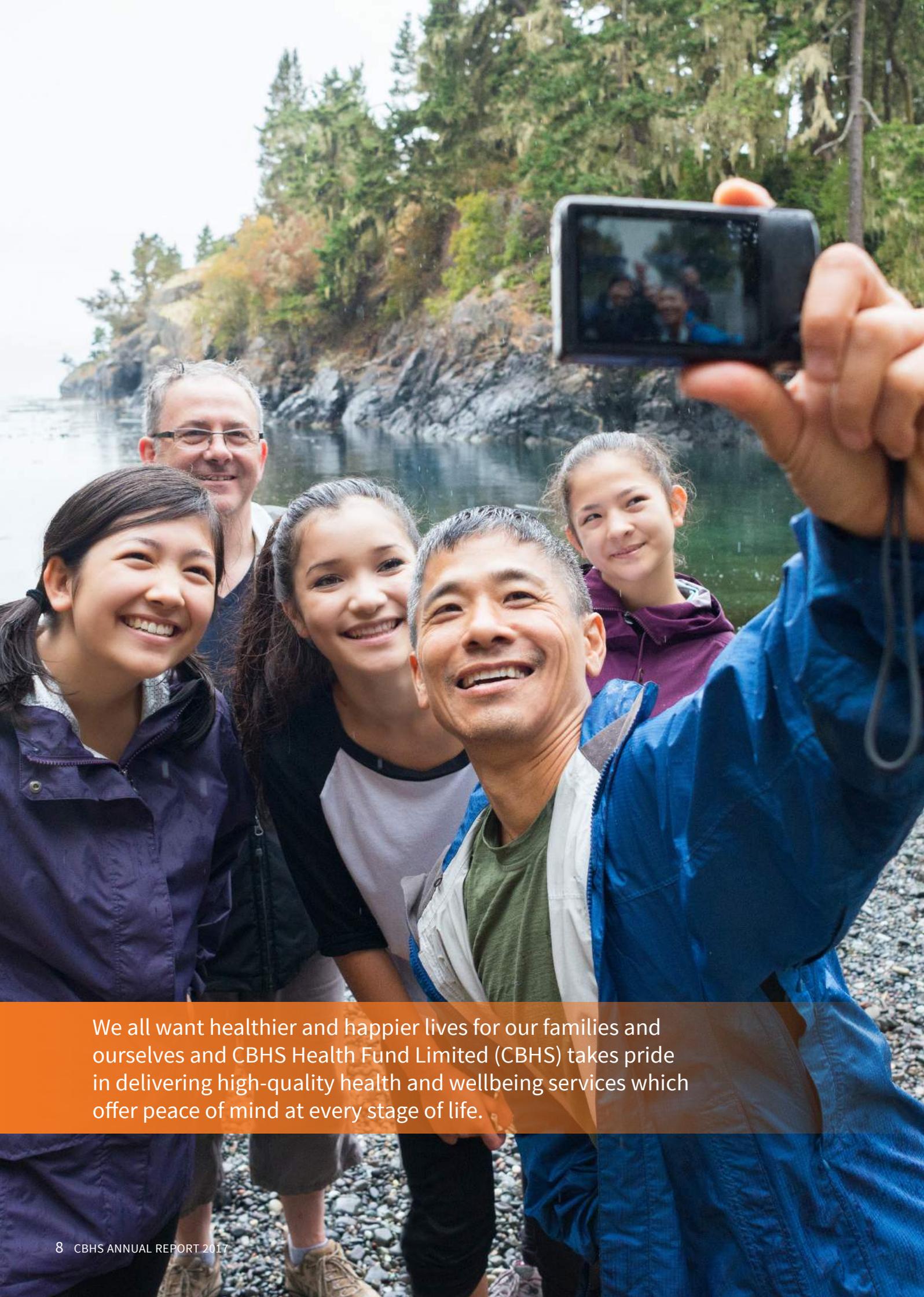
I would like to welcome Mr Malcolm 'Jay' MacGregor, who joined the Board in May 2017 and Mr Adrian Hondros, who joined the Board in June 2017 following extensive review by the Board of the skills and capabilities of a wide range of potential candidates.

Despite changes in the Board composition, it is pleasing to see the constructive interactions between the Board and Management focussed on achieving our common objectives for members. The Board has never been more unified in the pursuit of its strategic objectives and is working well with Management and staff to deliver a number of exciting new initiatives, including allowing CBHS to deliver the lowest premium rate increase of all health funds in 2017.

I'd like to thank the CBHS staff for their efforts, and for putting our members at the heart of everything we do. I look forward to another exciting year. I am very confident CBHS will continue to successfully serve its members.



Leslie Moth
Chairman



We all want healthier and happier lives for our families and ourselves and CBHS Health Fund Limited (CBHS) takes pride in delivering high-quality health and wellbeing services which offer peace of mind at every stage of life.

Message from the Group CEO

“

It's been a year of change for CBHS, yet at our core we remained the same, a caring member-focused not-for-profit health fund.

”



Andrew Smith Group Chief Executive Officer

Members are at the heart of everything we do, now and always. This ethos guided the creation of our **CARE** values. Together, we put the **C**ustomer first, are **A**ctive (as we walk the health talk), practise **R**espect, and strive for **E**xcellence in everything we do for our members. Our collective stride to incorporate these values into our work has made me proud of this organisation and each person working in it.

I'm pleased to advise that with the efforts of the staff and Board of CBHS we have made significant progress on some of the objectives we set last year. These include:

- Keeping our premium increases as low as possible
- Raised awareness around our wellbeing programs – Hospital Substitute Treatment and Better Living –

which enable our members to recover faster, in the comfort of their own homes.

- Made our health insurance simpler and easy to access for our members. By investing in the digital side of CBHS, we have had great success in the last year. We've launched Mobile App solutions, allowing our members to make claims, find providers, check their benefits and update their details on the go.
- We've also redesigned the website to make it easier for members to find important information and evaluate our products against their life stage needs, as well as discover the benefits of being a member with CBHS.
- Given our long association with the CBA Group, we understand how important it is to build and support our membership with this strategic partner and as such we've taken health improvements inside the walls of the CBA. Members and potential members can get various health-related one-on-one consultations, and a health check-up at our newly installed Health Hubs. A true innovation in technology, the Health Hub is an analytics booth that provides accurate measurements and details on your health status. It's no exaggeration to say that these booths and the information they provide have changed the lives of some CBA employees.
- The newly established CBHS Corporate has made good progress. Apart from providing quality health insurance for Australian residents, they have also introduced Overseas Visitors Health Cover to ensure that visitors coming to Australia for work or recreation can get great coverage and service offered by CBHS Corporate. Our partnership with Colonial First State has given them more to offer their clients than superannuation – now, their members can see that both their health and retirement are in good hands.

Message from the CEO continued

The advancement of these objectives will form the foundation of reaching our goal – to be the partner of choice for health insurance in Australia. I know that CBHS, with its combined talent, passion, and knowledge, can achieve this goal in the years to come.

- Lastly, we've reduced call waiting times for our members. Ensuring that our members are heard, especially when their health is their primary concern, offers peace of mind that you can't put a price on. I'm extremely proud of our Member Care team for managing to reach this performance goal.

The advancement of these objectives will form the foundation of reaching our goal – **to be the partner of choice for health insurance in Australia.**

I know that CBHS, with its combined talent, passion, and knowledge, can achieve this goal in the years to come.

I thank the Board and Executive Team for their demanding work, and the team at CBHS that makes it the special fund that it is.

Most importantly, I thank the members of CBHS.

You are at the heart of everything we do.



Andrew Smith
Group Chief Executive Officer



The CBHS Health Hub

CBHS has introduced the Health Hub, an interactive health assessment centre.

CBHS piloted a new Health Hub concept, an interactive health and wellness centre. The Health Hub is a blend of interactive health technology and health professionals refreshed with a new health theme on a monthly basis. The Health Hub provides diagnostic tools that measure your height, weight and blood pressure, asks simple questions, and provides a general estimate on your level of health. Health assessments can be received from one-on-one consultations with health professionals and from the diagnostic tools which send your health results by email. You can then follow your progress through repeat visits to the Health Hub to improve your overall level of health and wellbeing.



The Health Hub is continually evolving, and includes tools to measure vitamin levels, train your brain, eyes and reflexes. We have also implemented virtual reality technology with the Oculus Rift. We've adapted it away from its primary use as an entertainment device, and instead have implemented programs that can help wearers of the headset find quiet and peaceful environments to relax in – without ever having to leave the office.

The Health Hub has been a huge success, and has changed the course of the lives of those who have visited it. The pilot Health Hubs were located at CBP South in Sydney and Bankwest Place in Perth during a nine month period.

Key highlights from the pilot Health Hub included:

- Nutrition, Sleep Health, Stress and Anxiety issues were identified as key themes and as a result CBHS worked with the CBA Health, Safety and Wellbeing team to develop an annual Wellbeing Calendar.
- A number of individuals were also identified at risk of cardiovascular disease and other chronic diseases and were referred to a GP
- 14,554 unique visitors experienced the Health Hub
- 6,087 self-help health scans using an interactive health diagnostic tool were performed
- 3,860 one-on-one health consultations took place
- 94% participant satisfaction

These statistics are more than just numbers – these are real people's lives' to which CBHS was able to make active, demonstrable and long-term changes. We're proud to continue walking the health talk.



Corporate Governance Statement

For the year ended 30 June 2017

This statement outlines the key aspects of the corporate governance framework of CBHS Health Fund Limited and its wholly owned subsidiaries ('CBHS').

For the purposes of the Corporate Governance Statement, a reference to a Prudential Standard is a reference to an Australian Prudential Regulation Authority ('APRA') Prudential Standard.

The Governance Standard is a Prudential Standard and was developed 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 they are likely to encounter.

The Board endeavours, where applicable and where in the best interest of CBHS, to adopt the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

This statement is current as at 24 August 2017 and has been approved by the Board of CBHS.

Lay solid foundations for management & oversight

The Board & Management

The Board is accountable to its members for the performance and governance of CBHS. Management is responsible for implementing the Board approved strategy and objectives and for carrying out the day-to-day management of CBHS.

Board charter

The roles and responsibilities of the Board are set out in the Board Charter. The Board Charter was last updated in January 2016 and reviewed in December 2016. The Board Charter is reviewed no less than annually.

The Charter outlines the responsibilities of the Board. These include, but are not limited to:

- Overseeing and monitoring performance against CBHS' corporate strategy;
- Oversight of the Senior Management team;

- Oversight of financial and capital management and reporting requirements;
- The establishment of a Risk Management Framework which assesses, monitors and manages CBHS' key risks; and
- Ensuring effective communication with members and other key stakeholders.

Delegation of authority

The Board has delegated to the Group CEO and his Senior Management team the responsibility for running the day-to-day business of CBHS.

The Group CEO may authorise his Senior Management Team to further delegate to their direct reports in accordance with the Group Delegations of Authority and Guidelines Policy. The Group CEO remains accountable for all delegated authorities

Fit & Proper reviews

CBHS has introduced a Group Fit & Proper Assessment Policy to ensure that CBHS complies with the requirements of APRA's Prudential Standard CPS510 and sets out the minimum requirements for CBHS in determining the fitness and propriety of individuals to hold positions of responsibility, both prior to appointment and on an ongoing annual basis.

CBHS will conduct Fit & Proper assessments on Directors by May each year. Fit & Proper assessments on Senior Management will be completed in line with the yearly performance assessment process.

Additionally, CBHS conducts Fit & Proper assessment on nominating Director candidates.

The Fit & Proper checks include:

- A review of current qualifications, skills, knowledge and experience;
- An Australian Federal Police check;
- An Australian Securities & Investments Commission ('ASIC') disqualified persons check; and
- A bankruptcy check.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

Director & Senior Management agreements

Written agreements setting out the terms of employment are in place for each Director and Senior Management.

Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Megan Coombs was appointed Group Company Secretary of CBHS on 1 March 2017, where she holds a dual role of Group Company Secretary & Chief Operating Officer. Previously Ms Coombs held the position of CBHS' Chief Financial Officer. Ms Coombs is a Certified Practising Accountant with over fifteen years' experience in leadership roles in service, not for profit and Government organisations.

Diversity

CBHS has a Group Fair Workplace Policy, which states that CBHS is committed to ensuring that all employees enjoy equal employment opportunities.

CBHS has completed the Workplace General Agency (WGEA) report during this reporting period. A copy of this report can be found on our website.

Performance of the Board, its Committees & individual Directors

In accordance with the Governance Standard, a Board Renewal & Performance Evaluation Policy ('Policy') has been developed to assist the Board in discharging its responsibilities to ensure the sound and prudent management of CBHS. The Board performance evaluation is an annual process which provides for an assessment of individual Directors, Committees and the Board collectively against a pre-agreed set of objectives.

This Policy is reviewed no less than annually, and was last reviewed by the Board in February 2017.

A review of the skills matrix and a collective assessment against the Board was undertaken in May 2017 to assist with identifying any potential skill gaps and to review the existing Directors who, having retired and being eligible for election or re-election submitted a nomination to the Board as part of the 2017 Board election process.

Performance of Senior Management

The performance of Senior Management is reviewed on a half yearly and yearly basis by the Group CEO.

During the yearly review, the Group CEO presents the performance results of his Senior Management team to the HR Strategy & Governance Committee.

Deed of access, insurance & indemnity for Directors and Officers (Senior Management)

At the 2015 Annual General Meeting, members approved CBHS entering into a revised Deed of Access, Insurance & Indemnity ('Deed') (in the form tabled at the meeting) with respect to any future appointed Director.

The Board is seeking member approval for CBHS to enter into a Deed for Mr Malcolm 'Jay' MacGregor, Mr Adrian James Hondros and any future Director in a form substantially similar to that being approved by members at the 2017 Annual General Meeting.

Deeds have been executed by CBHS with each Director in a form consistent with the approval of members.

The Deed provides indemnity for each Director and Officer and clarifies their rights and obligations of a Director with respect to access to documents and records, confidentiality, notification and conduct claims, advances of legal costs until the finalisation of a claim and insurance against claims.

A revised version of the Deed applicable to Officers of CBHS ('Officers Deed') was approved in March 2015. An Officers Deed has been entered into with each member of the Senior Management Team.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

Structure the board to add value

Composition of the Board

The CBHS Constitution provides that there must be a minimum of five (5) Directors and no more than seven (7) Directors, excluding the Group Chief Executive Officer. The Board may have a maximum of two (2) Directors who are not members of CBHS.

The Board may appoint the Group Chief Executive Officer as an Executive Director either for a specified term (but not for life) or without specifying a term. An Executive Director is not counted for the purposes of determining the minimum or maximum number of Directors under rule 5.1 (a) or 5.1 (b) of the CBHS Constitution. The Board resolved to appoint the current Group CEO as an Executive Director on 3 November 2016. The Executive Director is not subject to the requirement to automatically retire nor is he required to retire and participate in a Director election at an Annual General Meeting.

The Board currently comprises eight (8) Directors, seven (7) independent Non-Executive Directors, including one (1) Director who is not a member of CBHS, and one (1) Executive Director.

The respective roles of the Chairman and the CEO are not exercised by the same individual.

Details of the number of times the Board and its Committees met throughout 2016-17 and the individual attendances of the Director's at those meetings is provided in the Directors' Meetings section of the Directors' Report on page 23 of the 2017 Annual Report.

The Board has not established a Nomination Committee, preferring that this function be performed by the whole Board.

Tenure & retirement of Directors

The CBHS Constitution specifies that a Director must retire from office at the third Annual General Meeting after the Director was elected or last re-elected. If no election of Directors is scheduled to occur at an Annual General Meeting, then at least two (2) Directors must retire from office at the Annual General Meeting.

Details of the period of office held by each current Director and the year of their last election are as follows:

Director	Appointed	Last Elected at an AGM
Leslie George Moth (Chairman)	2006	2016
Andrew Robin Smith (Group CEO)	2016	N/A
Marielle Desiree Latour	2010	2016
Adrian James Hondros	2017	-
Peter Andrew MacCuspie	2015	2015
Malcolm 'Jay' MacGregor	2017	-
John Eric Matthews	2008	2014
Fintan Benedict Thornton	2012	2015

Ms Michelene Hart resigned from the Board in December 2016 and Ms Terri Benson resigned from the Board in May 2017.

The current Directors who are seeking election or re-election at the 2017 Annual General Meeting ('AGM') are:

- Mr Malcolm 'Jay' MacGregor having been appointed to fill a casual vacancy on the Board during 2017;
- Mr Adrian James Hondros having been appointed to fill a casual vacancy on the Board during 2017; and
- Mr John Eric Matthews, having reached his maximum tenure of three (3) years.

Board skills matrix

The Board has developed a skills matrix which sets out the collective skills and experience that the Board is seeking. The skills matrix is closely linked to the achievement of CBHS' long term strategies.

The skills matrix is reviewed at least annually and used in reviewing Director candidates, including those Directors who have retired and are eligible for re-election.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

Director induction & education

Newly appointed Directors participate in an induction program which involves sessions with Senior Management, Appointed Actuaries, other Directors and key stakeholders to assist in understanding the business.

The Board have scheduled education sessions specific to the Health Insurance Industry and other topics which may affect CBHS and its members.

In addition, the Board encourages individual Directors to complete training outside of CBHS which is relevant to their role as a Director.

The Group Company Secretary maintains a register of all training completed by Directors.

Act ethically and responsibly

Conflict of interests

Directors are required to comply with the requirements of s191 of the *Corporations Act 2001* ('the Act') concerning the disclosure and appropriate management of transactions which involve their interest.

The Board has an approved Directors' Conflict of Interest Policy which sets out the disclosure obligations of each Director with respect to conflicts of interest and the procedures to be followed should a conflict of interest arise.

To ensure compliance and continuous disclosure, Directors consider the Standing Notice of Interest Register regularly at each Board meeting. Directors also consider if there is an interest to declare at the beginning of each Committee meeting.

Code of conduct

CBHS has a Group Ethics Policy which establishes a culture of openness, trust and integrity in business practices. This policy outlines acceptable principles to be applied to CBHS' Directors, Senior Management and other employees.

CBHS has a Group Whistle-blower Protection Policy which supports the operation of the Group Ethics Policy.

The Vision, Mission and Values was reviewed to ensure that for eligible members CBHS is their first-choice health insurer. Our CARE values (Customer First, Active, Respect and Excellence) guide the way CBHS interacts with our members.

Safeguard integrity in corporate reporting & recognise and manage risk

Committees

To assist the Board in carrying out its responsibilities, the Board has established three (3) Committees, being the Audit & Risk Committee, the Asset & Liability Committee and the HR Strategy & Governance Committee.

Each Committee operates under a Charter, which is reviewed and approved by the Board no less than annually. The Charter sets out the Committee's responsibilities and the delegated authorities.

The Chairman of each Committee provides a report to the Board at the following meeting and the minutes of the meeting are provided to all Directors.

Audit & Risk Committee

The Audit & Risk Committee assists the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- the reporting of CBHS financial information;
- the effectiveness of the internal control environment and risk management framework;
- the effectiveness of the compliance processes;
- the adequacy of governance arrangements; and
- the independence and effectiveness of the external and internal audit functions.

A copy of the Audit & Risk Committee Charter is available on the CBHS website.

The Audit & Risk Committee has three (3) Non-Executive Directors and between its members have accounting and financial expertise and a sufficient understanding of the health insurance industry.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

The Chairman of the Committee is an independent Director and is not the Chairman of the Board.

The Committee's members are:

- Peter MacCuspie (Chairman)
- Malcolm 'Jay' MacGregor
- Fintan Thornton

Ms Terri Benson served as the Chairman of the Audit & Risk Committee until 25 May 2017. Ms Michelene Hart was also a member of the Audit & Risk Committee until 31 December 2016.

Details of the number of times the Audit & Risk Committee met throughout 2016-17 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 23 of the 2017 Annual Report.

Internal audit

CBHS appointed a Head of Internal Audit and brought the Internal Audit function in-house during FY17.

The Head of Internal Audit is responsible for providing independent assurance on the performance of management in maintaining the strategic direction of CBHS, achieving its operational objectives in line with organisational and legislative requirements, and ensuring the highest standards of probity and accountability are met. In doing so, the Internal Audit function forms part of the organisation's governance framework – providing an integral contribution to governance, risk management and control within CBHS.

The Internal Auditor meets with the Audit & Risk Committee on a regular basis without Senior Management being present.

External audit

PricewaterhouseCoopers (PwC) was appointed as the external auditor of CBHS in 2009.

In line with current legislation, CBHS requires that the external audit partner be changed within five (5) years of being appointed. In November 2016, the lead partner was changed and Ms Renae Cooper was appointed.

The External Auditor meets with the Audit & Risk Committee on a regular basis without Senior Management being present.

Asset & Liability Committee

The Asset & Liability Committee is responsible for assisting the Board with:

- developing, reviewing and monitoring the strategy and policies for:
 - capital;
 - liquidity; and
 - investment activities.
- recommending appropriate investments; and
- monitoring the performance of CBHS' investment advisors.

A copy of the Asset & Liability Committee Charter is available on the CBHS website.

The Asset & Liability Committee has three (3) members. Two (2) are Non-Executive Directors and one (1) is a Non-Director Committee Member.

The Committee's members are:

- Fintan Thornton (Chairman)
- Leslie Moth
- Gerard Parlevliet (Non-Director Committee member)

In December 2015, the Board appointed a Non-Director member to the Committee as a specialist to assist the Committee with investment ideas.

Details of the number of times the Asset & Liability Committee met throughout 2016-17 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 23 of the 2017 Annual Report.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

HR Strategy & Governance Committee

The HR Strategy & Governance Committee is responsible in assisting the Board with:

- ensuring that appropriate people strategies and effective systems, policies and practices are in place;
- ensuring compliance with all relevant Human Resource and WH&S legislation and regulations and report regularly to the Board on these matters;
- ensuring the Board meets its APRA Governance Standard obligations;
- recommending appropriate fee levels for Directors;
- ensuring the annual remuneration review process for employees, including the CEO and key management personnel, is fair, transparent and appropriate; and
- reviewing and recommending to the Board an effective succession plan for the Group CEO and his Senior Managers.

A copy of the HR Strategy & Governance Committee Charter is available on the CBHS website.

The HR Strategy & Governance Committee has three (3) members who are Non-Executive Directors.

The Committee's members are:

- John Matthews (Chairman)
- Marielle Latour
- Adrian Hondros

Ms Terri Benson was also a member of the HR Strategy & Governance Committee until 26 May 2017.

Details of the number of times the HR Strategy & Governance Committee met throughout 2016-17 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 23 of the 2017 Annual Report.

Additional information on the Directors' qualifications and experience can be found on page 20 of the Directors' Report section in the 2017 Annual Report.

Annual Financial Accounts

Prior to the Financial Accounts being approved by the Board, Senior Management provides Certifications and Representations regarding the internal control framework that ensures the accuracy of financial and operational reporting to the Board.

Additionally, the Board receives a joint declaration made by the Group Chief Executive Officer & Executive Director and Chief Financial Officer stating that in their opinion the financial records of the entity have been properly maintained and that CBHS' financial statements comply with appropriate Accounting Standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Annual General Meeting

The External Auditor attends each Annual General Meeting and is available to answer questions from members in relation to CBHS' financial accounts and the audit.

Respect the rights of members

CBHS information & Governance

During this reporting period, Senior Management have worked closely with the Board to establish a Corporate Governance section on the CBHS website. This will be established in early 2017-18 and will provide members with easily accessible information on CBHS and how it is governed.

Additionally, CBHS is striving to be known for our high-performance culture, balanced with appropriate behavioural standards.

Corporate Governance communication

Members have the option to send and receive communications in relation to Corporate Governance matters electronically.

Corporate Governance Statement (continued)

For the year ended 30 June 2017

Remunerate fairly and responsibly

Remuneration Committee

The HR Strategy & Governance Committee supports the Board in all remuneration matters.

Non-Executive Director remuneration

The aggregate remuneration of independent Non-Executive Directors is determined by the members at a general meeting, as specified in the Constitution. The Board's aim when recommending an aggregate amount to members, is to recommend an amount which provides CBHS with the necessary degree of flexibility to enable it to retain the services of Directors of the highest calibre. Member approval was last received at the Annual General Meeting held on 2 November 2016, where members approved an aggregate remuneration of \$400,000 per annum. The aggregate sum is divided between the Directors as agreed by the Board.

Details of Directors' remuneration are set out in note 22 a).

Group Chief Executive Officer remuneration

The Board, pursuant to the Constitution, fixes the remuneration of the Group CEO as part of the terms and conditions of appointment. Remuneration is reviewed on an annual basis by the Board. The Group 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 Group CEO's individual contribution with respect to a range of performance targets.

Senior Management remuneration

CBHS' policy in respect of Senior Management incorporates remuneration that is competitively set so that CBHS can attract, motivate and retain high calibre Senior Managers and promote a high performing culture. 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 HR Strategy & Governance Committee reviews remuneration annually through a process that also considers relevant comparative remuneration in the market.

Private Health Insurance Code of Conduct

CBHS operates and is accredited under the Private Health Insurance Code of Conduct ('Code'). The Code is designed to help consumers by providing clear information and transparency and extends to staff training, product information/documentation, notifications to members, dispute resolution processes, and privacy obligations. The Code is based on a voluntary accreditation that is administered by Private Healthcare Australia ('PHA'). The Code forms the basis for the manner in which the people of CBHS perform their work by requiring CBHS to operate its business in an open and honest manner with members, employees, providers, the regulator and the health insurance industry.

Each year CBHS undertakes an internal review to ensure it remains compliant with the Code, and on a triennial basis conducts a more thorough internal self-audit process. The results are then presented to the Board in June for annual certification which is required to be completed by the Group Chief Executive Officer and the Chairman and is then lodged with the PHA Code Compliance Committee.

Directors' Report

The Directors submit their report on the consolidated entity consisting of CBHS Health Fund Limited ('parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017. Throughout the report the consolidated entity is referred to as CBHS.

Board of Directors

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

- Leslie George Moth (Chairman – CBHS)
- John Eric Matthews (Deputy Chairman – CBHS)
- Adrian James Hondros – appointed on 16 June 2017
- Marielle Desiree Latour
- Peter Andrew MacCuspie
- Malcolm 'Jay' MacGregor – appointed on 26 May 2017
- Fintan Benedict Thornton
- Andrew Smith (Group Chief Executive Officer & appointed CBHS Executive Director on 2 November 2016)
- Terri Anne Benson – resigned on 26 May 2017
- Michelene Hart – resigned on 31 December 2016

Information on 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, was elected Chairman on 5 November 2015 and is a member of the Asset & Liability Committee.

Mr Moth retired from the CBA Group in 2004 following a career spanning 36 years. During this time, he performed senior roles including executive leadership roles within a number of subsidiary companies of the CBA 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.

John Eric Matthews

Mr Matthews has been a member of CBHS since 1964. He has been a Director since September 2008, was elected Deputy Chairman on 5 November 2015 and is Chairman of the HR Strategy & Governance Committee.

Mr Matthews retired from the Commonwealth Bank of Australia in 2004 after a career of 40 years, during which time 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.

Mr Matthews has a Bachelor of Economics degree, is a graduate of the International Advanced Management Programme (IMI Geneva), is a Senior Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.

Adrian James Hondros

Mr Hondros was appointed to the Board in June 2017 and is a member of the HR Strategy & Governance Committee.

Mr Hondros has over 30 years' experience in the financial services industry. Mr Hondros is currently the Chief Executive Officer of Porter Davis, a volume builder of homes in Victoria and Queensland. Previously Mr Hondros was the Executive General Manager of Commonwealth Private Bank, CEO of St Andrew's Australia and Executive General Manager of NAB Private Bank.

Mr Hondros has been a Director of several financial services organisations, including Director of Commonwealth Private Limited, Chairman of Commonwealth Private Limited and Trustee Director of Commonwealth Bank's Group Super Board (and Chair of its Investment Committee).

Mr Hondros holds a Bachelor of Commerce, Graduate Diploma in Professional Accounting, Graduate Diploma in Applied Finance, Diploma in Life Insurance and is an alumni of INSEAD'S Advanced Management Program.

Marielle Desiree Latour

Ms Latour has been a Director since May 2010 and is a member of the HR Strategy & Governance Committee. Previously Ms Latour has been a member of the Audit & Risk and Asset and Liability Committees. Ms Latour is also a Director of CBHS' subsidiary company, CBHS Corporate Health Pty Ltd.

Ms Latour is also a non-executive director of My Credit Union and has over 25 years' experience in financial services. She has held senior leadership positions at

Directors' Report (continued)

the Commonwealth Bank, Colonial Group and TAL. Ms Latour also provides consulting services within the financial services sector. Ms Latour's professional experience is in consulting, marketing and distribution, strategic planning and execution, stakeholder management and the integration and operational management of businesses.

Ms Latour holds a Bachelor of Economics, an Executive MBA, and is a Graduate of the Australian Institute of Company Directors.

Peter Andrew MacCuspie

Mr MacCuspie has been a Director since November 2015 and is the Chairman of the Audit & Risk Committee. Mr MacCuspie is also a Director of CBHS' subsidiary company, CBHS Corporate Health Pty Ltd.

Mr MacCuspie is a professional company director with over 20 years' experience, having been employed in a wide range of industries including finance, information technology, professional services, agribusiness and the not for profit sector. Mr MacCuspie has held directorships with Big Sky Financial Services, Big Sky Credit Union, Big Sky Building Society and the Australian Medic Alert Foundation. Mr MacCuspie has held a mix of Chair, Deputy Chair and Committee Chair positions.

Mr MacCuspie has a Bachelor of Science (Hons), a Graduate Diploma of Management and is a Fellow of the Australian Institute of Company Directors.

Malcolm 'Jay' MacGregor

Mr MacGregor was appointed to the Board in May 2017 and is a member of the Audit & Risk Committee.

Mr MacGregor has over 20 years' experience in financial markets in Australia and London. Most recently, Mr MacGregor was Managing Director, Institutional Equities for the Institutional Banking & Markets division of the Commonwealth Bank of Australia where he was responsible for the Bank's Equity Capital Markets, wholesale equities and equity trading activities. Prior to this, Mr MacGregor held senior roles at UBS Investment Bank in equity distribution where he advised some of Australia's and Europe's leading fund managers and hedge funds, and in Citi Global Markets Australia's Capital Markets Origination team where he led equity capital raising transactions for some of Australia's

leading companies. Mr MacGregor is currently a Director for Renew Power Group Pt Limited.

Mr MacGregor has a Bachelor degree in Law and Commerce and a Master's degree in Finance from the University of NSW.

Fintan Benedict Thornton

Mr Thornton was appointed to the Board in November 2012, is the Chairman of the Asset & Liability Committee and is a member of the Audit & Risk Committee.

Mr Thornton has over 15 years' financial services experience in both Australia and the UK. Mr Thornton's current role is Head of Strategy & Implementation in Colonial First State's Distribution team. Mr Thornton has previously held roles as the Head of Employee Superannuation at the Commonwealth Bank of Australia Group and as a consulting actuary for Towers Watson and Russell Investments. Mr Thornton's consulting experience is predominantly in superannuation (including complex defined benefit arrangements) where he advised companies and superannuation funds on asset/liability matters (ie investments), risk management, communications, governance and strategy development.

Mr Thornton holds a Bachelor of Actuarial Mathematics and Statistics degree, is a Fellow of the UK and Australian Actuaries Institutes and is a Graduate of the Australian Institute of Company Directors.

Andrew Robin Smith

Mr Smith commenced with CBHS in March 2016 as the Group Chief Executive Officer. At the 2016 Annual General Meeting, members approved the constitution changes which enabled the Board to appoint the CEO as an Executive Director. Mr Andrew Smith was appointed as an Executive Director in November 2016.

Previously Mr Smith was the CEO and Managing Director of InvoCare Limited. During his almost ten years at InvoCare, he took great pride in leading a wonderful group of employees who were widely recognised for delivering outstanding customer service. Prior to InvoCare, Mr Smith held a number of senior executive positions for over ten years in retail and FMCG industries.

Mr Smith holds a Bachelor of Commerce and a Master of Business Administration. He is a member of the Institute

Directors' Report (continued)

of Chartered Accountants in Australia & New Zealand and is a Fellow of the Australian Institute of Company Directors. Andrew was a Non-Executive Director of Private Healthcare Australia Limited (PHA) in 2016 and 2017 and is a member of PHA's Audit Committee. Andrew is also a Non-Executive Advisory Board member of AFEA Pty Limited, a provider of compassionate, experienced and qualified care staff specialising in responsive home care services.

Terri Anne Benson

Ms Benson had been a Director since May 2015. Ms Benson resigned from the Board on 26 May 2017. During her time as a Director, Ms Benson was elected as the Chairman of the Audit & Risk Committee and was a member of the HR Strategy & Governance Committee.

Ms Benson has significant experience across the utility sector in both executive and non-executive roles. Ms Benson is currently the Managing Director South East Water. Previously Ms Benson was the Managing Director of Birdon Holdings Pty Ltd (a marine engineering company) and has held a number of senior executive positions (including Managing Director at Essential Energy in New South Wales and CEO of Seqwater in Queensland). Ms Benson is currently an Independent Director of DUET Finance Limited (DFL) and former roles include Director of the Energy Networks Association, Chairperson of the Energy and Water Ombudsman of NSW and Director of Gas Market Company Pty Ltd.

Ms Benson brought to CBHS extensive experience in regulated businesses, organisational strategy, business improvement strategy and a deep understanding of customer expectations.

Ms Benson holds a Bachelor of Business (Accounting) and has completed the Harvard Business School Advanced Management Program. Ms Benson is a member of the Australian Society of Certified Practising Accountants and is a Graduate of the Australian Institute of Company Directors.

Micheline Hart

Ms Hart had been a Director of CBHS since December 2006. Ms Hart resigned from the Board on 31 December 2016. During Ms Hart's time as a Director, she served as a member and Chair on a number of Committees. At the time of resigning she was on the Audit & Risk Committee.

Ms Hart has been a Director of CBHS' subsidiary company, CBHS Corporate Health Pty Ltd ('CBHS Corporate') since December 2015. Ms Hart is the Chairman of CBHS Corporate and serves on its Audit & Risk Committee.

With over 30 years' experience in financial services and corporate advisory, including 15 years in senior executive positions with Colonial Limited and Commonwealth Bank, Ms Hart has operated extensively as a director, senior executive and advisor to boards of numerous companies in the APRA, ASIC (AFSL) and ASX regulated environments.

Ms Hart has broad expertise across strategy, governance, risk management and finance. Ms Hart is currently a co-founder and principal of Yorkway Partners, an independent private investment and advisory firm. In this context Ms Hart represents investors on the board and committees of investee companies. Ms Hart is a CPA and holds a Bachelor of Economics, an Executive MBA and a Graduate Diploma in Applied Finance and Investments.

Information on Non-Director Committee Members

Gerard Parlevliet

Mr Parlevliet was appointed to the Asset & Liability Committee in December 2015.

Mr Parlevliet was the Chief Investment Officer of Commonwealth Bank Group Super, the \$10 billion staff fund for employees of the Commonwealth Bank, before he retired in April 2017. Mr Parlevliet was also a Company Secretary of the Trustee Company for Group Super and a Responsible Officer for the purposes of the Trustee's AFS licence and APRA licence.

Mr Parlevliet has been involved in the Australian superannuation industry for over 27 years, the last 22 years in senior executive management roles within Group Super. In 2013, Mr Parlevliet was awarded a National Achievement Award as Chief Investment Officer of the Year.

Mr Parlevliet holds a Bachelor of Business, Diploma of Superannuation Management, Diploma of Financial Planning and is a Certified Practising Accountant and a Trustee Fellow of the Association of Superannuation Funds of Australia (ASFA).

Directors' Report (continued)

Directors' meetings

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

Directors	Board		Audit & Risk Committee	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
T A Benson	8	7	4	4
M Hart	4	4	1	1
A J Hondros	3	2	-	-
M D Latour	11	11	-	1**
P A MacCuspie	11	11	4	4
M J MacGregor	3	4*	-	1**
J E Matthews	11	10	-	1**
L G Moth	11	10	-	1**
G Parlevliet	-	-	-	-
A R Smith***	9	9	-	3**
F B Thornton	11	10	2	3**

* Attended 1 Board meeting as an observer

** Attended 1 Audit & Risk Committee meeting as an observer

*** Appointed as Executive Director in November 2016

Directors	HR Strategy & Governance Committee		Asset & Liability Committee	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
T A Benson	2	2	-	-
M Hart	-	-	-	-
A J Hondros	-	-	-	-
M D Latour	3	3	-	-
P A MacCuspie	-	-	-	-
M J MacGregor	-	-	-	-
J E Matthews	3	3	-	-
L G Moth	-	-	4	4
G Parlevliet	-	-	4	4
A R Smith	2	2	3	3
F B Thornton	-	-	4	4

Directors' Report (continued)

Indemnification of Officers or Auditor

During the financial year, CBHS paid a premium in respect of a contract insuring past, present and future Directors, Company Secretaries and Executive Officers of CBHS against any liability incurred as 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 any related body corporate against a liability incurred as an Officer or Auditor.

Principal activities

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

Dividends

The Constitution of the parent entity, CBHS Health Fund Limited, prohibits the payment of dividends.

Subject to the Corporations Act and the Private Health Insurance (PS) Act, the Directors of CBHS Corporate Health Pty Ltd may:

- declare or determine that a dividend is payable,
- fix a record date for the dividend, and the amount and time for payment, and
- authorise the payment to, or at the direction of, each Shareholder entitled to the dividend.

During the financial year 2017, CBHS Corporate did not declare a dividend.

Review of operations

The Profit after tax for the financial year was \$17,916,326 (2016: \$7,754,522). CBHS is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax.

The subsidiary, CBHS Corporate Health Pty Ltd (CBHS Corporate), is a tax paying entity. Income tax has been recognised based on the Group Income Tax Policy as set out in Note 7, section c.

A review of operations and the results for the financial year are set out in the Chairman 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 are no events post reporting date that would impact the results of the Group.

Environmental regulation

The Company 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 external auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company, are important.

Directors' Report (continued)

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are provided in note 21 to the accounts.

The Board has considered the position and, in accordance with advice received from the Audit & Risk 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 & Risk 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

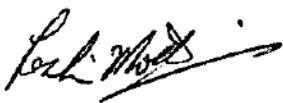
The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26 of the Annual Report.

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.



L G Moth
Chairman



A R Smith
Group Chief Executive Officer & Executive Director

Dated at Sydney, 24 August 2017

Auditor's Independence Declaration



As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2017, 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 and the entities it controlled during the period.

A handwritten signature in black ink that reads 'R Cooper'.

R Cooper
Partner
PricewaterhouseCoopers

Sydney
24 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Direct premium revenue	(3)	392,015	360,713
Direct claims expense		(307,687)	(280,478)
Net movement in outstanding claims liability (claims & other component)		(3,860)	(5,396)
Net movement in outstanding claims liability (risk equalisation component)		(486)	(795)
Health benefits risk equalisation trust fund		(40,587)	(39,610)
Government levies	(5)	(4,797)	(4,465)
Net claims incurred	(2)	(357,417)	(330,744)
Net movement in unexpired risk liability	(17a)	-	-
Salaries and employee benefit expense	(6)	(19,091)	(13,487)
Other underwriting expenses	(6)	(12,110)	(12,556)
Underwriting result		3,397	3,926
Investment income	(3)	15,084	8,863
Fair value (losses)/gains on financial assets at fair value through profit or loss	(4)	(410)	(4,652)
Other income	(3)	91	89
Depreciation and amortisation expense	(6)	(594)	(471)
Profit before income tax		17,568	7,755
Income tax benefit/(expense)	(7)	348	-
Profit after income tax		17,916	7,755
Other comprehensive income		-	-
Profit for the period		17,916	7,755
Total comprehensive income for the year		17,916	7,755

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	(8)	14,574	45,560
Trade and other receivables	(9)	13,660	13,153
Financial assets at fair value through profit or loss	(10)	64,000	84,000
Total current assets		92,234	142,713
Non-current assets			
Financial assets at fair value through profit or loss	(10)	189,226	114,723
Fixture, fittings and equipment	(11)	1,034	1,211
Intangible assets	(12)	1,611	323
Deferred tax asset	(7)	348	–
Total non-current assets		192,219	116,257
Total assets		284,453	258,970
Current liabilities			
Trade and other payables	(13)	13,362	13,966
Outstanding claims liability	(15)	42,444	38,098
Unearned premium liability	(16)	31,753	29,859
Provisions	(14)	2,839	1,742
Total current liabilities		90,398	83,665
Non-current liabilities			
Provisions	(14)	1,508	674
Total non-current liabilities		1,508	674
Total liabilities		91,906	84,339
Net assets		192,547	174,631
Reserves			
Retained earnings		192,547	174,631
Total reserves	(18)	192,547	174,631

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2017

	Accumulated profits after tax \$'000	Contributed capital \$'000	TOTAL \$'000
Balance at 1 July 2016	174,631	-	174,631
Profit/(loss) for the year	17,916	-	17,916
Balance at 30 June 2017	192,547	-	192,547

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

		2017 \$'000	2016 \$'000
	Notes	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		393,768	362,310
Payments to members, employees and suppliers		(383,210)	(347,142)
Income taxes paid		-	-
Net cash flow provided by operating activities	(8b)	10,558	15,168
Cash flows from investing activities			
Payments for fixture, fittings, equipment and intangibles		(1,705)	(791)
Proceeds from sale of property, plant & equipment		1	-
Interest and investment income received		15,073	8,908
Payments for investments		(76,369)	(10,858)
Redemption from managed fund		21,456	22,035
Net cash flow used in investing activities		(41,544)	19,294
Increase/(decrease) in cash and cash equivalents		(30,986)	34,462
Cash and cash equivalents at beginning of financial year		45,560	11,098
Cash and cash equivalents at the end of financial year	(8a)	14,574	45,560

Notes to the Financial Statements

1) Summary of significant accounting policies

CBHS Health Fund Limited is a public company, limited by guarantee, incorporated and domiciled in Australia. The nature of the operations and principal activity of CBHS is to provide health insurance services to current and former employees of the Commonwealth Bank of Australia Group, their partners and family members. CBHS Corporate Health Fund Pty Ltd (CBHS Corporate) is a public company, limited by shares, incorporated and domiciled in Australia. The nature of the operations and principal activity of CBHS Corporate is to provide health insurance services to corporate clients of CBA Group.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Amounts have been rounded off in the Financial Reports to the nearest thousand dollars or, in certain circumstances, to the nearest dollar in accordance with that instrument. All amounts are presented in Australian Dollars being the functional and presentation currency.

The financial statements were authorised for issue by the Directors on 24 August 2017. The Directors have the power to amend and reissue the financial statements.

Statement of compliance

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

Historical cost convention

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.

New and amended standards adopted by CBHS

CBHS has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2016:

- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 101.
- AASB 1057 Application of Australian Accounting Standards.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

New standards and interpretations not yet adopted by CBHS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been adopted early by CBHS. CBHS' assessment of the impact of these new standards and interpretations is set out below:

i. AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. While CBHS is yet to undertake a detailed assessment, it doesn't expect any significant impact from this standard.

Notes to the Financial Statements (continued)

ii. AASB 15 Revenue from contracts with customers (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The majority of CBHS' revenue is recognised under AASB 1023 General Insurance Contracts which is not impacted by AASB 15. While CBHS is yet to undertake a detailed assessment, it doesn't expect any significant impact from this standard.

iii. AASB 16 Leases (effective from 1 January 2019)

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all the leases on the balance sheet. The standard removes the current distinctions between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all the lease contracts. CBHS is yet to undertake a detailed assessment of this standard.

iv. IFRS 17 Insurance Contracts (effective from 1 January 2021)

The International Accounting Standards Board (IASB) released its new accounting standard, IFRS 17 Insurance Contracts, on 18 May 2017. IFRS 17 is a significant change for insurers in all jurisdictions.

The AASB is expected to adopt the international standard shortly. The greatest impact will be felt by life insurers however, all insurers are expected to be impacted with changes to profit recognition and extensive new disclosure requirements. CBHS is yet to undertake a detailed assessment of this standard.

At this stage CBHS does not intend to adopt these standards before their mandatory date.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CBHS Health Fund Limited ('parent entity') as at 30 June 2017 and the profit and loss of all subsidiaries for the year ended. CBHS Health Fund Limited and its subsidiaries together are referred to in this financial report as CBHS. Subsidiaries are all entities over which CBHS has control.

Intercompany transactions, balances and unrealised gains on transactions between CBHS companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by CBHS.

The values for 2016 refer to the parent entity (CBHS Health Fund Limited) only as the subsidiary (CBHS Corporate Health Fund Pty Ltd) did not begin trading until 1 July 2016.

Material subsidiaries

CBHS' principal subsidiaries as at 30 June 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by CBHS, and the proportion of ownership interests held equals the voting rights held by CBHS. The country of incorporation or registration is also their principal place of business.

Notes to the Financial Statements (continued)

Name of Entity	Place of Business/ country of incorporation	Ownership interest held by CBHS		Principal Activities
		2017 %	2016 %	
CBHS Corporate Health Pty Ltd	Australia	100	-	Private Health Insurance

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

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. 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.

c. Critical accounting judgements and estimates

In the application of CBHS' accounting policies, management is required to make judgements, 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. 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 are found in the following notes:

Notes to the Financial Statements (continued)

Note number	Description	Page number
15	Outstanding claim liability	48
17	Unexpired risk liability	51

d. Other accounting policies

Significant and other accounting policies that summarise the measurement bases used and that are relevant to an understanding of the financial statements are provided in the notes to the financial statements.

2) Net claims incurred

	2017 Current Year		2016 Prior Year		2017 Total	
	Provision Movement \$'000	Profit and loss \$'000	Provision Movement \$'000	Profit and loss \$'000	Provision Movement \$'000	Profit and loss \$'000
Gross claims expense	-	279,431	28,256	-	28,256	279,431
Outstanding claims provided for	(35,696)	35,696	3,816	(3,816)	(31,880)	31,880
Risk equalisation and gov't levies paid	-	40,075	5,309	-	5,309	40,075
Risk equalisation and gov't levies provided for	(6,748)	6,748	717	(717)	(6,031)	6,031
Net claims incurred	(42,444)	361,950	38,098	(4,533)	(4,346)	357,417

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.

	2016 Current Year		2015 Prior Year		2016 Total	
	Provision Movement \$'000	Profit and loss \$'000	Provision Movement \$'000	Profit and loss \$'000	Provision Movement \$'000	Profit and loss \$'000
Gross claims expense	-	255,677	24,801	-	24,801	255,677
Outstanding claims provided for	(32,072)	32,072	1,875	(1,875)	(30,197)	30,197
Risk equalisation and gov't levies paid	-	39,212	4,863	-	4,863	39,212
Risk equalisation and gov't levies provided for	(6,026)	6,026	368	(368)	(5,658)	5,658
Net claims incurred	(38,098)	332,987	31,907	(2,243)	(6,191)	330,744

Notes to the Financial Statements (continued)

Outstanding claims liability movements are as follows:

	2017 \$'000	2016 \$'000
Opening balance	(38,098)	(31,907)
Prior year claims, risk equalisation and levies paid	33,565	29,664
Write back to profit and loss	(4,533)	(2,243)
Provision established for claims, risk equalisation and levies paid	(42,444)	(38,098)
Closing balance	(42,444)	(38,098)
Net movement	(4,346)	(6,191)

See note 15 for detail.

Recognition and measurement

Claims

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

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

Notes to the Financial Statements (continued)

3) Revenue

	2017 \$'000	2016 \$'000
Direct premium revenue	392,015	360,713
Investment income		
Interest revenue:		
Cash and cash equivalents	270	448
Term deposits	2,811	3,228
Distributions	11,927	5,159
Realised gain on disposal of investments	76	28
Total investment income	15,084	8,863
Other income		
Gain/(loss) on sale of assets	1	-
Licence fee & other revenue	90	89
Total other income	91	89

Recognition and measurement

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 comprises contributions received from members, inclusive of the Government rebate. The 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.

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.

Notes to the Financial Statements (continued)

Investment income

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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

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

	2017 \$'000	2016 \$'000
Managed share funds gains (a)	1,386	(3,510)
Managed bond fund gains (a)	(2,095)	(510)
Managed multi assets fund gains (a)	299	(632)
Net (losses)/gains	(410)	(4,652)

(a) Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2017.

Recognition and measurement

Refer to note 10 for details on fair value gains/loss on financial assets.

5) Government levies

	2017 \$'000	2016 \$'000
NSW, ACT ambulance levies	4,797	4,465
Total government levies	4,797	4,465

Notes to the Financial Statements (continued)

6) Expenses

	2017 \$'000	2016 \$'000
Salaries and employee benefit expenses		
Salaries, bonuses and other costs	17,555	12,483
Superannuation expense	1,536	1,004
Total salaries and employee benefit expenses	19,091	13,487
Other underwriting expenses		
Consultant, actuarial, audit and legal fees	1,883	3,121
Property expense	1,678	832
Information technology	1,305	1,863
Research, advertising and publicity	1,289	910
Other expenses	1,095	913
Aggregator commissions	995	1,806
Electronic claims processing fees	964	928
Subscriptions for industry and purchasing associations	839	560
Staff recruitment fees	755	465
Mailing and communication costs	592	559
Financial charges and taxes	421	405
Printing and stationery	294	194
Total other underwriting expenses	12,110	12,556
Depreciation and amortisation expenses		
Depreciation expense		
Fixtures, fittings and equipment	528	471
Total depreciation expenses	528	471
Amortisation expense		
Software	66	-
Total amortisation expense	66	-
Total Depreciation and amortisation expense	594	471

Notes to the Financial Statements (continued)

Recognition and measurement

Employee benefits expense

The accounting policy for liabilities associated with employee benefits is set out in note 14.

Other underwriting expenses

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

Acquisition cost for health insurance contracts

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

Depreciation and amortisation

Refer to note 11 for details on depreciation and note 12 for details on amortisation.

7) Income tax expense

	2017 \$'000	2016 \$'000
(a) Income tax expense		
Current tax		
Current tax losses for the year	-	-
Adjustments for current tax of prior years	-	-
Current tax recovery	-	-
Deferred income tax		
Decrease/(Increase) in deferred tax assets	(348)	-
(Decrease)/Increase in deferred tax liabilities	-	-
Total deferred tax expense/(benefit)	(348)	-
Income tax expense/(benefit)	(348)	-
Income tax expense/(benefit) is attributable to:		
Loss from continuing operations	(348)	-
Profit from discontinued operations	-	-
	(348)	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax	(3,996)	-
Profit from discontinuing operation before income tax expense	-	-
	(3,996)	-

Notes to the Financial Statements (continued)

7) Income tax expense *continued*

	2017 \$'000	2016 \$'000
Tax at the Australian tax rate of 30% (2016 30%)	(1,199)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Unused tax losses	851	-
Income tax expense/(benefit)	(348)	-
(c) Deferred tax balances		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	47	-
Indirect settlement costs	-	-
Sundry items	281	-
Accrued audit fees	8	-
Accrued expenses	12	-
	348	-
	\$'000	
Movements		
Balance at 30 June 2016	-	
- to profit or loss	348	
- to other comprehensive income	-	
Balance at 30 June 2017	348	
(d) Unused tax losses		
Unused tax losses for which no deferred tax asset has been recognised	(2,835)	
Potential tax benefit @ 30%	851	

Recognition and measurement

CBHS Health Fund Limited 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.

CBHS Corporate Health Pty Ltd is a tax paying entity and will be required to pay tax when it starts generating profits. The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for changes in deferred tax assets and liabilities attributable to temporary unused tax losses. Deferred tax assets are recognised if it is probable that future taxable amounts will be available to utilise these temporary differences and losses. No deferred tax assets for unused tax losses were recognised this financial year.

Notes to the Financial Statements (continued)

8) Cash and cash equivalents

	2017 \$'000	2016 \$'000
Cash at bank	6,603	2,867
Cash deposits – '24 hour At-Call'	7,970	42,692
Cash on hand	1	1
Total	14,574	45,560

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 unpresented cheques and outstanding remittances from 30 June 2017. 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:

	2017 \$'000	2016 \$'000
Cash and cash equivalents	14,574	45,560
Total cash and cash equivalents	14,574	45,560

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

	2017 \$'000	2016 \$'000
Operating profit	17,916	7,755
Interest and investment income received & receivable	(15,084)	(8,863)
Depreciation and amortisation	594	471
Net decrement/(increment) arising from the revaluation of current and non-current financial assets	410	4,652
(Gain)/loss on sale of assets	(1)	-
(Increase)/decrease in current receivables	(496)	(44)
Increase/(decrease) in amount payable for HBREE*	(912)	2,769
(Increase)/decrease in deferred tax asset	(348)	-
Increase/(decrease) in accounts payable and accruals	309	718
Increase in unearned premium liability	1,894	1,416
Increase in outstanding claim liability	4,346	6,191
Increase in current provisions	1,097	35
Increase/(decrease) in non-current provisions	833	68
Net cash flow from operating activities	10,558	15,168

* HBREE – Health Benefits Risk Equalisation Expense

Notes to the Financial Statements (continued)

Recognition and measurement

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.

9) Trade and other receivables

	2017 \$'000	2016 \$'000
Premium receivable (a)	11,327	11,187
Investment income receivable	1,321	1,309
Prepayments	685	320
GST recoverable	140	114
Sundry debtors	187	223
Total	13,660	13,153

a) Premium receivable comprises two components, the Federal Government's Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$8,643,097 (2016: \$8,363,814) and members who pay for their contributions in arrears or who are non-financial \$2,683,686 (2016: \$2,822,496).

- 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. 10% of CBHS' members pay for their contributions in arrears while the other 90% 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.

Premium receivable for members in arrears at year end is made up of approximately 10,365 (2016: 9,355) 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 2017 the amount owing to CBHS from Medicare Australia was \$8,643,097. This amount is guaranteed by the Federal Government.

Recognition and measurement

Financial assets – trade and other receivables

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

Impairment of financial assets – trade and other receivables

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

Notes to the Financial Statements (continued)

10) Financial assets at fair value through profit or loss

	2017 \$'000	2016 \$'000
Current assets		
Term deposits (a)	64,000	84,000
Total current assets	64,000	84,000
Non-current assets		
Term deposits (b)	41,000	-
Managed multi assets fund at market value (c)	45,037	22,128
Managed bond funds at market value (d)	43,716	41,725
Managed share funds at market value (e)	59,473	50,870
Total non-current assets	189,226	114,723
Total financial assets at fair value through profit or loss	253,226	198,723

- a) These term deposits have maturity dates ranging from 25 July 2017 to 30 May 2018. The weighted average interest rate on these term deposits is 2.51% (2016: 3.40%).
- b) These term deposits have maturity dates ranging from 26 August 2019 to 21 December 2021. The weighted average interest rate on these term deposits is 3.37% (2016: Nil).
- c) As at 30 June 2017 CBHS had \$45,036,754 (2016: \$22,127,661) invested in two externally managed multi asset funds. The funds are managed by a professional fund manager.
- d) As at 30 June 2017 CBHS had \$43,715,607 (2016: \$41,725,345) invested in three externally managed bond funds. The funds are managed by professional fund managers.
- e) As at 30 June 2017 CBHS had \$59,473,425 (2016: \$50,869,778) invested in externally managed share funds. This balance is comprised of one managed Australian share fund (\$17,708,488) (2016: \$15,525,396) and three managed international share funds (\$41,764,937) (2016: \$35,344,382). The funds are managed by professional fund managers.

Recognition and measurement

Investments

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.

Notes to the Financial Statements (continued)

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. 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 approach:

- 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.

Assets backing general insurance liabilities

All investments held by CBHS 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/distributions received are included in interest income or fair value gains/(losses).

11) Fixture, fittings and equipment

	2017 \$'000	2016 \$'000
Gross carrying amount		
Balance as at 1 July	3,375	3,045
Additions	353	468
Disposals	(2)	(138)
Balance as at 30 June	3,726	3,375
Accumulated depreciation		
Balance as at 1 July	2,164	1,831
Disposals	-	(138)
Depreciation expense	528	471
Balance as at 30 June	2,692	2,164
Net book value		
Balance as at 30 June	1,034	1,211

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

Notes to the Financial Statements (continued)

Recognition and measurement

Fixture, fittings and equipment

Fixture, fittings 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 fixtures, fittings and equipment. 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 being zero. 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
Computer equipment	3 years
Furniture and fittings	7 years
Office equipment	4 years

12) Intangible assets

	2017 \$'000	2016 \$'000
Software		
Gross carrying amount		
Balance as at 1 July	323	-
Additions	1,354	323
Disposals	-	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	1,677	323
Accumulated amortisation		
Balance as at 1 July	-	-
Disposals	-	-
Amortisation expense	66	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	66	-
Net book value	1,611	323

Notes to the Financial Statements (continued)

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. 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.

Description	Useful life
Software	3-5 years

13) Trade & other payables

	2017 \$'000	2016 \$'000
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	10,728	11,640
Accruals (b)	1,363	1,565
Trade payables (b)	1,271	761
Total	13,362	13,966

- a) The credit period provided to CBHS by APRA for amounts due to the Health Benefits Risk Equalisation Trust Fund is 14 days from the date of invoice paid quarterly. 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 can vary between 7 and 30 days. No interest is charged on late payments. CBHS has procedures in place to ensure all payments are made by the due date.

Recognition and measurement

Trade and other payable

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

Health Benefits Risk Equalisation Trust Fund

Under the provisions of the Private Health Insurance Act 2007, all health insurers must participate in the Risk Equalisation Trust Fund (RETF).

The RETF is an estimated provision 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 final amount payable to the RETF is determined by APRA after the end of each calendar quarter. Estimated provisions for amounts payable are recognised on an accruals basis

Notes to the Financial Statements (continued)

14) Provisions

	2017 \$'000	2016 \$'000
Current provision		
Employee benefits (a)	931	780
Provision for employee performance payments (b)	1,908	962
Total current provision	2,839	1,742
Non-current provision		
Employee benefits (c)	808	674
Makegood (d)	700	–
Total non-current provision	1,508	674
Total provisions	4,347	2,416

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

b) The provision for employee performance payments is expected to be paid within 12 months.

c) The non-current provision for employee benefits is long service leave accrued and expected to be paid after 12 months.

d) The non-current provision for makegood is expected to be paid when the rental lease is terminated and the premises vacated.

Movement in provisions

	Annual leave provision \$'000	Performance payments provision \$'000	Long service leave provision \$'000	Makegood provision \$'000	Total \$'000
Balance at 30 June 16	780	962	674	–	2,416
Used during the year	(1,047)	(1,000)	(41)	–	(2,088)
Unused amounts reversed	–	38	–	–	38
Additional provisions recognised	1,198	1,908	175	700	3,981
Balance at 30 June 17	931	1,908	808	700	4,347

Recognition and measurement

Provision

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.

Notes to the Financial Statements (continued)

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.

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.

15) Outstanding claims provision

a) Outstanding claims liability

	2017 \$'000	2016 \$'000
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	32,501	29,205
Claims handling costs	979	881
Risk equalisation	6,748	6,026
Risk margin (ii)	2,216	1,986
Gross outstanding claims liability	42,444	38,098

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:

- CBHS Health Fund 5.50% (2016: 5.50%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2016: 75%).
- CBHS Corporate Health Fund 18.0% (2016: 0.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2016: 0%).

Notes to the Financial Statements (continued)

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 compensation settlements. This activity is usually around 0.10% to 0.80% of total incurred claims in a month. (CBHS pays claims that are likely to be subject to compensation when the claimant gives an undertaking that the benefits will be repaid to CBHS upon compensation settlement). Also around 0.6% of ancillary benefit services for which benefits are 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.

	2017	2016
Risk margin (CBHS)	5.50%	5.50%
Risk Margin (CBHS Corporate)	18.0%	0.0%

c) Reconciliation of movement

	2017 \$'000	2016 \$'000
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	38,098	31,907
Claims incurred during the year	357,417	330,744
Claims paid during the year	(353,071)	(324,553)
As at 30 June	42,444	38,098

Recognition and measurement

Outstanding claim liabilities

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.

Notes to the Financial Statements (continued)

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 Benefits 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.

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 26 (a).

Notes to the Financial Statements (continued)

16) Unearned premium liability

	2017 \$'000	2016 \$'000
Unearned premium liability as at 1 July	29,859	28,443
Deferral of premiums on contracts written in the period	31,753	29,859
Earning of premiums written in previous periods	(29,859)	(28,443)
Unearned premium liability as at 30 June	31,753	29,859

17) Unexpired risk liability

CBHS performed the liability adequacy test as at 30 June 2017 and it was determined that there was no deficiency to recognise. (2016: no deficiency recognised).

a) Movement recognised in the statement of comprehensive income

	2017 \$'000	2016 \$'000
Gross movement in unexpired risk liability	-	-
Net movement in unexpired risk liability	-	-
Total movement recognised in the income statement	-	-

Notes to the Financial Statements (continued)

b) Calculation of deficiency

	2017 \$'000	2016 \$'000
(i) Unearned premium liability component		
Unearned premium liability (A)	30,459	28,404
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	28,784	27,049
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	778	729
Net deficiency (B+C-A)	-	-
(ii) Unclosed business liability component		
Unclosed business liability (A)	1,276	1,455
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,206	1,386
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	32	37
Net deficiency (B+C-A)	-	-
(iii) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	311,514	295,204
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	294,381	281,127
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	7,948	7,586
Net deficiency (B+C-A)	-	-
Total deficiency (i)+(ii)+(iii)	-	-

* Probability of Adequacy

	2017	2016
Risk margin (CBHS)	2.75%	2.75%
Risk Margin (CBHS Corporate)	7.0%	0.0%

Notes to the Financial Statements (continued)

Recognition and measurement

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. 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.

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.

Details of specific assumptions used in deriving the unexpired risk liability during the year are detailed in note 26 (b).

18) Total reserves

	2017 \$'000	2016 \$'000
Retained earnings		
Balance at beginning of financial year	174,631	166,876
Profit/surplus after tax	17,916	7,755
Total retained earnings end of financial year	192,547	174,631
Balance at end of financial year	192,547	174,631

Notes to the Financial Statements (continued)

19) Parent entity financial information

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Balance Sheet	2017	2016
	\$'000	\$'000
Assets		
Current assets	86,417	142,713
Total assets	287,888	258,970
Liabilities		
Current Liabilities	90,186	83,665
Total liabilities	91,694	84,339
Net Assets	196,195	174,631
Equity		
Retained Profits	196,195	174,631
Total Equity	196,195	174,631
Profit or loss for the year	21,564	7,755
Total comprehensive income for the year	21,564	7,755

b) Guarantees entered into by the parent entity

The parent entity did not provide any guarantees during the financial years 2016 or 2017.

c) Contingent liabilities of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2017.

Notes to the Financial Statements (continued)

d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2017, the parent entity did not have any commitments for the acquisition of property, plant or equipment.

e) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of CBHS Health Fund Limited. No dividends were received during the Financial Year 2017.

20) Related parties

During the year seven 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.

Related Party Transactions

During the financial year 2017, CBHS Health Fund provided Management Services to CBHS Corporate as set out in a Managed Service Agreement. The value of services provided to CBHS Corporate for the financial year 2017 was \$3,481,497 (2016: N/A).

21) Remuneration of auditors

	2017	2016
	\$	\$
Audit of the financial statements, statutory returns and regulatory requirements	173,745	142,290
Non-audit services	67,535	8,250
Total	241,280	150,540

The auditor of CBHS is PricewaterhouseCoopers.

Notes to the Financial Statements (continued)

22) Remuneration of Directors and other key management personnel

a) Directors' remuneration

	2017 \$	2016 \$
Short-term employment benefits	310,021	271,102
Post-employment benefits (9.50% statutory superannuation guarantee)	18,655	18,119
Total Directors' remuneration	328,676	289,221

b) Other key management personnel remuneration

	2017 \$	2016 \$
Short-term employment benefits	2,258,998	1,856,711
Post-employment benefits (9.50% statutory superannuation guarantee)	162,210	136,105
Total key management personnel remuneration	2,421,208	1,992,816
Total Directors' and other key management personnel remuneration	2,749,884	2,282,037

23) 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).

24) Contingent liability

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

Notes to the Financial Statements (continued)

25) Lease commitments

Non-cancellable operating leases

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

	2017 \$'000	2016 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:		
Within one year	459	459
Later than one year but not later than five years	1,837	1,837
Later than five years	-	459
Total	2,296	2,755

Recognition and measurement

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. 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.

26) 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.

Notes to the Financial Statements (continued)

Actuarial assumptions

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

Estimate	Key Variable 2017 \$'000	Key Variable 2016 \$'000
Estimated Medical and Ancillary Incurred Claims Cost	\$11,904	\$11,022
Estimated Hospital Incurred Claims Cost	\$16,139	\$14,339

Estimate %	CBHS		CBHS Corporate	
	Key Variable 2017 %	Key Variable 2016 %	Key Variable 2017 %	Key Variable 2016 %
Claims Handling Expense – Hospital	2.5%	2.5%	2.5%	0.0%
Claims Handling Expense – Medical and Ancillary	5.0%	5.0%	5.0%	0.0%
Risk equalisation (Outstanding Claims Component)	23.0%	23.0%	104.0%	0.0%
Risk Margin	5.5%	5.5%	18.0%	0.0%

Process used to determine assumptions

Hospital and 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.

Notes to the Financial Statements (continued)

Impact of changes in key variables CBHS Health Fund

	Key Variable Change 2017 %	Changes in Outstanding Claims Component* 2017 \$'000	Key Variable Change 2016 %	Changes in Outstanding Claims Component* 2016 \$'000
Incurring claims	+10	3,215	+10	3,018
	-10	(3,215)	-10	(3,018)
Expense rate	+10	98	+10	88
	-10	(98)	-10	(88)
Risk equalisation (OSC Component)	+10	674	+10	603
	-10	(674)	-10	(603)

* Excludes risk margin

Impact of changes in key variables CBHS Corporate Health Fund

	Key Variable Change 2017 %	Changes in Outstanding Claims Component* 2017 \$'000	Key Variable Change 2016 %	Changes in Outstanding Claims Component* 2016 \$'000
Incurring claims	+10	3	-	-
	-10	(3)	-	-
Expense rate	+10	-	-	-
	-10	-	-	-
Risk equalisation (OSC Component)	+10	1	-	-
	-10	(1)	-	-

* 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 the next pricing review.

Notes to the Financial Statements (continued)

Estimate	Key Variable 2017 \$'000	Key Variable 2016 \$'000
Estimated Claims Cost	\$267,976	\$258,108

Estimate %	CBHS		CBHS Corporate	
	Key Variable 2017 %	Key Variable 2016 %	Key Variable 2017 %	Key Variable 2016 %
Risk equalisation (relating to above estimated claim)	12.4%	13.0%	48.7%	0.0%
Risk margin	2.75%	2.75%	7.0%	0.0%

Process used to determine assumptions

Estimated claims 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.

	2017	2016
Risk margin (CBHS)	2.75%	2.75%
Risk margin (CBHS Corporate)	7.0%	0.0%

Notes to the Financial Statements (continued)

Sensitivity analysis

Summary

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

Impact of changes in key variables CBHS Health Fund

	Key Variable Change 2017 %	Changes in unexpired Risk Component* 2017 \$'000	Key Variable Change 2016 %	Changes in unexpired Risk Component* 2016 \$'000
Estimated Claims Cost	+10	17,494	+10	19,613
	-10	-	-10	-
Risk equalisation (relating to above estimated claim)	+10	-	+10	-
	-10	-	-10	-

* Excludes risk margin

Impact of changes in key variables CBHS Corporate

	Key Variable Change 2017 %	Changes in unexpired Risk Component* 2017 \$'000	Key Variable Change 2016 %	Changes in unexpired Risk Component* 2016 \$'000
Estimated Claims Cost	+10	26	+10	-
	-10	-	-10	-
Risk equalisation (relating to above estimated claim)	+10	11	+10	-
	-10	-	-10	-

27) 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' risk management framework include the:

- Audit & Risk Committee's responsibility 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;

Notes to the Financial Statements (continued)

- Asset & Liability 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 the utilisation of risk management software; and
- various internal policies, procedures and information systems including:
 - CBHS Management's regular assessment and reporting on key risks. Risk profiles are reviewed regularly and where necessary policies and procedures are implemented to mitigate the risk;
 - the specific identification and addressing of insurance risk within the Group 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 Questionnaire provides 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 (Prudential Supervision) Act 2015, 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 business units (Marketing, Finance and Operations), the Appointed Actuary and Legal prior to Board approval;
 - a rigorous pricing review;
 - review and approval of the budget and forecast/s compiled by management; and
 - continuous monitoring of performance against budget and forecast/s.

Insurance risk

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

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

Notes to the Financial Statements (continued)

Concentration risk

CBHS Health Fund Limited 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 Health Fund Limited 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 29 f).

In terms of non-financial assets, credit risk relates to Medicare Australia 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 in note 29 d).

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 process by senior managers; and
- internal audit assessments of compliance arrangements.

Other

Market Risk and Liquidity Risk are addressed at note 29.

28) Segment information

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

Notes to the Financial Statements (continued)

29) Financial instruments

a) Capital risk management

Capital adequacy and solvency standards are established by APRA, and are an integral component of the regulatory reporting framework. APRA issues Solvency and Capital Adequacy Standards (Prudential Standard HPS 100 Solvency Standard (HPS 100) and Prudential Standard HPS 110 Capital Adequacy (HPS 110), which are designed to ensure that health funds adhere to prudent capital and investment policies.

Capital is managed in accordance with CBHS' Capital Management Policy. It provides a framework for the management and monitoring of capital in line with the Board's risk appetite. This document is underpinned by:

- An Investment Policy Statement which defines the Board's investment beliefs, a strategic asset allocation and specific rules around investments; and
- A Liquidity Management Plan which defines targets and responsibilities of tasks in the management of liquid assets.

The Board can confirm that it was in full compliance with the requirements of the capital standards.

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 notes to the financial statements.

c) Financial risk management objective

CBHS' principal financial instruments comprise receivables, payables, short and long-term deposits and units in managed 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 CBHS Group Chief Executive Officer and Chief Financial Officer.

Notes to the Financial Statements (continued)

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 variable interest rate investments. The risk is managed by maintaining a high proportion in fixed interest rate investments. As at 30 June 2017 the fair value of investments with a fixed interest rate was \$105,000,000 (2016: \$84,000,000).

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

	Weighted average effective interest rate %	2017 \$'000	2016 \$'000
Cash deposits – '24 hour at call'	1.41	7,970	42,692
Term deposits designated at fair value through profit or loss	2.85	105,000	84,000

Interest rate sensitivity analysis

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

	Profit Higher/(Lower)	
Estimate	2017 \$'000	2016 \$'000
+0.25% (25 basis points) per annum	263	210
-0.25% (25 basis points) per annum	(263)	(210)

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

e) Price risks

CBHS is exposed to price risks arising from its investments in cash, share, bond and multi asset 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:

Notes to the Financial Statements (continued)

Estimate	Profit Higher/(Lower)	
	2017 \$'000	2016 \$'000
+5% per annum	10,349	5,966
-5% per annum	(10,349)	(5,966)

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 managed investment schemes. For investments held directly, these instruments are subject to Board approved counterparty limits.

Credit exposure by credit rating

	2017 \$'000	2016 \$'000
Cash and cash equivalents		
A series rating	7,970	42,692
B series rating	-	-
Unrated	-	-
	7,970	42,692
Financial assets at fair value through the profit or loss		
A series rating	73,000	84,000
B series rating	32,000	-
Unrated*	148,226	114,723
	253,226	198,723

* Note the funds invested are not rated however the fund invests in entities that may be rated

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

	2017 \$'000	2016 \$'000
Carrying amount of financial instruments designated as at 'fair value through profit or loss'	105,000	84,000
Principal amount of financial instruments designated as at 'fair value through profit or loss'	105,000	84,000
Cumulative changes in fair value attributed to changes in credit risk	(1,802)	(150)
Changes in fair value attributable to changes in credit risk recognised during the period	(1,652)	(1)

Notes to the Financial Statements (continued)

At reporting date there are no significant concentrations of credit risk relating to financial instruments designated at fair value through profit or loss. The carrying amount reflected above represents CBHS' maximum exposure to credit risk.

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 Group 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 \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
2017					
Trade and other payables	1,271	10,728	1,363	-	-
2016					
Trade and other payables	1,346	12,170	450	-	-

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 2017, 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 (ie as prices) or indirectly (ie derived from prices) (Level 2); and
- iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Notes to the Financial Statements (continued)

i) Fair value of financial instruments

As at 30 June 2017, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2017	Level 1: quoted prices in active markets (i) \$'000	Level 2: valuation techniques based on observable market data (ii) \$'000	Level 3: valuation techniques incorporating information other than observable market data (iii) \$'000	Total \$'000
Assets				
<i>Fair value through profit or loss</i>				
Term deposits	105,000	-	-	105,000
Managed multi asset fund	45,037	-	-	45,037
Managed share funds	59,473	-	-	59,473
Managed bond funds	43,716	-	-	43,716
Total	253,226	-	-	253,226

As at 30 June 2016, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2016	Level 1: quoted prices in active markets (i) \$'000	Level 2: valuation techniques based on observable market data (ii) \$'000	Level 3: valuation techniques incorporating information other than observable market data (iii) \$'000	Total \$'000
Assets				
<i>Fair value through profit or loss</i>				
Term deposits	84,000	-	-	84,000
Managed multi asset fund	22,128	-	-	22,128
Managed share funds	50,870	-	-	50,870
Managed bond funds	41,725	-	-	41,725
Total	198,723	-	-	198,723

Notes to the Financial Statements (continued)

At 30 June 2017, all financial instruments held by CBHS are traded in active markets, hence categorisation 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.

30) Additional Company information

The registered office and principal place of business of CBHS is:

Level 5, 79 George Street
Parramatta NSW 2150
Tel: 1300 654 123

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out between pages 27 and 69 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 CBHS' financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that CBHS will be able to pay its debts as and 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.

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



L G Moth
Chairman



A R Smith
Group Chief Executive Officer & Executive Director

Dated at Sydney, 24 August 2017

Independent Audit Report



To the members of CBHS Health Fund Limited

Our opinion

In our opinion:

The accompanying financial report of CBHS Health Fund Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report included in the annual report, but does not include the financial report and our Auditor's Report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Audit Report (continued)



Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of CBHS to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate CBHS or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

PricewaterhouseCoopers

R Cooper

R Cooper
Partner

Sydney
24 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.





CBHS Health Fund Limited
Level 5, 79 George Street
Parramatta NSW 2150
Tel: 1300 654 123