



We are a member owned organisation where members are at the heart of everything we do.



CONTENTS

About CBHS	01	Consolidated Statement of Comprehensive Income	29
Delivering Value to Members	02	Consolidated Statement of Financial Position	30
Five Year History	03	Consolidated Statement of Changes in Equity	31
Highlights	05	Consolidated Statement of Cash Flows	32
Message from the Chairman	09	Notes to the Financial Statements	33
Message from the Group CEO	13	Directors' Declaration	70
Corporate Governance Statement	15	Independent Auditor's Report to the Members of CBHS Health Fund Limited	71
Directors' Report	22		
Auditor's Independence Declaration	28		

About CBHS

Members are at the heart of everything we do.

Since 1951, we have been caring for Commonwealth Bank of Australia (CBA Group) employees and their families, allowing them to access affordable private health care and helping them to return to good health. During the year we achieved a significant milestone: over 100,000 members and their families now trust CBHS to provide them with peace of mind when it is needed most. Thank you to every member who has been on this journey with us.

Whilst we acknowledge this is a significant milestone, CBHS is not about being the biggest health fund, it's about being a market leader in ways that are important to our members. Our claims payout ratio is among the highest in the industry, meaning more of members' premiums go back to the members. And more importantly, we've been able to pass on one of the lowest rate increases in the industry to our members over the last two years.

Over the years, we have strived to meet our members' changing expectations and needs. We recognise that our members, now more than ever, want to see the value of their health insurance and greater transparency regarding their cover and out-of-pocket expenses. Our relationship with Healthshare this year provides members with more say in making an informed decision while choosing their health specialists and greater visibility of out-of-pocket expenses. Visit cbhs.com.au/healthshare for more information.

Once again, in 2018 CHOICE Magazine named our Comprehensive Hospital and Top Extras products as best performers in their categories. We set our sights on being the partner of choice for health insurance in Australia, and to be recommended once more by CHOICE Magazine is a testament to the commitment we have to our members and to the hard work of all CBHS staff working to achieve this goal.



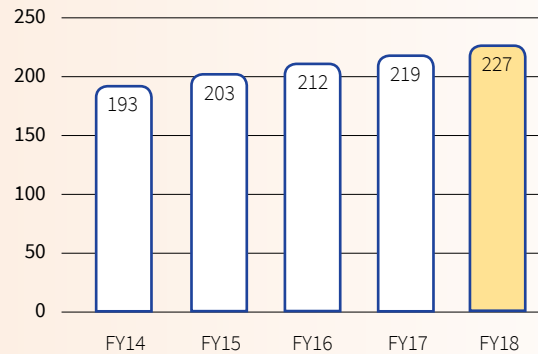
We are committed to keeping our members informed and ensuring that every dollar saved is passed on to our members and, as we did in both 2017 and 2018, we aim to deliver the lowest rate increase possible.

As we move into next year, we will continue to focus on ensuring that our members are being met with excellent service, whether it be 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 here to help.

226,881 people now experience the benefits of CBHS membership.

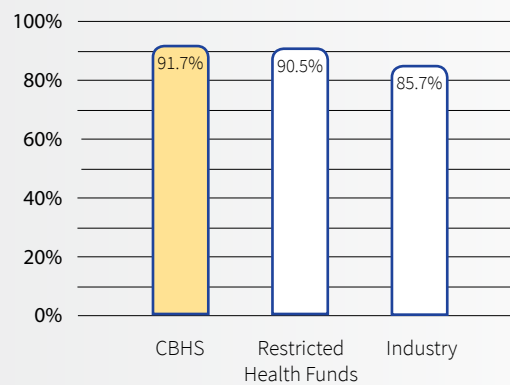
CBHS membership
Insured persons (thousands)



CBHS' member focus ensures we give back more to members than the industry average. In 2018 we paid out almost 92 cents in claims* for every premium dollar received.

* Standard industry basis including payment to government Risk Equalisation Trust Fund.

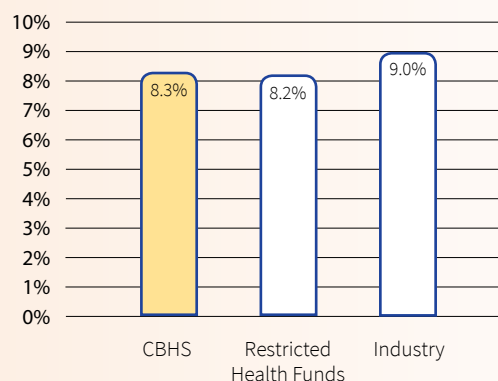
Claims ratio



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.

Management Expense Ratio (MER)



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

Five Year History

(in \$'000 unless otherwise indicated)

	2018	2017	2016*	2015*	2014*
Income Statement					
Direct premium revenue	416,977	392,015	360,713	324,147	293,044
Benefits incurred	(336,739)	(312,033)	(286,669)	(258,315)	(233,018)
Health benefits risk equalisation trust fund	(40,274)	(40,587)	(39,610)	(37,222)	(33,038)
Government levies	(5,174)	(4,797)	(4,465)	(4,064)	(3,790)
Net claims incurred	(382,187)	(357,417)	(330,744)	(299,601)	(269,846)
Net movement in unexpired risk liability	–	–	–	2,154	(2,154)
Management expenses	(34,120)	(31,201)	(26,043)	(21,074)	(19,139)
Underwriting profit	670	3,397	3,926	5,626	1,905
Investment and other income	14,602	14,765	4,300	12,087	15,858
Depreciation and amortisation	(981)	(594)	(471)	(495)	(500)
Profit/surplus before tax	14,291	17,568	7,755	17,218	17,263
Income tax benefit/(expense)	(26)	348	–	–	–
Profit/surplus after tax	14,265	17,916	7,755	17,218	17,263
Balance Sheet					
Current assets	96,000	92,234	142,713	104,581	88,197
Non current assets	205,872	192,219	116,257	135,437	131,770
Total assets	301,872	284,453	258,970	240,018	219,967
Current liabilities	93,406	90,398	83,665	72,536	69,773
Non current liabilities	1,654	1,508	674	606	537
Total liabilities	95,060	91,906	84,339	73,142	70,310
Net assets	206,812	192,547	174,631	166,876	149,657
Reserves					
Retained earnings	206,812	192,547	174,631	166,876	149,657
Total reserves	206,812	192,547	174,631	166,876	149,657

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

CBHS, which is a member owned 'not-for-profit' fund, established CBHS Corporate Health Pty Ltd (CBHS Corporate) in 2017 as a 'for-profit' business for the long-term benefit of CBHS members. For accounting disclosure purposes, the results of CBHS Corporate has been consolidated into the parent entity, CBHS. Accordingly, you will note that the result is expressed as Profit/Surplus after tax which is an accounting requirement. The use of this terminology throughout the report does not change in any way the core values of CBHS, being a member owned, 'not-for-profit', fund.

Disclaimer: Please note, that the subjects appearing in the photos in this annual report are not the members who have provided the featured testimonials.



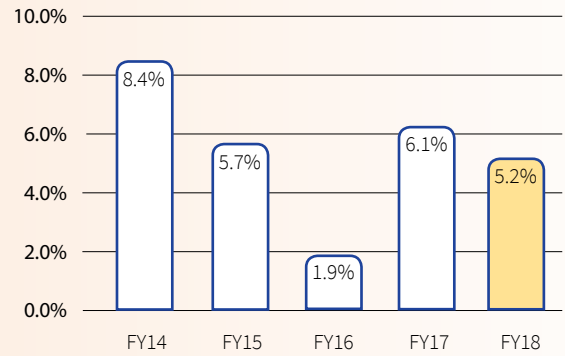
“CBHS staff are so helpful and prompt in answering my questions. With an operation imminent, I was given so much information about my costs along with advice regarding help at home instead of staying in rehab.” **Lyn**

NB Photo does not feature the member who provided the testimonial

Highlights

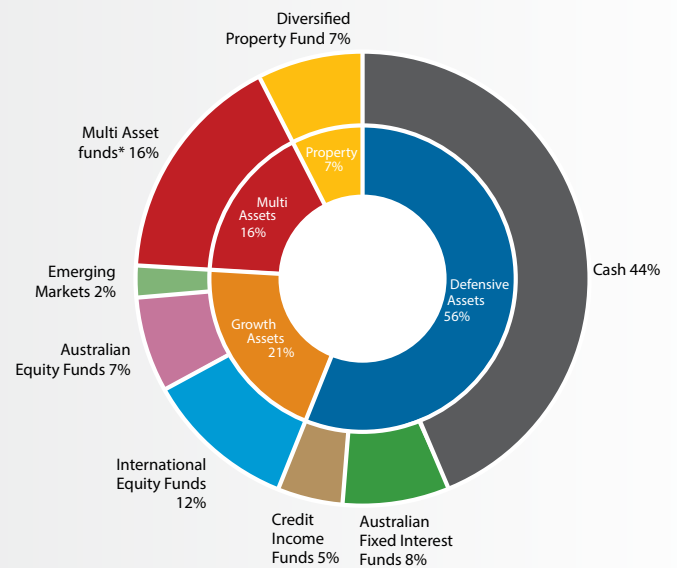
Investment returns in FY18 were marginally below FY17, however above forecast long term expectations. We expect investment returns to trend lower given market uncertainties and volatility.

5.2% investment returns in 2018



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

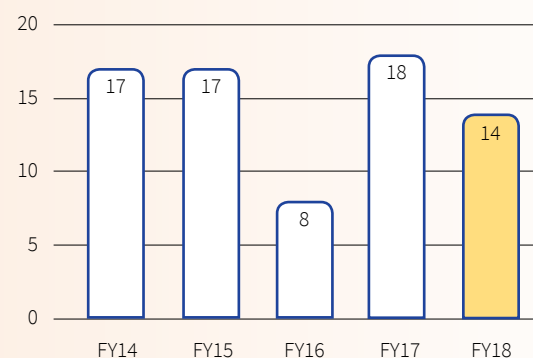
Investments portfolio



* As at 30 June 2018 more than 50% of funds within the Multi Asset Funds were in cash and bonds.

Profit after tax in FY18 is underpinned by strong returns from funds invested.

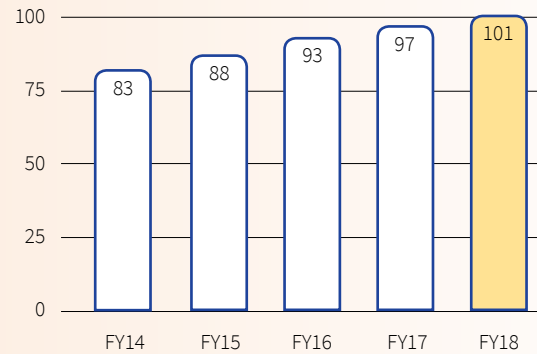
Profit of \$14m was achieved in FY18



CBHS continues to provide more members with peace of mind, with now more than 100,000 memberships.

4.1% increase in membership

Membership (thousands)

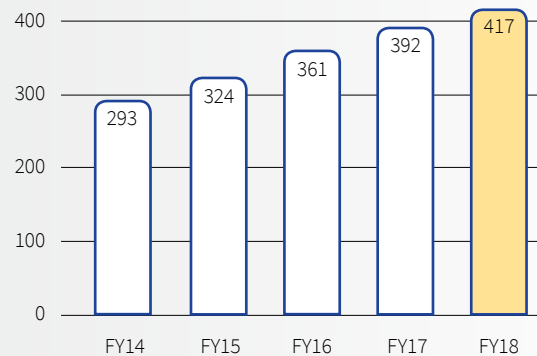


Membership growth has been better than industry average

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

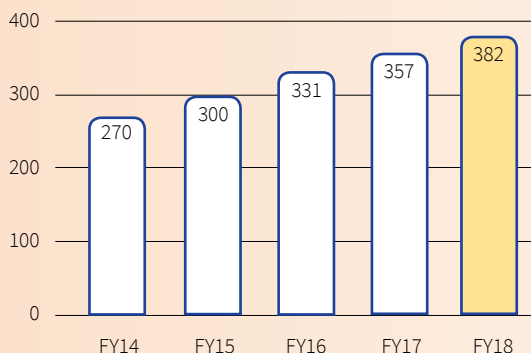
6.4% increase in premium revenue

Premium revenue (\$ millions)



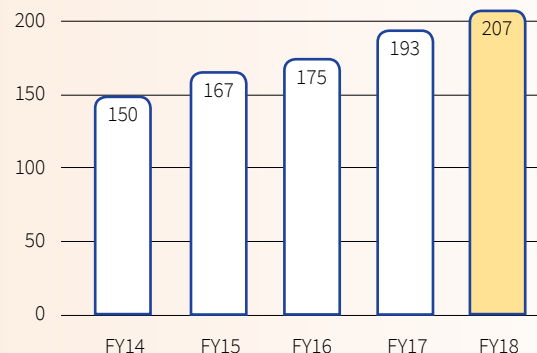
6.9% increase in net claims incurred

Net claims incurred (millions)



7.4% increase in net assets

Net assets (\$ millions)



Growth in net assets is underpinned by strong investment returns.



“My wife joined CBHS in February 2017 and then we had our first child, a son, in March this year. CBHS was great through everything and my wife and son were so well looked after at our private hospital! Thanks CBHS!” **Philip**

NB Photo does not feature the member who provided the testimonial



“CBHS has helped our family since joining 9 years ago. With very little gap every time including hospitalisation, dental and optical for the whole family as well as prompt response from friendly staff, I can honestly say CBHS had made a big difference in our family. I am happy and proudly telling everyone that CBHS is the best. We are hoping to join our daughter who is due to finish with tertiary studies this year to have continuing benefits.” **Flordeliza**

NB Photo does not feature the member who provided the testimonial

It is my pleasure to share another year of success with you in my first year as the Chairman of CBHS.



Peter MacCuspie Chairman

At a personal level, I recognise that great value private health insurance is an important element in assisting our members and their families to live healthier lives and providing them with a safety net if they become unwell.

My own family's situation in relation to healthcare needs reflects the broad range of circumstances that face many Australian families. As a young man I survived a rare form of cancer and I live my busy professional and personal life while undertaking regular kidney dialysis.

My wife is a neuropsychologist working with children and adolescents with a range of brain dysfunction issues. Our three active children play their sport of choice at a national level. My health insurance policy provides me with peace of mind that my family and I will have access to high quality healthcare services if and when we need them.

In 2017-18 the consolidated profit after tax was \$14.3m underpinned by strong investment returns. We recorded a small underwriting profit of \$0.7m for the year, reflecting our strategy of sharing strong investment returns achieved in recent years with our members through lower premium increases.

In the past year we returned 91.7% of every premium dollar collected to our members in the form of benefit payments. This compares favourably with the industry average of 85.7% and is a statistic that we are very proud of as a not-for-profit mutual.

Our capital position remains strong with net assets of \$206.8m. As a result of utilising our capital to deliver lower premium increases, we expect to incur a small underwriting loss in 2018-19.

I believe that CBHS is well positioned to continue to support our members and their families to lead healthier and happier lives and to fund their healthcare needs. We will remain focused on the needs of our members and operating the Fund in a responsible and sustainable manner.

We are committed to ensuring we take advantage of the opportunities available to us to provide members with great value products and excellent service. This goal has been reflected in decisions in the past 12 months to deliver one of the lowest premium rate increases of all health insurance funds for the second year in a row and significant investments in technology to transform the systems and tools of our operations to enable us to be more agile and deliver better services to members.

\$14.3M CONSOLIDATED PROFIT AFTER TAX

The Board is acutely aware of the affordability challenges facing our members. In addition to keeping premium increases as low as possible, CBHS has pursued a range of initiatives in 2017-18 designed to improve affordability for members including:

- delivery of Hospital Substitute Treatment programs for members which generated claims savings of \$7.8m in 2017-18 (compared to delivery of the same services in a hospital setting) and provided members with a better experience in recovery from surgery and illness;
- increased investment in wellbeing solutions in partnership with the CBA Group to increase member awareness of their health status and to assist in

managing emerging health issues with a view to reducing future claims costs; and

- making improved information available online to members regarding the availability of no gap and known gap medical and surgical services (also available to most General Practitioners at the time of your referral to a specialist).

There are a broad range of industry wide changes to be implemented as part of the Federal Government's Private Health Insurance Reform package by 1 April 2019. On balance, CBHS supports the Government's Reform package and we will continue to work with and lobby the Government for further reforms to improve the affordability of private health insurance.

CAPITAL POSITION STRONG – NET ASSETS \$206.8M

During 2017-18 we strengthened our relationship with our key stakeholder, the CBA Group, primarily through partnering in the delivery of health and wellness activities like the Health Hubs and supporting CBA and its charity Can4Cancer, and partnering with Colonial First State through our subsidiary Fund, CBHS Corporate, to offer a health and wealth solution to their superannuation clients.

Our operating and regulatory environment is increasingly complex and challenging with changing regulation and increasing competition in an industry that is currently not growing. Both the Federal Government and Opposition have foreshadowed capping premium increases in the short term in an environment where claims cost increases are rising at a much greater rate than general inflation, primarily due to increased utilisation of services by members. This external environment will require CBHS to continue to be agile and innovative in finding effective health and wellbeing solutions for our members.

The Board is taking a close interest in the findings of a range of reviews into the conduct of organisations in the broader financial services sector and distilling relevant learnings for our business. We are committed to ensuring the highest standards of corporate governance and risk management are adopted at CBHS.

CBHS has been an early adopter of many of the new prudential standards foreshadowed by APRA, and the Board recently commissioned an independent report into the risk culture underpinning the business. As a Board we are determined to set the right tone at the top and maintain the trust of our members.

Les Moth resigned as Board Chairman in March 2018, having served CBHS as a Director since 2006. During his more than 11 years of service, CBHS experienced enormous growth and change with membership increasing from 59,000 to 101,000 and benefits paid to members increasing from \$132m to \$382m. I would like to thank Les for his strong leadership of the Board and his dedication to the needs of our members.

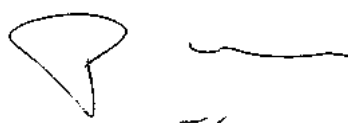
I would like to welcome Nicolette Rubinsztein to the Board. Nicolette was appointed to fill the casual vacancy created by the departure of Les and brings a wealth of experience as a non-executive director in the financial services sector to the Board.

During the year there were also changes to the Board of our subsidiary company CBHS Corporate. Michelene Hart resigned as Chairman of CBHS Corporate in March 2018 and I acknowledge her pivotal role in the successful establishment of that business and her previous role as a Director of CBHS for more than a decade. Henry Capra was appointed as the new Board Chairman and is well placed to take CBHS Corporate forward. In February 2018, Claudia Bels joined the Board of CBHS Corporate, bringing to bear deep experience across the international banking and finance, government and member services sectors.

I thank my fellow Directors for their support and commitment throughout a busy year and for their work on the various Board sub-committees.

I extend my thanks to the CBHS staff for their dedication and hard work in 2017-18, and for putting our members at the heart of everything they do.

It is an honour and a pleasure to serve you. Thank you for your ongoing support for CBHS and I am confident that CBHS will continue to successfully meet your needs.

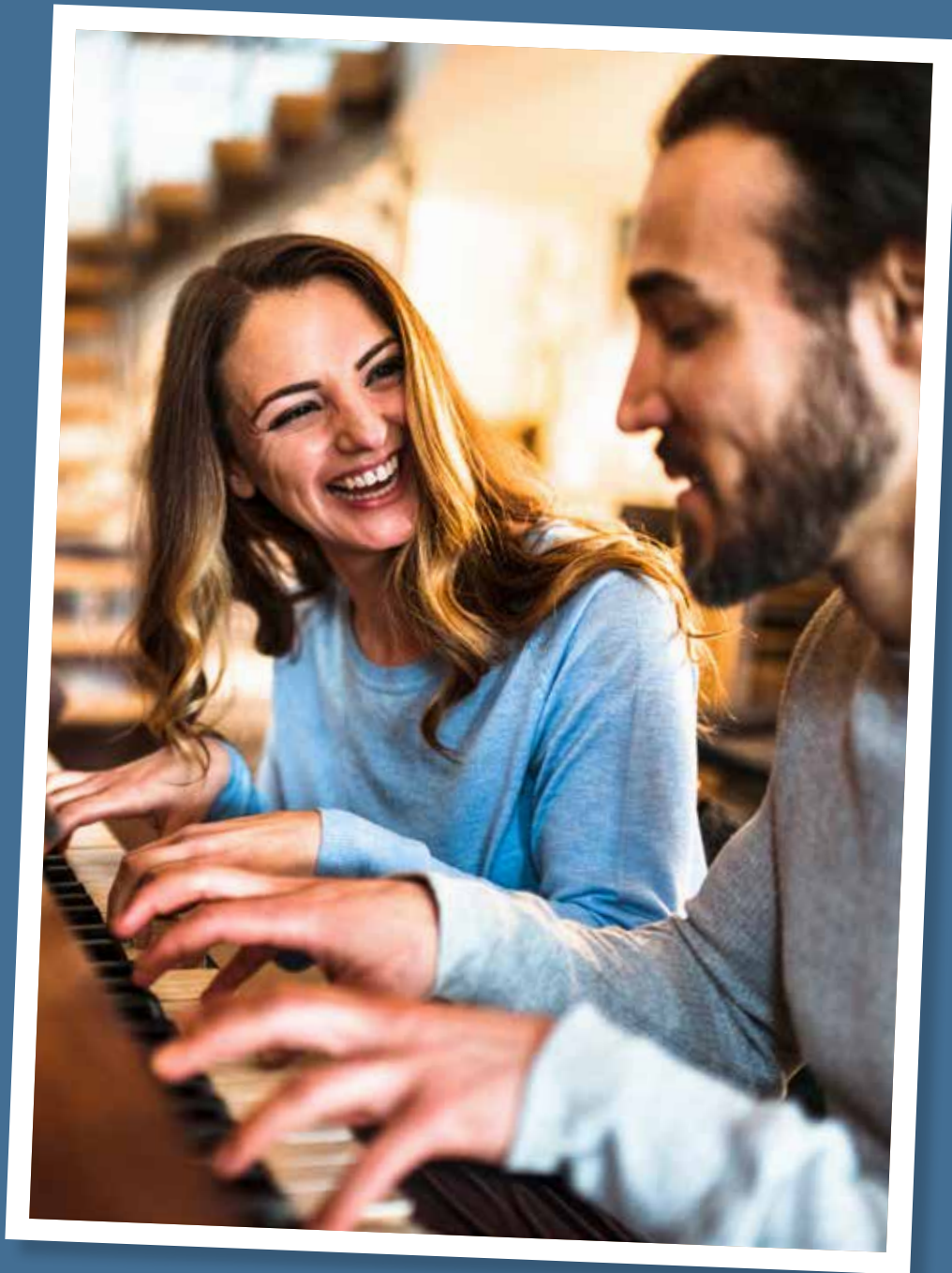


Peter MacCuspie
Chairman



“I’ve been a type 1 diabetic for 34 years (diagnosed at the age of 3). Thanks to CBHS I was able to get an insulin pump (these cost \$9,000 if you don’t have private health insurance!!). Thank you so much CBHS for including this in your policy under the prosthesis list – this is enabling me to have the best control I possibly can.” **Lisa**

NB Photo does not feature the member who provided the testimonial



“After being under my parents’ cover until 18 with CBHS and continuing with them as an adult I had never used my cover besides minor things such as optometry and chiropractic treatments. Last year I had to undergo a minor procedure which I needed fixed so instead of waiting 12 months through the public system I was able to get it sorted within 4 days through a private referral with only needing an overnight stay. CBHS paid my surgeon, anaesthetist and hospital charges no questions asked and I was able to focus on recovery at home.” **Tim**

NB Photo does not feature the member who provided the testimonial

Increases in member satisfaction and membership growth marked another good year for CBHS.



Andrew Smith

Group Chief Executive Officer & Executive Director

I'm pleased to report that during the year CBHS achieved a significant milestone of more than 100,000 members. Whilst the industry faces some headwinds with declining PHI participation rates, CBHS continues to grow well above industry trend.

As a not-for-profit health insurance fund, we've worked hard to keep costs down while still maintaining a level of service that gives members value and peace of mind. Costs within the health care system are often outside of our control because they are driven by health care providers. At CBHS we've gone to great lengths to buffer our members from the forces that impact their premiums. This year, for the second year in a row, we've kept premium increases down, among the lowest in the industry.

CBHS continually strives for efficiency, allowing us to operate on one of the lowest cost bases in the industry. However, at the same time we acknowledge the fact that investment in our business to sustain growth and improve member experience will require increased expenditure. During the year we've made further progress on strategies that will deliver on both these elements.

These include:

DIGITAL FIRST

Creating a member-first environment with new digital technology to allow a seamless contact centre experience and to deliver relevant, respectful and personalised communications to members to improve their health and wellbeing.

The new digital framework will enable members to easily access and update their cover, simply and quickly submit claims, and provide greater transparency of costs, benefits and claims history.

As CBHS continues to grow, our focus on building an efficient digital platform will contribute to a more efficient usage of management expenses through the introduction of streamlined member care, sales and marketing processes and automation.

FORTE2020 PROJECT

Forte2020 is a technology initiative that will enable the simplification and improvement of our core internal processes. It will empower our staff to continue delivering a high level of service and care for our members. Forte2020 will also simplify the implementation of system changes that future legislation or strategic priorities might require.

HEALTH AND WELLBEING

Empowering our members to be healthy is an important part of what we do. Our aim is to actively increase awareness of how to improve health and manage health issues. Our commitment includes supporting great causes through funding and sponsorship. This year we actively supported the CBA Can4Cancer program, raising nearly \$25,000.

As a not-for-profit health insurance fund, we've worked hard to keep costs down while still maintaining a level of service that gives members value and peace of mind.

HEALTH HUBS

Last year we told you about our pilot Health Hubs which were located at Commonwealth Bank Place South in Sydney and Bankwest Place in Perth. The trials have been an outstanding success and we now have seven Health Hubs located at various CBA offices around Australia. The Health Hubs are fully supported by the CBA, which forms part of their Health & Wellbeing strategy.



Some of the key statistics include:

- Over 80,000+ total interactions with CBA staff from almost 51,000 unique visits
- More than 14,000 health checks for blood pressure, body fat, body mass index, diabetes and heart age using the onsite SiSU machine 4-minute health check
- We have seen notable improvements in behaviour change and lives saved through this partnership and will look to expand this further in the new financial year.

CBHS CORPORATE

Our subsidiary, CBHS Corporate, continues to progress well with 20 new Corporate Partners signed in the financial year. Expansion into Overseas Visitors Cover has been very successful, and the business will now also look to extend this to Overseas Student Cover.

PRIVATE HEALTH INSURANCE REFORMS

In 2017, the Federal Government announced a package of initiatives designed to make private health insurance simpler and more affordable for consumers. Many of these initiatives will come into force from 1 April 2019. We applaud any efforts to address both affordability and simplicity for consumers.

We are committed to ensuring that every dollar saved through the implementation of the Government initiatives will be passed onto our members.

The detailed design of the relevant reforms is still being finalised and some changes are subject to the passage of legislation through the Federal Parliament. Members will be advised in greater detail of these changes and any impact on their specific insurance policy in early 2019. Members can be assured that CBHS remains committed to providing you with value for money insurance and a choice of policy that suits your individual circumstances.

Finally, as we move into next year, we will focus on ensuring that our members are being met with excellent 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.

I thank the Board and Executive team and our staff for their unwavering commitment and diligence throughout the year.

I also want to thank our members for their continued support and in helping make CBHS **'more than a great health insurer'**.

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

Andrew Smith
Group Chief Executive Officer & Executive Director

For the year ended 30 June 2018

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 Board includes 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 23 August 2018 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 reviewed in December 2017. 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.

Director & Senior Management Fit & Proper reviews

CBHS conducts annual Fit & Proper assessments on Directors and Senior Management annually.

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.

For the year ended 30 June 2018

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.

Ms Megan Coombs was appointed Group Company Secretary of CBHS on 1 March 2017, where she held the dual role of Group Company Secretary & Chief Operating Officer until 31 July 2018. Previously Ms Coombs held the position of CBHS' Chief Financial Officer. Ms Coombs is a Certified Practising Accountant with over 15 years' experience in leadership roles in service, not-for-profit and Government organisations.

Ms Nicole Nott was appointed to the role of Company Secretary of CBHS on 27 August 2018. Ms Nott holds the dual role of Group General Counsel and Company Secretary and is a qualified lawyer with over 18 years' experience, both as in house corporate counsel and in private practice at a national law firm.

Diversity

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

During hiring and promotion processes we aim to have equal representation of males and females in the selection process.

CBHS has completed the Workplace General Agency ('WGEA') report during this reporting period. A copy of the Public WGEA Report 2018 is available on the CBHS website.

Performance of the Board, its Committees & individual Directors

In accordance with the Governance Standard, a Board Renewal & Performance Assessment 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 2018.

A performance evaluation was undertaken in June 2018 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 2018 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 2017 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 Mr Malcolm Jay MacGregor, Mr Adrian James Hondros and future Directors and officers of the Company.

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.

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 Chief Executive Officer. The Board may have a maximum of two (2) Directors who are not members of CBHS.

The Board may appoint the 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

For the year ended 30 June 2018

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.

In addition to the Group CEO as an Executive Director, the Board currently comprises seven (7) Independent Non-Executive Directors of which one (1) is a non CBHS member 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 2017-18 and the individual attendances of the Directors at those meetings is provided in the Director's Meeting section of the Director's Report on page 25 of the 2018 Annual Report.

The Board has not established a Nomination Committee, preferring that this function be performed by the whole Board. The HR Strategy & Governance Committee assists in the provision of nomination recommendations, advice and research as instructed by the 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 date each current Director was first appointed and the year of their last election are as follows:

Director	Appointed	Last Elected at an AGM
Peter Andrew MacCuspie (Chairman)	2015	2015
John Eric Matthews	2008	2017
Adrian James Hondros	2017	2017
Marielle Desiree Latour	2010	2016
Andrew Robin Smith	2016	N/A
Malcolm 'Jay' MacGregor	2017	2017

Director	Appointed	Last Elected at an AGM
Nicolette Liesbeth Rubinsztein	2018	-
Fintan Benedict Thornton	2012	2015

Mr Leslie George Moth resigned from the Board in March 2018.

The current Directors who nominated to be elected or re-elected at the 2018 Annual General Meeting (AGM) are:

- Ms Nicolette Liesbeth Rubinsztein having been appointed to fill a casual vacancy on the Board during 2018;
- Mr Peter Andrew MacCuspie having reached his maximum tenure of three (3) years; and
- Mr Fintan Benedict Thornton, having reached his maximum tenure of three (3) years.

Having received no other nominations and given that the number of candidates for election was equal to the number of vacancies on the Board, the current Directors seeking election and re-election will be declared elected at the 2018 Annual General Meeting by the Returning Officer.

Each of the above Directors seeking election or re-election has the Board's endorsement.

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 is used when reviewing Director candidates, including those Directors who have retired and are eligible for re-election.

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

For the year ended 30 June 2018

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

The 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 section 191 of the *Corporations Act 2001 (the Act)* concerning the disclosure and appropriate management of transactions which involve their interest.

To ensure compliance and continuous disclosure, Directors consider the Standing Notice of Interest Register 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.

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 Group 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.

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

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

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

The Committee's members are:

- Marielle Latour (Chair)
- Malcolm 'Jay' MacGregor
- Fintan Thornton

Ms Marielle Latour was elected as the Chair of the Audit & Risk Committee on 22 March 2018.

Details of the number of times the Audit & Risk Committee met throughout 2017-18 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 25 of the 2018 Annual Report.

Internal audit

CBHS has an in-house Internal Auditor.

The Responsibility of the Head of Internal Audit is to provide independent assurance on the performance of management in maintaining the strategic direction of CBHS, achieving its

For the year ended 30 June 2018

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 the Group.

The Internal Auditor utilises co-sourcing arrangements with the private sector for the provision of specialised internal audit services.

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

External audit

PricewaterhouseCoopers (PwC) is the current external auditor for CBHS.

In line with current legislation, CBHS requires that the 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.

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.

The Asset & Liability Committee has three (3) members and all three (3) are Non-Executive Directors.

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

The Committee's members are:

- Fintan Thornton (Chairman)
- Malcolm 'Jay' MacGregor
- Gerard Parlevliet (Non-Director Committee member)

Mr Jay MacGregor was elected as a member of the Asset & Liability Committee to replace Mr Leslie Moth in March 2018.

Details of the number of times the Asset & Liability Committee met throughout 2017-18 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 25 of the 2018 Annual Report.

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 is fair, transparent and appropriate; and
- reviewing and recommending to the Board an effective succession plan for the Group CEO and his Senior Managers.

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

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

The Committee's members are:

- John Matthews (Chairman)
- Adrian Hondros
- Nicolette Rubinsztein

For the year ended 30 June 2018

Ms Nicolette Rubinsztein was elected as a member of the HR Strategy & Governance Committee to replace Ms Marielle Latour, who was elected as the Chair of the Audit & Risk Management Committee on 22 March 2018.

Details of the number of times the HR Strategy & Governance Committee met throughout 2017-18 and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 25 of the 2018 Annual Report.

Additional information on the Director's qualifications and experience can be found in the Directors' Report section on page 22 of the 2018 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 CEO & Executive Director and Chief Financial Officer stating that in their opinion the financial records of the entity have been properly maintained and that the Group 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 any questions from members in relation to the Group 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 and established a Corporate Governance section on the CBHS website. This will provide members with easily accessible information on CBHS and how it is governed.

Corporate Governance communication

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

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.

For the year ended 30 June 2018

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 CEO and the Chairman and is then lodged with the PHA Code Compliance Committee.

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 2018. 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:

- Peter Andrew MacCusprie (Chairman)
– appointed on 22 March 2018
- John Eric Matthews (Deputy Chairman)
- Adrian James Hondros
- Marielle Desiree Latour
- Malcolm 'Jay' MacGregor
- Nicolette Liesbeth Rubinsztein
– appointed on 22 March 2018
- Fintan Benedict Thornton
- Andrew Robin Smith (Group Chief Executive Officer & Executive Director)
- Leslie George Moth (Chairman)
– retired on 22 March 2018

Information on Directors

Peter Andrew MacCusprie

Mr MacCusprie has been a Director since November 2015 and was elected as Board Chairman on 22 March 2018 when Mr Moth retired. Prior to his appointment as Chairman, he was Chairman of the Audit & Risk Committee and a Director of CBHS' subsidiary company, CBHS Corporate.

Mr MacCusprie is a professional Non-Executive Director. He has over 20 years of experience in a variety of roles. He was a Director of Big Sky Credit Union/Building Society for 12 years that saw the business, through mergers and targeted growth, expand member capital over 15 times. He has experience in a wide range of governance settings including charities through the MedicAlert Foundation and Agribusiness, for over seven years with Dodgshun Medlin. His current roles encompass technology through the open source IT business Strategic Data. He is also the Chair of Club Assist, an automotive services company of 2,500 staff providing services and resources to Automotive clubs through Australia, NZ and North America. He has recently joined the Boards of Club Assist joint venture companies in Auckland (AA Battery Services) and Toronto (Integrated Road Services).

He mentors a range of senior executives and enjoys spending time with his three children, cooking, writing and discussing poetry.

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

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 is a Director, Chair of the Investment Committee and member of the Nominations and HR Committee of The Frank Whiddon Masonic Homes of New South Wales, Director of Frank Whiddon Nominees Pty Ltd and Director & Treasurer of the Frank Whiddon Masonic Homes Foundation Ltd. He is also a member of the Finance Committee for the United Grand Lodge of NSW & ACT.

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, is Chair of the Audit & Risk Committee and has also been a member of the HR Strategy & Governance and Asset & Liability Committees. Ms Latour is also a Director of CBHS' subsidiary company, CBHS Corporate.

With over 30 years' experience in financial services Ms Latour's professional experience is in consulting, marketing and distribution, strategy, stakeholder management and managing businesses, all gained holding senior executive positions at Commonwealth Bank, Colonial Group, TAL and numerous consulting assignments.

Ms Latour is a former Director of My Credit Union Limited, that through a merger, increased member value and provided enhanced products and services. She was also a member of the Audit & Risk Committee.

Ms Latour holds an Executive MBA, a Bachelor of Economics and is a Graduate 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 and Asset & Liability Committees.

Mr MacGregor has over 20 years' experience in financial markets in Australia and London. Most recently, he was Managing Director, Institutional Equities for the Institutional Banking & Markets division of the Commonwealth Bank 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 of Renew Power Group Pty Limited.

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

Nicolette Liesbeth Rubinsztein

Ms Rubinsztein was appointed to fill a casual vacancy on the Board in March 2018 following the resignation of Mr Moth and is a member of the HR Strategy & Governance Committee.

Ms Rubinsztein is currently a non-executive director at OnePath Insurance, OnePath General Insurance, SuperEd, UniSuper, Class Ltd and is Senior Vice President of the Actuaries Institute. She has previously held senior positions at Colonial First State, BT Funds Management and Towers Perrin.

Ms Rubinsztein is a qualified actuary and holds an executive MBA from the Australian Graduate School of Management and is a Graduate of the Australian Institute of Company Directors.

Fintan Benedict Thornton

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

Mr Thornton has over 18 years' financial services experience. Mr Thornton's current role is Head of Superannuation in Colonial First State's Distribution team. Mr Thornton has previously been Head of Strategy & Implementation in Colonial First State's Distribution team. He was previously the Head of Employee Superannuation at the Commonwealth Bank. Prior to joining the Commonwealth Bank, Mr Thornton worked 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. Amongst other appointments, Mr Thornton was actuary to Qantas Airways, the Reserve Bank of Australia and the NZ Government.

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 Andrew Smith commenced with CBHS in March 2016 as the Group Chief Executive Officer. At the 2016 Annual General Meeting, members approved changes to the constitution which enabled the Board to appoint the CEO as an Executive Director in November 2016. Mr Smith was appointed a Director of CBHS' subsidiary company, CBHS Corporate in March 2018.

Previously, Mr Smith was the CEO and Managing Director of InvoCare Limited. During his almost ten years at InvoCare, Mr Smith took great pride in leading a wonderful group of employees who were widely recognised for delivering outstanding customer service.

Prior to InvoCare, he held a number of senior executive positions for over 10 years in retail and FMCG industries.

Mr Smith is a Non-Executive Director of Members Health Fund Alliance, the organisation representing the not-for-profit, member owned, regional and community-based health fund sector. He was a Non-Executive Director of Private Healthcare Australia (PHA) in 2016 and 2017 and is the current Chair of PHA's Audit Committee. Mr Smith 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.

Mr Smith holds a Bachelor of Commerce and a Master of Business Administration. He is a member of the Institute of Chartered Accountants in Australia & New Zealand and is a Fellow of the Australian Institute of Company Directors.

Leslie George Moth (Retired 22 March 2018)

Mr Moth has been a member of CBHS since February 1968. He was a Director of CBHS since December 2006, was elected Chairman on 5 November 2015 and was a member of the Asset & Liability Committee.

Mr Moth retired 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 Commonwealth Bank.

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.

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. He 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 28 years, including 23 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.

Since his retirement, Mr Parlevliet has become an independent Director on the Board of Prime Super and La Trobe Financial respectively.

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

Board of Directors of CBHS Corporate (wholly owned subsidiary company)

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

- Henry Capra (Chairman)
(Elected Chairman on 22 March 2018)
- Claudia Jacqueline Bels (Non-Executive Director)
(Appointed on 15 February 2018)
- Marielle Desiree Latour (Non-Executive Director)
- Andrew Robin Smith (Group Chief Executive Officer and Executive Director) (Appointed on 22 March 2018)
- Dario Molina (Chief Executive Officer and Executive Director)
- Michelene Hart (Chairman)
(Resigned on 22 March 2018)
- Peter Andrew MacCusprie (Non-Executive Director)
(Resigned on 22 March 2018)

Directors' Meetings

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

Directors	Board – CBHS		Audit & Risk Committee – CBHS	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
A J Hondros	9	7	–	1**
M D Latour	9	9	1	2**
P A MacCuspie	9	9	3	3
M J MacGregor	9	9	4	4
J E Matthews	9	8	–	1**
L G Moth***	6	5	–	1**
N L Rubinsztein****	3	4*	–	–
A R Smith	9	9	–	4**
F B Thornton	9	9	4	4

* Attended for part of a Board meeting as an observer

** Attended Committee meetings as an observer

*** Resigned on 22 March 2018

**** Appointed on 22 March 2018

Directors/Committee Members	HR Strategy & Governance Committee – CBHS		Asset & Liability Committee – CBHS	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
A J Hondros	4	4	–	–
M D Latour	3	3	–	–
P A MacCuspie	–	–	–	–
M J MacGregor	–	–	1	1
J E Matthews	4	4	–	–
L G Moth*	–	–	3	3
G N Parlevliet	–	–	4	4
N L Rubinsztein	1	–	–	–
A R Smith**	–	4	–	4
F B Thornton	–	–	4	4

* Resigned on 22 March 2018

** Attended committee meetings as an observer

Directors/Committee Members	Board – CBHS Corporate		Audit & Risk Committee – CBHS Corporate	
	No. of meetings eligible to attend	No. of meetings attended	No. of meetings eligible to attend	No. of meetings attended
H Capra	12	12	4	4
M D Latour	12	12	1	1
C J Bels	5	6**	2	2
D Molina	12	12	–	4****
A R Smith	2	12***	–	4****
M Hart*	10	9	3	2
P A MacCuspie*	12	10	3	3

* Resigned on 22 March 2018

** Attended 1 Board meeting as an observer

*** Attended 2 Board meetings as a Director and 10 Board meetings as an observer

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

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 (Prudential Supervisory) Act, the Directors of CBHS Corporate 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 2018, CBHS Corporate did not declare a dividend.

Review of operations

The Profit after tax for the financial year was \$14,265,286 (2017: \$17,916,326). CBHS is exempt under section 50-30 of the Income Tax Assessment Act 1997 from paying income tax. The subsidiary, 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 message.

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 their statutory audit duties where the auditor's expertise and experience with the company are important.

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

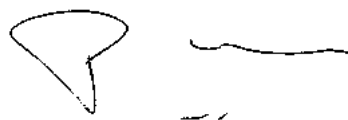
The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28 of the Annual Report.

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.



P A MacCuspie
Chairman



A R Smith
Group Chief Executive Officer & Executive Director

Dated at Parramatta 23 August 2018



As lead auditor for the audit of CBHS Health Fund Limited for the year ended 30 June 2018, 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

Parramatta
23 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Direct premium revenue	(3)	416,977	392,015
Direct claims expense		(334,496)	(307,687)
Net movement in outstanding claims liability (claims & other component)		(2,366)	(3,860)
Net movement in outstanding claims liability (risk equalisation component)		123	(486)
Health benefits risk equalisation trust fund		(40,274)	(40,587)
Government levies	(5)	(5,174)	(4,797)
Net claims incurred	(2)	(382,187)	(357,417)
Net movement in unexpired risk liability	(17)a)	-	-
Salaries and employee benefit expense	(6)	(21,919)	(19,091)
Other underwriting expenses	(6)	(12,201)	(12,110)
Underwriting result		670	3,397
Investment income	(3)	11,630	15,084
Fair value (losses)/gains on financial assets at fair value through profit or loss	(4)	2,465	(410)
Other income	(3)	507	91
Depreciation and amortisation expense	(6)	(981)	(594)
Profit before income tax		14,291	17,568
Income tax benefit/(expense)	(7)	(26)	348
Profit after income tax		14,265	17,916
Other comprehensive income		-	-
Profit for the period		14,265	17,916
Total comprehensive income for the year		14,265	17,916

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	(8)	12,476	14,574
Trade and other receivables	(9)	14,324	13,660
Financial assets at fair value through profit or loss	(10)	69,200	64,000
Total current assets		96,000	92,234
Non-current assets			
Financial assets at fair value through profit or loss	(10)	200,950	189,226
Fixture, fittings and equipment	(11)	926	1,034
Intangible assets	(12)	3,674	1,611
Deferred tax asset	(7)	322	348
Total non-current assets		205,872	192,219
Total assets		301,872	284,453
Current liabilities			
Trade and other payables	(13)	13,096	13,362
Outstanding claims liability	(15)	44,687	42,444
Unearned premium liability	(16)	31,895	31,753
Provisions	(14)	3,728	2,839
Total current liabilities		93,406	90,398
Non-current liabilities			
Provisions	(14)	1,654	1,508
Total non-current liabilities		1,654	1,508
Total liabilities		95,060	91,906
Net assets		206,812	192,547
Reserves			
Retained earnings		206,812	192,547
Total reserves	(18)	206,812	192,547

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2018

	Accumulated profits \$'000	Contributed capital \$'000	TOTAL \$'000
Balance at 1 July 2017	192,547	–	192,547
Profit/(loss) for the year	14,265	–	14,265
Balance at 30 June 2018	206,812	–	206,812

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

		2018	2017
		\$'000	\$'000
	Notes	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Receipts from members		417,240	393,768
Payments to members, employees and suppliers		(413,194)	(383,210)
Net cash flow provided by operating activities	(8b)	4,046	10,568
Cash flows from investing activities			
Payments for fixture, fittings, equipment and intangibles		(2,948)	(1,705)
Proceeds from sale of property, plant & equipment		-	1
Interest and investment income received		11,263	15,073
Payments for investments		(65,174)	(76,369)
Redemption from managed fund		50,715	21,456
Net cash flow used in investing activities		(6,144)	(41,544)
Decrease in cash and cash equivalents		(2,098)	(30,986)
Cash and cash equivalents at beginning of financial year		14,574	45,560
Cash and cash equivalents at the end of financial year	(8a)	12,476	14,574

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 is a wholly owned private 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 23 August 2018. 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 2017:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 107.
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle

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 2018 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.

All investments held by CBHS have been determined to be assets backing general insurance liabilities and accordingly are designated as 'at fair value profit or loss'. CBHS invests in term deposits and managed funds. Term deposits are usually held to maturity and the managed funds are managed by professional fund managers. These investments are currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under AASB 9.

There will be no impact on CBHS' accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at FVPL, and CBHS does not have any such liabilities.

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.

CBHS' Health Insurance premium revenue is recognised under AASB 1023 General Insurance Contracts which is not impacted by AASB 15. CBHS receives other income consisting of software licensing fees, travel insurance commissions and cost recovery in relation to the Health Hubs. This income will continue to be treated as Other Income under AASB 15.

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.

The standard will affect primarily CBHS' operating leases. As at reporting date CBHS has non-cancellable operating lease commitments of \$2,712,866 relating to the lease of office space. CBHS estimates that at transition it will recognise right-of-use assets of \$1.3m and lease liabilities of \$2.0m.

At this stage CBHS does not intend to adopt the standard before its effective date. CBHS intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to its first adoption.

CBHS currently plans to apply AASB 16 for the annual period beginning 1 July 2019.

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

On 19 July 2017, Australian Accounting Standard Board issued AASB 17 Insurance Contracts, incorporating the recently issued IFRS 17 Insurance Contracts. This will replace 1023 General Insurance Contracts.

The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating products.

CBHS has formed a project team to assess the impact of this change on the operations and financial statements of the business but changes in disclosure requirements and possible impacts on the profit and loss are expected.

CBHS currently plans to apply AASB 17 for the annual period beginning 1 July 2021.

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 2018 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.

Material subsidiaries

CBHS' principal subsidiaries as at 30 June 2018 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.

Name of Entity	Place of Business/country of incorporation	Ownership interest held by CBHS		Principal Activities
		2018 %	2017 %	
CBHS Corporate Health Pty Ltd	Australia	100	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:

Note number	Description	Page number
15	Outstanding claim liability	50
17	Unexpired risk liability	53

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

	2018 Current Year		2017 Prior Years		2018 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	-	303,493	31,003	-	31,003	303,493
Outstanding claims provided for	(38,093)	38,093	4,694	(4,694)	(33,399)	33,399
Risk equalisation and government levies paid	-	39,588	5,860	-	5,860	39,588
Risk equalisation and government levies provided for	(6,594)	6,594	887	(887)	(5,707)	5,707
Net claims incurred	(44,687)	387,768	42,444	(5,581)	(2,243)	382,187

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.

	2017 Current Year		2016 Prior Years		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 government levies paid	–	40,075	5,309	–	5,309	40,075
Risk equalisation and government 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

Outstanding claims liability movements are as follows:

	2018 \$'000	2017 \$'000
Opening balance	(42,444)	(38,098)
Prior year claims, risk equalisation and levies paid	36,863	33,565
Write back to profit and loss	(5,591)	(4,533)
Provision established for claims, risk equalisation and levies paid	(44,687)	(42,444)
Closing balance	(44,687)	(42,444)
Net movement	(2,243)	(4,346)

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.

3) Revenue

	2018 \$'000	2017 \$'000
Direct premium revenue	416,977	392,015
Investment income		
Interest revenue:		
Cash and cash equivalents	226	270
Term deposits	3,009	2,811
Distributions	7,219	11,927
Realised gain on disposal of investments	1,176	76
Total investment income	11,630	15,084
Other income		
Gain/(loss) on sale of assets	-	1
Licence fee & other revenue	98	90
Cost recovery – (Health Hubs)	409	-
Total other income	507	91

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.

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

	2018	2017
	\$'000	\$'000
Managed share funds gains (a)	2,700	(1,386)
Managed bond fund gains (a)	133	(2,095)
Managed multi assets fund gains (a)	(475)	299
Managed property fund gains (a)	107	-
Net (losses)/gains	2,465	(410)

(a) Fair value of managed funds is based on unit prices provided by fund managers at 30 June 2018.

Recognition and measurement

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

5) Government levies

	2018	2017
	\$'000	\$'000
NSW, ACT ambulance levies	5,174	4,797
Total government levies	5,174	4,797

6) Expenses

	2018 \$'000	2017 \$'000
Salaries and employee benefit expenses		
Salaries, bonuses and other costs	20,111	17,555
Superannuation expense	1,808	1,536
Total salaries and employee benefit expenses	21,919	19,091
Other underwriting expenses		
Information technology	2,003	1,305
Research, advertising and publicity	1,705	1,289
Other expenses	1,561	1,095
Consultant, actuarial, audit and legal fees	1,470	1,883
Property expense	1,303	1,678
Electronic claims processing fees	1,049	964
Subscriptions for industry and purchasing associations	920	839
Financial charges and taxes	545	421
Mailing and communication costs	526	592
Aggregator commissions	457	995
Printing and stationery	351	294
Staff recruitment costs	311	755
Total other underwriting expenses	12,201	12,110
Depreciation and amortisation expenses		
Depreciation expense		
Fixtures, fittings and equipment	556	528
Total depreciation expenses	556	528
Amortisation expense		
Software	425	66
Total amortisation expense	425	66
Total Depreciation and amortisation expense	981	594

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

	2018 \$'000	2017 \$'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	26	(348)
(Decrease)/Increase in deferred tax liabilities	-	-
Total deferred tax expense/(benefit)	26	(348)
Income tax expense/(benefit)	26	(348)
Income tax expense/(benefit) is attributable to:		
Loss from continuing operations	26	(348)
Profit from discontinued operations	-	-
	26	(348)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax	(2,732)	(3,996)
Profit from discontinuing operation before income tax expense	-	-
	(2,732)	(3,996)
Tax at the Australian tax rate of 30% (2017 30%)	(820)	(1,199)

	2018 \$'000	2017 \$'000
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Unused tax losses	846	851
Income tax expense/(benefit)	26	(348)
(c) Deferred tax balances		
The balance comprises temporary differences attributable to:		
Deferred acquisition costs	86	47
Indirect settlement costs	1	-
Setup costs	211	281
Accrued audit fees	9	8
Accrued expenses	13	12
Amortisation of software	2	
	322	348
Movements		
Balance at 30 June 2017	348	
- to profit or loss	(26)	
- to other comprehensive income	-	
Balance at 30 June 2018	322	
(d) Unused tax losses for which no deferred tax asset has been recognised		
- tax losses from prior year	851	
- tax losses from current year	845	
Cumulative unused tax losses	1,697	

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.

8) Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash at bank	3,946	6,603
Cash deposits - '24 hour At-Call'	8,529	7,970
Cash on hand	1	1
Total	12,476	14,574

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 2018. 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:

	2018 \$'000	2017 \$'000
Cash and cash equivalents	12,476	14,574
Total cash and cash equivalents	12,476	14,574

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

	2018 \$'000	2017 \$'000
Operating profit	14,265	17,916
Interest and investment income received & receivable	(11,630)	(15,084)
Depreciation and amortisation	981	594
Net decrement/(increment) arising from the revaluation of current and non-current financial assets	(2,465)	410
Loss on sale of assets	12	(1)
Increase in current receivables	(297)	(496)
Decrease in amount payable for HBREE*	(497)	(912)
Decrease in deferred tax asset	26	(348)
Increase in accounts payable and accruals	231	309
Increase in unearned premium liability	142	1,894
Increase in outstanding claim liability	2,243	4,346
Increase in current provisions	889	1,097
Increase in non-current provisions	146	833
Net cash flow from operating activities	4,046	10,558

* HBREE – Health Benefits Risk Equalisation Expense

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

	2018 \$'000	2017 \$'000
Premium receivable (a)	11,206	11,327
Investment income receivable	1,688	1,321
Prepayments	1,016	685
GST recoverable	155	140
Sundry debtors	259	187
Total	14,324	13,660

a) Premium receivable comprises two components, the Federal Government's Private Health Insurance Rebate Scheme (PHI Rebate Scheme) \$8,719,422 (2017: \$8,643,097) and members who pay for their contributions in arrears or who are non-financial \$2,486,581 (2017: \$2,683,686).

- 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. 9.6% of CBHS' members pay for their contributions in arrears while the other 90.4% 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 9,758 (2017: 10,365) 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 2018 the amount owing to CBHS from Medicare Australia was \$8,719,422. 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.

10) Financial assets at fair value through profit or loss

	2018 \$'000	2017 \$'000
Current assets		
Term deposits (a)	69,200	64,000
Total current assets	69,200	64,000
Non-current assets		
Term deposits (b)	41,000	41,000
Managed multi assets fund at market value (c)	46,163	45,037
Managed bond funds at market value (d)	36,117	43,716
Managed share funds at market value (e)	57,750	59,473
Managed property funds at market value (f)	19,920	-
Total non-current assets	200,950	189,226
Total financial assets at fair value through profit or loss	270,150	253,226

- a) These term deposits have maturity dates ranging from 13 July 2018 to 27 May 2019. The weighted average interest rate on these term deposits is 2.52% (2017: 2.51%).
- 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% (2017: 3.37%).
- c) As at 30 June 2018 CBHS had \$46,163,418 (2017: \$45,036,754) invested in two externally managed multi asset funds. The funds are managed by a professional fund manager.
- d) As at 30 June 2018 CBHS had \$36,117,014 (2017: \$43,715,607) invested in two externally managed bond funds. The funds are managed by professional fund managers.
- e) As at 30 June 2018 CBHS had \$57,749,898 (2017: \$59,473,425) invested in externally managed share funds. This balance is comprised of one managed Australian share fund (\$19,996,037) (2017: \$17,708,488) and three managed international share funds (\$37,753,861) (2017: \$41,764,937). The funds are managed by professional fund managers.
- f) As at 30 June 2018 CBHS had \$19,919,711 (2017: \$0) invested in an externally managed property fund. This fund is managed by a professional fund manager.

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.

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

	2018 \$'000	2017 \$'000
Gross carrying amount		
Balance as at 1 July	3,726	3,375
Additions	460	353
Disposals	(152)	(2)
Transfers/adjustments	(47)	-
Balance as at 30 June	3,987	3,726
Accumulated depreciation		
Balance as at 1 July	2,692	2,164
Disposals	(140)	-
Depreciation expense	556	528
Transfer/adjustments	(47)	
Balance as at 30 June	3,061	2,692
Net book value		
Balance as at 30 June 2017	1,034	1,211
Balance as at 30 June 2018	926	1,034

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

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

	2018 \$'000	2017 \$'000
Software		
Gross carrying amount		
Balance as at 1 July	1,677	323
Additions	2,488	1,354
Disposals	(38)	-
Transfer/adjustment	46	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	4,173	1,677
Accumulated amortisation		
Balance as at 1 July	66	-
Disposals	(38)	-
Amortisation expense	425	66
Transfer/adjustment	46	-
Net adjustment from revaluation increment	-	-
Balance as at 30 June	499	66
Net book value		
Balance as at 30 June 2017	1,611	323
Balance as at 30 June 2018	3,674	1,611

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

	2018 \$'000	2017 \$'000
Amounts due to the Health Benefits Risk Equalisation Trust Fund (a)	10,231	10,728
Accruals (b)	1,327	1,363
Trade payables (b)	1,538	1,271
Total	13,096	13,362

- 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.

14) Provisions

	2018 \$'000	2017 \$'000
Current provision		
Employee benefits (a)	1,059	931
Provision for employee performance payments (b)	2,069	1,908
Unallocated premiums (c)	600	–
Total current provision	3,728	2,839
Non- current provision		
Employee benefits (d)	954	808
Makegood (e)	700	700
Total non-current provision	1,654	1,508
Total provisions	5,382	4,347

- 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) CBHS systems do not currently allow the allocation of member premiums to their account for any part day payments. The provision balance represents the accumulation of unallocated members' premiums over a period of more than 10 years when the current systems were introduced. Corrective actions to ensure affected members' premiums are allocated are being taken.
- d) The non-current provision for employee benefits is long service leave accrued and expected to be paid after 12 months.
- e) 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	Unallocated premiums \$'000	Long service leave provision \$'000	Makegood provision \$'000	Total \$'000
Balance at 30 June 17	931	1,908	–	808	700	4,347
Used during the year	(1,176)	(1,608)	–	(76)	–	(2,860)
Unused amounts reversed	–	(349)	–	–	–	(349)
Additional provisions recognised	1,304	2,118	600	222	–	4,244
Balance at 30 June 18	1,059	2,069	600	954	700	5,382

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.

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

	2018 \$'000	2017 \$'000
Outstanding claims – central estimate of the expected future payments for claims incurred (i)	34,689	32,501
Claims handling costs	1,050	979
Risk equalisation	6,594	6,748
Risk margin (ii)	2,353	2,216
Gross outstanding claims liability	44,687	42,444

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% (2017: 5.50%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2017: 75%).
- CBHS Corporate 17.1% (2017: 18.0%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2017: 75.0%).

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 1.1% 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 0.5% 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.

	2018	2017
Risk margin (CBHS)	5.50%	5.50%
Risk margin (CBHS Corporate)	17.1%	18.0%

c) Reconciliation of movement

	2018	2017
	\$'000	\$'000
Changes in the gross outstanding claims liabilities can be analysed as follows:		
As at 1 July	42,444	38,098
Claims incurred during the year	382,187	357,417
Claims paid during the year	(379,944)	(353,071)
As at 30 June	44,687	42,444

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.

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).

16) Unearned premium liability

	2018	2017
	\$'000	\$'000
Unearned premium liability as at 1 July	31,753	29,859
Deferral of premiums on contracts written in the period	31,895	31,753
Earning of premiums written in previous periods	(31,753)	(29,859)
Unearned premium liability as at 30 June	31,895	31,753

17) Unexpired risk liability

CBHS performed the liability adequacy test as at 30 June 2018 and it was determined that there was no deficiency to recognise. (2017: no deficiency recognised).

a) Movement recognised in the statement of comprehensive income

	2018	2017
	\$'000	\$'000
Gross movement in unexpired risk liability	-	-
Net movement in unexpired risk liability	-	-
Total movement recognised in the income statement	-	-

b) Calculation of deficiency

	2018	2017
	\$'000	\$'000
(i) Unearned premium liability component		
Unearned premium liability (A)	30,798	30,459
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	29,831	28,784
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	814	778
Net deficiency (B+C-A)	-	-
(ii) Unclosed business liability component		
Unclosed business liability (A)	1,097	1,276
Central estimate of expected future cash flows arising from future claims on unearned premium liability (B)	1,060	1,206
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	29	32
Net deficiency (B+C-A)	-	-

	2018 \$'000	2017 \$'000
(iii) Insurance contracts renewable before the next pricing review		
Insurance contracts renewable before the next pricing review (A)	329,767	311,514
Central estimate of expected future cash flows arising from future claims on insurance contracts renewable, allowing for differences between classes (B)	319,410	294,381
Risk margin (as per table below) on claims cost and 1.5% on management expenses at 75% PoA* (C)	8,724	7,948
Net deficiency (B+C-A)	-	-
Total deficiency (i)+(ii)+(iii)	-	-

* Probability of Adequacy

	2018	2017
Risk margin (CBHS)	2.75%	2.75%
Risk margin (CBHS Corporate)	6.7%	7.0%

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

	2018 \$'000	2017 \$'000
Retained earnings		
Balance at beginning of financial year	192,547	174,631
Profit/surplus after tax	14,265	17,916
Total retained earnings end of financial year	206,812	192,547
Balance at end of financial year	206,812	192,547

19) Parent Entity Financial Information**a) Summary financial information**

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

Balance Sheet	2018 \$'000	2017 \$'000
Assets		
Current assets	90,871	86,417
Total assets	307,432	287,888
Liabilities		
Current Liabilities	92,561	90,186
Total liabilities	94,214	91,694
Net assets	213,218	196,195
Equity		
Retained Profits	213,218	196,195
Total equity	213,828	196,195
Profit or loss for the year	17,023	21,564
Total comprehensive income for the year	17,023	21,564

b) Guarantees entered into by the parent entity

The parent entity did not provide any guarantees during the financial years 2018 or 2017.

c) Contingent liabilities of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

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

As at 30 June 2018, 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 2018.

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 2018, 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 2018 was \$2,130,140 (2017: \$3,481,497).

21) Remuneration of auditors

	2018 \$	2017 \$
Audit of the financial statements, statutory returns and regulatory requirements	179,470	173,745
Total remuneration for audit and assurance services	179,470	173,745
Taxation services	10,200	15,300
Total remuneration for taxation services	10,200	15,300
Scrutineering of Board elections	12,240	8,262
Assisting with AASB 7	4,000	5,200
Agreed upon procedures	4,000	4,000
Payroll tax compliance review	-	11,193
Executive management training	-	19,500
GST impact of overseas visitor products	-	4,080
Total remuneration for other services	20,240	52,235
Total remuneration of PricewaterhouseCoopers Australia	209,910	241,280

The auditor of CBHS is PricewaterhouseCoopers.

22) Remuneration of Directors and other key management personnel**a) Directors' remuneration**

	2018 \$	2017 \$
Short-term employment benefits	323,655	310,021
Post-employment benefits (9.50% statutory superannuation guarantee)	21,689	18,655
Total Directors' remuneration	345,344	328,676

b) Other key management personnel remuneration

	2018 \$	2017 \$
Short-term employment benefits	2,303,720	2,303,512
Post-employment benefits (9.50% statutory superannuation guarantee)	121,509	117,696
Total key management personnel remuneration	2,425,230	2,421,208
Total Directors and other key management personnel remuneration	2,770,574	2,749,884

Note: 2017 value has been restated to correctly reflect the maximum super contribution base.

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.

25) Lease Commitments**Non-cancellable operating leases**

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

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:		
Within one year	563	459
Later than one year but not later than five years	2,150	1,837
Later than five years	-	-
Total	2,713	2,296

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.

Actuarial assumptions

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

Estimate	Key Variable 2018 \$'000	Key Variable 2017 \$'000
Estimated Medical and Ancillary incurred claims cost	\$12,888	\$11,904
Estimated Hospital incurred claims cost	\$16,815	\$16,139

Estimate %	CBHS		CBHS Corporate	
	Key Variable 2018 %	Key Variable 2017 %	Key Variable 2018 %	Key Variable 2017 %
Claims handling expense – Hospital	2.5%	2.5%	2.5%	2.5%
Claims handling expense – Medical	5.0%	5.0%	2.5%	2.5%
Claims handling expense – Ancillary	5.0%	5.0%	5.0%	5.0%
Risk equalisation (outstanding claims component)	21.0%	23.0%	65.0%	104.0%
Risk margin	5.5%	5.5%	17.1%	18.0%

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.

Impact of changes in key variables CBHS Health Fund

	Key Variable Change 2018 %	Changes in Outstanding Claims Component* 2018 \$'000	Key Variable Change 2017 %	Changes in Outstanding Claims Component* 2017 \$'000
Incurring claims	+10	3,477	+10	3,215
	-10	(3,477)	-10	(3,215)
Expense rate	+10	105	+10	98
	-10	(105)	-10	(98)
Risk equalisation (outstanding claims component)	+10	653	+10	674
	-10	(653)	-10	(674)

* Excludes risk margin

Impact of changes in key variables CBHS Corporate

	Key Variable Change 2018 %	Changes in Outstanding Claims Component* 2018 \$'000	Key Variable Change 2017 %	Changes in Outstanding Claims Component* 2017 \$'000
Incurring claims	+10	21	-	3
	-10	(21)	-	(3)
Expense rate	+10	-	-	-
	-10	-	-	-
Risk equalisation (outstanding claims component)	+10	7	-	1
	-10	(7)	-	(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.

Estimate	Key Variable 2018 \$'000	Key Variable 2017 \$'000
Estimated claims cost	\$294,004	\$267,976

Estimate %	CBHS		CBHS Corporate	
	Key Variable 2018 %	Key Variable 2017 %	Key Variable 2018 %	Key Variable 2017 %
Risk equalisation (relating to above estimated claim)	10.6%	12.4%	32.4%	48.7%
Risk margin	2.75%	2.75%	6.7%	7.0%

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.

	2018	2017
Risk margin (CBHS)	2.75%	2.75%
Risk margin (CBHS Corporate)	6.7%	7.0%

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 2018 %	Changes in unexpired Risk Component* 2018 \$'000	Key Variable Change 2017 %	Changes in unexpired Risk Component* 2017 \$'000
Estimated claims cost	+10	28,347	+10	17,494
	-10	-	-10	-
Risk equalisation (relating to above estimated claim)	+10	1,704	+10	-
	-10	-	-10	-

* Excludes risk margin

Impact of changes in key variables CBHS Corporate

	Key Variable Change 2018 %	Changes in unexpired Risk Component* 2018 \$'000	Key Variable Change 2017 %	Changes in unexpired Risk Component* 2017 \$'000
Estimated claims cost	+10	241	+10	26
	-10	-	-10	-
Risk equalisation (relating to above estimated claim)	+10	73	+10	11
	-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 is to assist the Board fulfil its statutory and fiduciary duties relating to the financial reports, the risk management framework, the independence of the auditors and regulatory compliance;
- 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 CBHS risk profile;
 - the Internal Audit function which provides management and the Board independent assurance of the internal control environment;
 - the annual Management Certification and Representation Questionnaire provides the Board certifications 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.

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.

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 expenses 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, Chief Risk Officer and Chief Financial Officer.

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 2018 the fair value of investments with a fixed interest rate was \$110,200,000 (2017: \$105,000,000).

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

	Weighted average effective interest rate %	2018 \$'000	2017 \$'000
Cash deposits – '24 hour at call'	1.34	8,529	7,970
Term deposits designated at fair value through profit or loss	2.84	110,200	105,000

Interest rate sensitivity analysis

The sensitivity analyses below has been determined on the exposure to interest rate movements on the investment portfolio at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 25 basis point increase or decrease is used when reporting interest risk internally 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)	
	2018	2017
	\$'000	\$'000
+0.25% (25 basis points) per annum	276	263
-0.25% (25 basis points) per annum	(276)	(263)

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, shares, bonds 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:

	Profit Higher/(Lower)	
	2018	2017
	\$'000	\$'000
+5% per annum	13,320	10,349
-5% per annum	(13,320)	(10,349)

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

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	8,529	7,970
A series rating	-	-
B series rating	-	-
Unrated	8,529	7,970

	2018 \$'000	2017 \$'000
Financial assets at fair value through the profit or loss		
A series rating	85,200	73,000
B series rating	25,000	32,000
Unrated *	159,950	148,226
	270,150	253,226

* 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'

	2018 \$'000	2017 \$'000
Carrying amount of financial instruments designated as at 'fair value through profit or loss'	110,200	105,000
Principal amount of financial instruments designated as at 'fair value through profit or loss'	110,200	105,000
Cumulative changes in fair value attributed to changes in credit risk	(1,160)	(1,802)
Changes in fair value attributable to changes in credit risk recognised during the period	642	(1,652)

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
2018					
Trade and other payables	1,538	10,231	1,327	-	-
2017					
Trade and other payables	1,271	10,728	1,363	-	-

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 2018, all financial instruments held by CBHS were traded in active markets.

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

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

i) Fair value of financial instruments

As at 30 June 2018, the split of the financial assets at fair value through the profit and loss into the fair value hierarchy is as follows:

2018	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	110,200	-	-	110,200
Managed multi asset funds	46,163	-	-	46,163
Managed share funds	57,750	-	-	57,750
Managed bond funds	36,117	-	-	36,117
Managed property fund	19,920	-	-	19,920
Total	270,150	-	-	270,150

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 funds	45,037	-	-	45,037
Managed share funds	59,473	-	-	59,473
Managed bond funds	43,716	-	-	43,716
Total	253,226	-	-	253,226

At 30 June 2018, 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 assets 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.

31) Additional company information

The registered office and principal place of business of CBHS is

Level 5, 79 George Street
Parramatta NSW 2150
Telephone (02) 9843 7603

In the Directors' opinion:

- (a) the financial statements and notes set out between pages 29 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 2018 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 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.



P A MacCuspie
Chairman



A R Smith
Group Chief Executive Officer & Executive Director

Dated at Parramatta 23 August 2018



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 CBHS) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of CBHS' financial position as at 30 June 2018 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

CBHS' financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- 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 CBHS 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

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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

Handwritten signature of R. Cooper in blue ink, appearing as 'PRICEWATERHOUSE COOPERS' on the top line and 'R. COOPER' on the bottom line.

R. Cooper
Partner

Parramatta
23 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757

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