

Concise Annual Report

For the year ended
30 June 2012



Financial Snapshot

(\$M)	2012	2011	Change	Change %
Premium Revenue	361.5	329.7	31.7	9.6%
Gross Margin	40.8 11.3%	38.9 11.8%	1.9	5.0%
Management Expense	25.0 6.9%	22.6 6.9%	2.4	10.4%
Net Margin	15.8 4.4%	16.2 4.9%	-0.4	-2.6%
Investment and Other	14.4	14.3	0.1	0.7%
Operating Surplus	30.2 8.4%	30.6 9.3%	-0.3	-1.0%
Total Assets	299.0	246.9	52.2	21.1%
Total Liabilities	94.4	72.5	21.9	30.2%
Total Capital Reserves	204.6	174.4	30.2	17.3%
Membership	107,963	102,037	5,926	5.8%
Market Share	1.82%	1.78%	–	–

Source: Data for this table comes from Teachers Federation Health's PHIAC 2 Annual submission. This PHIAC data is calculated in accordance with PHIAC's prudential standards and therefore differs from figures in the financial statements which are prepared under Australian Accounting Standards.

There may may some discrepancies in the numbers above due to rounding.



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“The values of our founding members who established a health insurance fund for teachers and their families in 1954 still remain relevant today.”



From the Chairperson



Helen MacGregor

Chairperson

Data for this section comes from Teachers Federation Health's PHIAC 2 submission and PHIAC's June 2012 Quarterly Statistics Report. This PHIAC data is calculated in accordance with PHIAC's prudential standards and therefore differs from figures in the financial statements which are prepared under Australian Accounting Standards.

I am pleased to report another year of strong performance by Teachers Federation Health. For the 2012 financial year, your fund's premium revenue grew by 9.6% to \$361.5m and our surplus was stable at \$30.2m. At the same time, the fund paid to policyholders 89 cents in every dollar received in the way of benefits and kept our management expense ratio at 6.9%, considerably lower than the industry average of 9.3%.

The values of our founding members who established a health insurance fund for teachers and their families in 1954 still remain relevant today.

Although the environment in which we operate has changed, our commitment to our policyholders and our key stakeholders in the education industry and broader communities remains undiminished. Our ongoing success is based on both strong relationships with the education union community and a deep understanding of the needs of our policyholders, together with the business model of the not-for-profit mutual organisation.

Operating Environment

Government policy continues to play a significant role in shaping private health insurance in Australia. Up until 30 June 2012, most Australians with private health insurance received a 30 per cent rebate from the Australian Government to help cover the cost of their premiums.

Legislation which came into effect on 1 July 2012 now requires that the private health insurance rebate is income tested. For some of our policyholders, this means, depending on their income, the amount of the private health insurance rebate they receive will reduce and in some instances, not be available.

In the lead up to 1 July 2012, Teachers Federation Health spent some considerable time and effort to ensure that the business changes required to give effect to the new legislation were implemented effectively and with minimal disruption to our policyholders. I am pleased to say that, although such a change had the potential to be unsettling, Teachers Federation Health has not experienced any negative feedback from our policyholders. At this time your Board considers that this legislative change will be unlikely to have a material impact on Teachers Federation Health's business.

However, we will continue to ensure that we have a range of product offerings that takes into account the different financial needs of our contributors particularly in the context of this change in rebate.

The health insurance regulator, the Private Health Insurance Administration Council, is continuing with its program of introducing a range of standards and operating procedures which cause the industry to both update and in some instances change the way it operates. Your Board keeps up-to-date with these changes and ensures that the fund has in place the appropriate mechanisms to ensure compliance across the organisation.

Teachers Federation Health acknowledges that its stakeholders expect it to operate in a manner that both complies with legislation and is ethical and responsible. Your fund's governance practices and compliance with statutory and regulatory requirements reflect the ongoing focus of the Board in discharging its responsibilities at a level that exceed these expectations.

Sustainability

Teachers Federation Health supports the principle that all our activities should reflect our commitment to operating in both a socially responsible and financially sustainable way.

Teachers Federation Health's sustainability focus is built around three key areas:

- ✓ The importance of our policyholders;
- ✓ The communities that Teachers Federation Health works with; and
- ✓ The people who work at Teachers Federation Health

We work hard to ensure that we remain competitive with our products and premiums, taking into account the different needs of our policyholders across Australia. Membership growth and retention remains a high priority.

We value our constructive relationship with our key stakeholders and continue to work closely with our education union partners around Australia to maximise our recruitment opportunities and to help ensure positive communication and retention.

A key strategy within Teachers Federation Health is to ensure that our employees are treated equally with fairness and respect, free from harassment and discrimination. As I reported in last year's annual report, Teachers Federation Health was recognised in 2011 as an Employer of Choice for Women. I am pleased to say that Teachers Federation Health has, in 2012, again been recognised in this way.

This year, in the corporate governance section of the annual report, we report for the first time on the level of gender diversity in our work place. Participation by women in the workforce at all levels is high. Our focus on gender diversity continues to be driven by Teachers Federation Health's commitment to assisting women at Teachers Federation Health achieve their full potential and the desire to retain Teachers Federation Health's female talent to give Teachers Federation Health greater strength and flexibility.

Corporate Governance and the Board

The corporate governance statement in the annual report reflects the ongoing focus and commitment of the Board and management to achieving and demonstrating the highest standards of corporate governance. Your Board continues to ensure that directors' understanding of governance issues and the complex role of directors of companies such as ours is enhanced and strengthened through a commitment to ongoing director professional development and training.

During this last year, Bob Lipscombe and Brenda Seymour retired as directors of the Board. I would like to thank them for their service as directors and the insights and experience that they brought to Board discussions. The Board also welcomed Denis Fitzgerald in November 2011 and Maurie Mulheron in March 2012 as new directors. Both Denis and Maurie have had long associations with the health fund and the education community which we serve. I am confident both will make a strong contribution to the future direction of your fund.

Looking Ahead

The private health insurance industry remains highly competitive and subject to pressures for mergers and takeovers. Innovation and profitability are key elements in driving change.

The outlook for Teachers Federation Health remains positive. Teachers Federation Health is financially very strong and has a well thought out business strategy. It has the people in place that have the capability to deliver on that strategy to maintain our vision "to be the first choice health insurance provider for all eligible members".

In Closing

I thank my fellow directors for their support and commitment throughout the year and in particular, for their work on the various Board sub-committees.

Teachers Federation Health's senior management team and staff at every level in the organisation are integral to our ongoing success. The Board and I compliment them for their effort and dedication throughout the year to making another year a successful one for your fund.

H M MacGregor

Chairperson



Dated this 4th day of October 2012
Sydney, NSW

From the CEO



Brad Joyce

Chief Executive Officer

Data for this section comes from Teachers Federation Health's PHIAC 2 submission and PHIAC's June 2012 Quarterly Statistics Report. This PHIAC data is calculated in accordance with PHIAC's prudential standards and therefore differs from figures in the financial statements which are prepared under Australian Accounting Standards.

Teachers Federation Health continues to deliver strong results, exceeding most of the financial and business goals we set in the 2012 Business Plan. We continued to grow our contributor base and market share, increased our operating margins and underlying profitability and completed many initiatives aimed at improving our customer service and efficiencies.

Policyholder Growth

Our policyholder growth continues to be greater than the industry with a growth rate for the 12 months to June 2012 of 5.8% compared to the industry of 3.7%. This increase was higher than the 2011 growth rate of 4.4%. Our continued strong growth is underpinned by strategies that focus on raising the awareness of our brand, the broadening of the reach nationally through our successful business development team, the simplicity of our product portfolio and the emphasis on providing products and services that are seen as being value for money.

While NSW still accounts for the majority of our contributor base, our sales growth in other states is impressive and comes on the back of marketing and campaign initiatives that are the catalyst for this growth.

Our lapse rate of 4.4% was an improvement on the previous year's result of 5.2% and is well below the industry average lapse rate of 7.7%. In a very competitive market environment where there is a growing awareness about the ability to move between funds, this low lapse rate is significant. Although Teachers Federation Health's retention rates reflect a high level of satisfaction by our policyholders toward the products and services that we provide to them, we continue to look at ways to improve this even further.

Performance

Teachers Federation Health's premium revenue rose 9.6% to \$361.5m. Our operating surplus of \$30.2m was in line with the prior year's surplus. As in prior years, the gross margin and net margin continues to improve. The level of operating margin necessary to sustain and further strengthen the business is considered appropriate at this time.

Claims costs remain the single biggest expense for Teachers Federation Health. In 2012 these totalled \$320.6m. This was an increase of 10.2% on the claims costs in 2011 and resulted in Teachers Federation Health paying out 89 cents in every dollar of contribution income received. Continued claims inflation, driven mainly by higher utilisation from an ever ageing contributor base, continues to put pressure on the fund's premiums. Successfully managing the factors that contribute to claims inflation remains a key focus for the organisation as we seek to contain the cost of claims inflation at manageable and sustainable levels.

Our management expense ratio of 6.9% is similar to the prior year's result and well ahead of the industry average of 9.3%. This reflects not only our strong control of expenses generally but also the level of investment that Teachers Federation Health has made to achieve efficiencies across the business by means of technology and the training of our employees.

On 1 April 2012 Teachers Federation Health increased premiums by an average of 4.68% across all products. This was well below the industry average of 5.06%.

Strategic Focus

Much of the work undertaken by the business in 2012 was focused on continuing to build and enhance Teachers Federation Health's capability to deliver service at levels considered best practice for the industry. During the year Teachers Federation Health made further improvements in the service availability, functionality and accessibility of Teachers Federation Health's website and online claiming.

Looking forward, Teachers Federation Health's activities will focus on ways to further improve membership retention and increase growth (both in terms of revenue and membership). The work undertaken in prior years around increasing our customer service capability will provide a solid foundation for these growth strategies.

During 2012, Teachers Federation Health expanded its market presence in Melbourne with the relocation of its Melbourne premises on Swanston Street to Bridge Road Richmond. As part of this project Teachers Federation Health significantly increased the size of the eyecare centre and introduced dental care as part of the service offering from this facility. In 2013 we look forward to expanding our services in Newcastle including the introduction of dental care to this centre.

The provision of wellness and disease management programs for our policyholders continues with the ongoing support of a range of initiatives and health related programs that promote healthy and active lifestyles for persons covered by our policies, our employees and the wider education community. During 2012, we have renewed our commitment across the health management care continuum and shifted the focus from health risk to well-being through the launch of a new version of our HealthMeasures web portal.

Our Chronic Disease Management offering has matured with over 2300 members participating in the active education and encouragement that the program provides. Looking towards the future, preliminary work has been conducted on the Healthy Weight For Life and Parent & Infant programs which we look forward to offering to our members in the coming year.

People

During 2012 there was further work on initiatives that will ensure that Teachers Federation Health continues to attract, develop and retain the best people throughout the organisation.

Teachers Federation Health supports employees being able to maintain the right level of work-life balance. Teachers Federation Health's flexible work practices allow employees, subject to the specific requirements of their position and the needs of the business at any given time, to access flexible work options that include working from home and variable hours.

During 2012 the majority of Teachers Federation Health's employees participated in learning activities specific to their development needs and the needs of the business. Working closely with Teachers Federation Health's People and Learning employees and external agencies, a range of training programs were delivered across the business.

The Community

Teachers Federation Health has a strong culture of engaging in and supporting employees' participation in activities where Teachers Federation Health operates.

The value that Teachers Federation Health places on its relationship with the wider education community saw Teachers Federation Health during 2012 continue its support for existing initiatives such as sponsoring the WA Beginning Teacher of the Year Awards and various professional development events such as Principal & Leadership events, New Educator Network events and Support Staff training programs. Teachers Federation Health also invested in new partnerships such as becoming the current principal supporter of the Schools Swimming Scheme in NSW and the Teachers Games in Victoria.

Also during 2012, the Business Development team visited over 2,000 schools and education workplaces across the country, interacting with members and potential members to grow awareness of the Fund within the niche education environment.

Other revenue streams

Solid investment returns were achieved in 2012 despite the difficult economic conditions resulting in \$14.4m income being earned on the fund's investment portfolio and other health related businesses. The fund also benefited from insurance commissions generated from the sale of travel and other Teachers Insurance policies in 2012 as well as the surplus generated from the Teachers Eyecare and Dental businesses. These additional revenue streams are extremely important as they contribute substantially to the overall commercial success of the fund and assist the fund in minimising the unavoidable annual increase to premiums.

Looking Ahead

Looking ahead to 2013, Teachers Federation Health remains focused on operating the fund in a sustainable manner that provides enhanced products and services to its policyholders. We will continue to closely monitor the escalating cost of health services driven by an ageing population, increased utilisation and increasing episodic costs and the ever increasing compliance demands on the industry.

The fund remains well positioned to meet these challenges in 2013 and beyond, guided by our 2010-14 strategic direction, a committed and effective Board, and dedicated and able staff who provide Teachers Federation Health with the capability to continue to achieve its goals and objectives.

B S Joyce

Chief Executive Officer



Dated this 4th day of October 2012
Sydney, NSW



“Our policyholder growth
continues to be greater
than the industry...”



Review of Operations

Data for this section comes from Teachers Federation Health's PHIAC 2 submission and PHIAC's June 2012 Quarterly Statistics Report. This PHIAC data is calculated in accordance with PHIAC's prudential standards and therefore differs from figures in the financial statements which are prepared under Australian Accounting Standards.

Growth

Policyholder Growth

Teachers Federation Health Ltd achieved net policyholder growth of 5.8% or 5,926 net new policies in 2012. This result was greater than the industry which recorded average growth of 3.7%.

Over the last three years our cumulative average growth rate has been 4.6% p.a. compared to the industry's 3.3%. Our largest policyholder base continues to be in New South Wales. Pleasingly, with an increased focus in growing our presence nationally over recent years, Teachers Federation Health is growing stronger in Victoria, South Australia and Western Australia. In 2012 over 40% of our growth was outside of New South Wales.

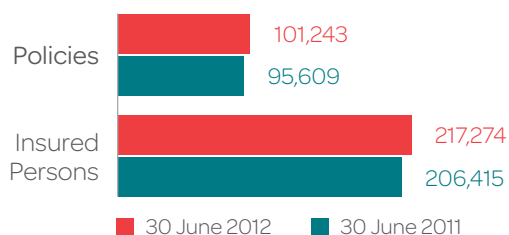
Policyholder lapse rates for Teachers Federation Health for the year continue to be low compared to the rest of the industry. Notwithstanding difficult economic conditions, Teachers Federation Health enjoys industry leading retention rates of around 95.6%.

Premium Revenue

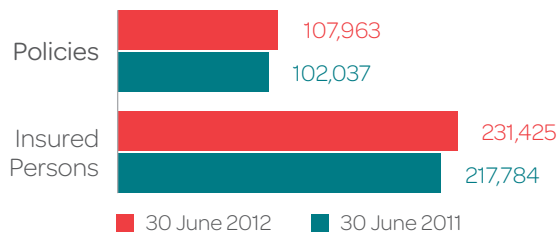
In 2012, premium revenue grew by 9.6% to \$361.5m reflecting the positive impact of policyholder growth combined with the 2012 government approved premium increases. This compared to an average industry increase of 8.4%. Our average annual premium revenue per policyholder in 2012 was \$3,456 up from \$3,309 the previous year.

Our pricing policy has and will continue into the future to reflect the need to cover growth in claims and achieve a sustainable and responsible level of operating surplus to maintain capital reserves at a level appropriate to a health fund of this size.

Hospital Treatment Membership



General Treatment Membership (Ancillary)



Operating Margins

Benefit Payments

Including risk equalisation payments and state levies, Teachers Federation Health's total benefit payments were \$320.6m, an increase of 10.2% compared to the prior year. This equated to a cost per contributor of \$3,066 up from \$2,919 in 2011. Utilisation also increased in 2012 with total hospital treatment episodes up by 9,387 or 14.1% and general treatment episodes up by 111,142 or 7.0%.

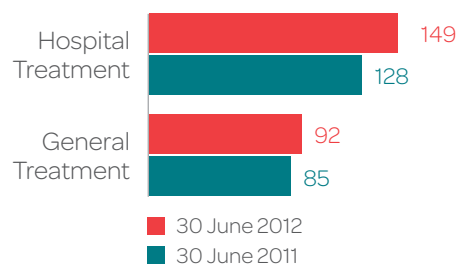
Teachers Federation Health continues to explore ways to better manage the factors that contribute to claims inflation. Investigating claiming patterns and service utilisation remains a key focus and will also assist us in identifying inappropriate claiming activity such as fraud and over servicing as well as helping us to refine our product portfolio.

Operating Costs

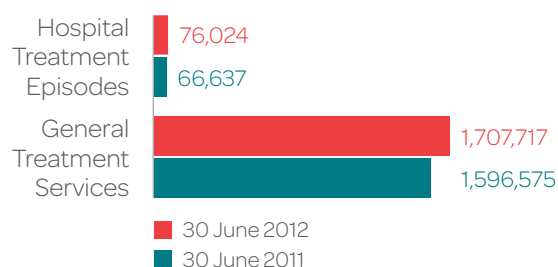
Teachers Federation Health's administrative costs are among the lowest in the industry. In 2012 our total administrative management expenses were \$25.0m, representing 6.9% of contribution income, well under the industry average of 9.3%. Central to our approach to delivering superior customer service to our policyholders, we continue to work on increasing the level of automation and delivering operating efficiencies across the business in 2012. Faster processing of claims benefits our policyholders and enhances our financial performance and we continue to see more and more claims received electronically, further enhancing service and customer satisfaction levels.

An ongoing objective of Teachers Federation Health is to look for continuous improvement opportunities that will enable the delivery of customer service to be enhanced. Teachers Federation Health's business strategy is to continue to provide its contributors with simpler ways to make claims, provide information, and transact business with the fund. Enabling a larger proportion of customer enquiries and transactions through electronic and telephonic channels remains a key focus for the fund as we seek to add enhanced functionality and convenience in 2012. This in turn will further improve efficiencies and customer satisfaction and lead to lower administrative costs in the years ahead.

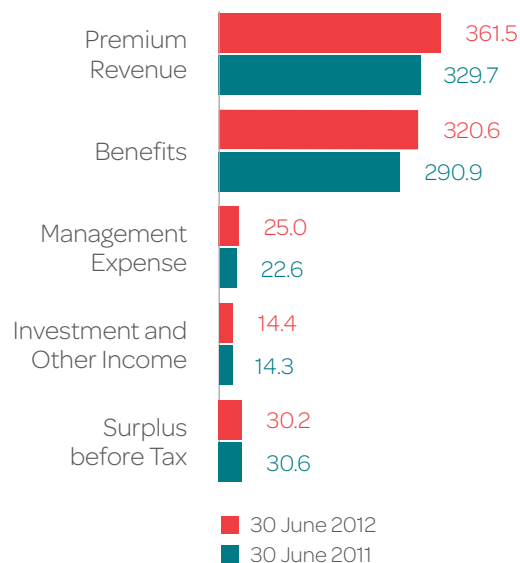
Benefits (\$'millions)



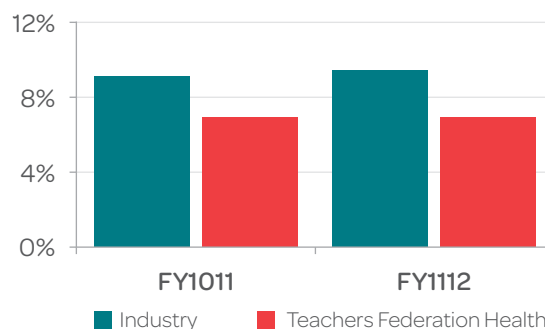
Episodes/Services



Financial (\$'millions)



Management Expense Ratio (%)



Operating Surplus

Premium revenue increased by 9.6% while total fund benefits increased by 10.2%. The overall gross margin performance of Teachers Federation Health therefore declined slightly in 2012 to 11.3%, still above our sustainable target range of 8% to 10%. Efficient and low cost delivery of service enabled the fund to achieve a net margin in 2012 of 4.4%, above its sustainable long term target of 2% to 4%, and a solid operating surplus of \$30.2m. The industry as a whole recorded a surplus of over \$1.0 billion.

Investments and Capital

Investments & Other Revenue

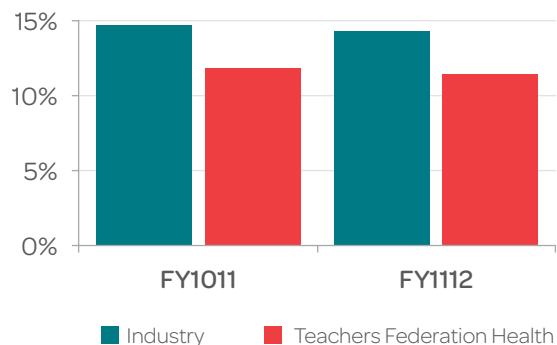
The investment performance of Teachers Federation Health remained strong in 2012. Investment and other revenue remained relatively stable at \$14.4m (2011: \$14.3m). The industry as a whole reduced from \$605.1m to \$461.5m.

Capital

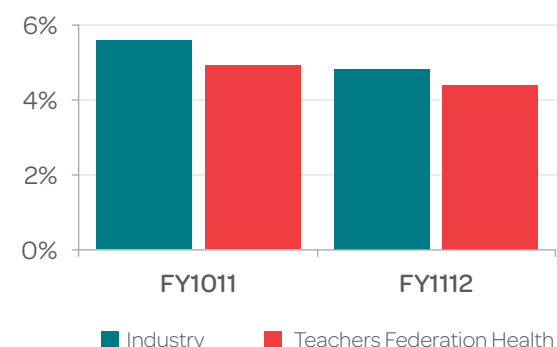
Teachers Federation Health is in a very sound financial position. The fund currently holds excess assets of \$179.2m over its prudential solvency requirement of \$119.9m. Its insurance liabilities and prudential requirements are well matched against cash and other interest bearing deposits.

In 2012, total assets increased by \$52.2m to \$299.0m. Total liabilities of Teachers Federation Health increased by \$21.9m to \$94.4m, largely due to the high level of prepaid contributions prior to 30 June. The capital reserves of Teachers Federation Health increased by \$30.2m to \$204.6m in 2012. Total capital reserves per policyholder as at 30 June 2012 were \$1,957 up from \$1,750 in 2011.

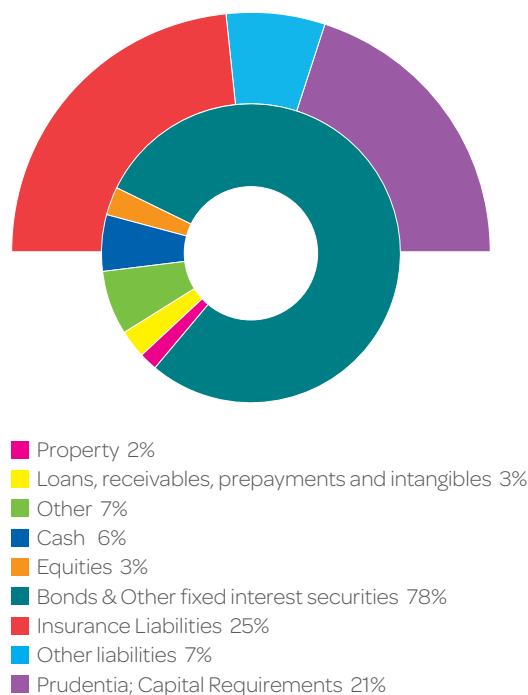
Gross Margin (%)



Net Margin (%)



Teachers Federation Health assets vs liabilities as at 30 June 12



Directors' Report

The Board of Directors of Teachers Federation Health Limited has pleasure in submitting its report for the year ended 30 June 2012.

Directors

The names and details of the Directors in office at any time during the financial year, including the period until the date of this report, are as follows:

H M MacGregor

B.A. (USYD), Dip. Ed. (USYD), MAICD
Chairperson, Independent Non-Executive Director
Appointed Director in June 2001

Special responsibilities:

Chairperson of the Board, Chairperson of the People and Remuneration Committee, member of the Strategy Committee, Audit and Finance Committee and the Risk and Governance Committee.

R L Brown

Dip. Teach. (Wollongong Inst. of Ed.)
Independent Non-Executive Director
Appointed Director in November 2004

Special responsibilities:

Chairperson of the Audit and Finance Committee, member of the Strategy Committee.

N E Dawson

B.A. (MAQ), Dip. Ed. (UNE), M. Ed. LL. M. (USYD), B. Leg S (MAQ), Grad Cert Leg P (UTS), MAICD
Independent Non-Executive Director
Appointed Director in September 2010

Special responsibilities:

Member of the Risk and Governance Committee and People and Remuneration Committee.

J Diamond

B.A. (USYD), Dip. Ed. (Sydney Teachers College)
Independent Non-Executive Director
Appointed Director in November 2005

Special responsibilities:

Member of the People and Remuneration Committee.

J M Dixon

B. Com. (Eco. and Acc.), Dip. Ed., Grad. Dip. Marketing
Independent Non-Executive Director
Appointed Director in June 2001

Special responsibilities:

Member of the Strategy Committee.

S M Edsall

B. Eco. (USYD), Dip Ed.
Independent Non-Executive Director
Appointed Director in June 2001

Special responsibilities:

Member of the Strategy Committee.

D Fitzgerald

BA (Hons) Dip ED, Sydney University
Independent Non-Executive Director
Appointed Director in November 2011

Special responsibilities:

Member of the Audit and Finance Committee.

M C Fogarty

B.A. (USYD), Dip. Ed. (USYD), M. Ed. (UTS), PHD (UTS)
Independent Non-Executive Director
Appointed Director in June 2001

Special responsibilities:

Member of the Audit and Finance Committee and
People and Remuneration Committee.

M W Garner

Independent Non-Executive Director
Appointed Director in July 2011

Special responsibilities:

Member of the Risk and Governance Committee.

R Lipscombe

B.A. (USYD), Dip. Ed. (USYD)
Independent Non-Executive Director
Retired 26 January 2012

M Mulheron

BA Dip Ed
Independent Non-Executive Director
Appointed Director in March 2012

Special responsibilities:

None.

N S Smith

B.Fin.Admin. (UNE) C.A., MAICD
Independent Non-Executive Director
Appointed Director in September 2010

Special responsibilities:

Chairperson of the Risk and Governance Committee
and a member of the Audit and Finance Committee.

B Seymour

Dip.Mus.Ed., B.A. (MAQ), M.A. (USYD)
Independent Non-Executive Director
Retired 1 November 2011

D Wynne

Dip. Teach. (Goulburn CAE), B. Ed. (CSU), Ext. Courses
Ind. Law (UTS), MAICD
Independent Non-Executive Director
Appointed Director in June 2001

Special responsibilities:

Chairperson of the Strategy Committee, member of the
People and Remuneration Committee and the Risk and
Governance Committee.

Company Secretaries

The names of the Company Secretaries in office at the
end of the year are:

B S Joyce

B Comm (University of Newcastle), FCPA, MAICD
Appointed Company Secretary in November 2010
Mr Joyce was appointed Chief Executive Officer of
Teachers Health Fund in 2006

D N Lethbridge

LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD
Appointed Company Secretary in April 2012
Mr Lethbridge was appointed Chief Operating Officer of
Teachers Health Fund in February 2012

Company Objectives

Much of the work undertaken by the business during the 2012 financial year (where Teachers Federation Health's efforts were focused on directing business resources to building and enhancing capability to strengthen service and customer satisfaction levels to that approaching best practice for the industry), provides the foundation for future year's activities.

Teachers Federation Health's long term objectives are:

- ✓ To maintain the commercial sustainability of the business through a combination of initiatives designed to grow revenue, manage benefits and deliver business efficiencies;
- ✓ To continue to ensure that Teachers Federation Health delivers the value propositions designed to attract and retain members by providing members with products and services that meet their needs, and through a level of service that our members recognise as superior;
- ✓ To operate an efficient business which focuses on ongoing business improvement, transformation and innovation and undertake activities that are designed to increase organisational capabilities through the retention, development and engagement of staff.

In the short term, Teachers Federation Health's objectives are to continue to execute the 2010 -2014 Strategic Plan and seek ways to improve membership retention and increase growth (both in terms of revenue and membership).

Company Strategy

The Company's strategy to deliver these objectives is through a number of strategic initiatives:

- ✓ National expansion – to increase our organic policyholder growth across Australia;
- ✓ Diversification – to consider opportunities for non organic growth;
- ✓ Health management – to develop an integrated wellness, prevention and disease management solution for our policyholders; and
- ✓ High performance culture – to enhance the efficiency and effectiveness of the business.

Principal Activities

The principal activities of Teachers Federation Health during the financial year were:

- ✓ the operation of its restricted access private health insurance business;
- ✓ the operation of dental and eyecare centres.

The Company also provides general and life insurance under an agency agreement with a third party provider.

There were no significant changes in the nature of the company's principal activities during the financial year.

These principal activities have contributed to Teachers Federation Health achieving its objectives. Teachers Federation Health operates a successful restricted access health insurance business which continues to deliver value and excellent service to its policyholders. The dental, eyecare and general and life insurance businesses contribute in terms of the value proposition that Teachers Federation Health offers its policyholders, and also to the overall commercial success of Teachers Federation Health through the additional revenue generated from these activities.

Measuring Performance

The company utilises a modified balanced scorecard as a touchstone to set and monitor its strategic objectives and guide each annual business plan to maintain alignment with the strategic direction of the company. Key success factors and a range of operational key performance indicators are identified as part of the business planning process and are reported against during the course of the financial year.

Meetings of Directors

During the financial year, 35 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Director Meetings		Committee Meetings							
			Risk & Governance Committee		Audit & Finance Committee		Strategy Committee		People & Remuneration Committee	
Name	E	A	E	A	E	A	E	A	E	A
R L Brown	10	7	-	-	8	8	6	6	-	-
N E Dawson	10	10	4	4	-	-	-	-	2	1
J Diamond	10	6	-	-	-	-	-	-	7	6
J M Dixon	10	8	-	-	-	-	6	6	-	-
S M Edsall	10	8	-	-	-	-	6	6	-	-
D Fitzgerald (appointed 1 November 2011)	6	4	-	-	2	0	-	-	-	-
M C Fogarty	10	10	-	-	8	7	-	-	7	6
M W Garner (appointed 27 July 2011)	10	9	2	2	-	-	-	-	-	-
H M MacGregor	10	10	4	4	8	8	6	6	7	7
M Mulheron (appointed 6 March 2012)	3	0	-	-	-	-	-	-	-	-
N S Smith	10	10	4	4	8	8	-	-	-	-
D Wynne	10	9	4	4	-	-	6	6	7	7
R Lipscombe (retired 26 January 2012)	6	4	-	-	-	-	-	-	-	-
B Seymour (retired 1 November 2011)	4	3	-	-	-	-	-	-	-	-

Table Key:

E Number of meetings eligible to attend

A Number of meetings attended

Members' Guarantee

The company is limited by guarantee and hence has no contributed equity. If the company is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the company) that remains after payment of all of the debts and liabilities of the company shall be paid to an entity or organisation selected by the Directors, or in default by the court, which prohibits the distribution of its assets and income to its members. If the company is wound up and cannot meet its debts, the Constitution states that each member of the company is required to contribute a maximum of ten dollars (\$10.00) towards meeting any outstanding obligations of the company. The total amount that members of the company were liable to contribute at 30 June 2012 if the company was wound up was one hundred and seventy dollars (\$170.00).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17 and forms part of this Directors' report.

Signed in accordance with a resolution of the Board of Directors:

H M MacGregor

Director



Dated this 4th day of October 2012

Sydney, NSW

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W www.grantthornton.com.au

**Auditor's Independence Declaration
To the Directors of Teachers Federation Health Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Teachers Federation Health Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A G Rigele
Partner - Audit & Assurance

Sydney, 27 September 2012



Corporate Governance Statement

Governance at Teachers Health Fund

Teachers Federation Health Ltd (Teachers Federation Health or Company) is a company limited by guarantee subject to the Corporations Act 2001 (Cth). The Board of Directors of the Company (Board) consistently places high importance on the governance of Teachers Federation Health, which it believes is vital to the well-being of the Company. Consequently, Teachers Federation Health has adopted a comprehensive framework of corporate governance guidelines and policies that are reviewed on a regular basis.

The Board's corporate governance practices are broadly based on the corporate governance principles issued by the ASX Corporate Governance Council's Principles and Recommendations (ASX Guidelines) as far as they are applicable to an unlisted, not-for-profit company limited by guarantee, and reflect the ongoing focus of the Board in discharging its responsibilities at an appropriate level to meet the full expectations of Company members, fund contributors, regulatory authorities and the general community.

A dedicated corporate governance statement on the Company's website (teachershealth.com.au) provides a detailed description of Teachers Federation Health's governance framework and associated practices, with links to key documents.

The Company provides regular reports to the Private Health Insurance Administration Council (PHIAC), the independent statutory authority responsible for monitoring and regulating the private health insurance industry.

Board of Directors

Roles and Responsibilities

The roles and responsibilities of the Board are set out and the Board operates in accordance with the broad principles set out in its Board Charter. The Board Charter also details the membership and operation of the Board.

The Board provides overall strategic guidance for Teachers Federation Health and effective oversight of management. The Board ensures that the Company complies with its Constitution and all legal and regulatory requirements. The Board has reserved to itself the following specific responsibilities:

- ✓ Strategy including charting the direction, strategies and performance objectives for Teachers Federation Health and monitoring the implementation of those strategic and business plans and performance objectives;
- ✓ Oversight of management including the regular monitoring and assessment of senior executive's performance including the CEO in achieving Board approved strategies and budgets against key performance indicators set by the Board and approving senior executive remuneration policies and practices;
- ✓ Stakeholder management including ensuring effective communication with members, policyholders, other stakeholders and the broader community;

- ✓ Ethics guidance including actively promoting ethical and responsible decision-making and establishing and maintaining a code of conduct to guide its directors, senior executives and all employees in the practices necessary to maintain confidence in Teachers Federation Health integrity;
- ✓ Oversight of financial and capital management including establishing and overseeing Teachers Federation Health accounting and financial management systems, monitoring Teachers Federation Health financial results on an ongoing basis, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of Teachers Federation Health; and
- ✓ Compliance and risk management including establishing, overseeing and regularly reviewing systems of internal compliance, risk management and control, and systems of legal compliance (including but not limited to work health and safety) that govern the operations of Teachers Federation Health, and ensuring they are operating effectively.

The Board has delegated a number of its responsibilities to its Committees. The responsibilities of these Committees are set out in following sections of this Corporate Governance statement.

The Board has delegated to the Chief Executive Officer (CEO) the authority to manage and control the day to day affairs of Teachers Federation Health other than those specifically reserved to itself in the Board Charter and the Delegation of Authority Policy. The CEO is not a director of the Company. Under the Company's Delegation of Authorities Policy, the CEO, Executive Management and other employees of Teachers Federation Health are authorised, within limits, to make certain decisions necessary to perform the work assigned to their positions. These authorities are exercised within an extensive system of internal controls.

Board Composition

The Board comprises twelve directors, each of whom is a non-executive and independent director in accordance with the criteria set out in the Private Health Insurance (Insurer Obligations) Rules 2007. As set out in the Company's Constitution, the Board is made up of the following classes of directors:

- ✓ two ex officio directors, being the President of the NSW Teachers Federation and the General Secretary of the NSW Teachers Federation;

- ✓ seven elected member (policyholder) directors;
- ✓ two specialist directors; and
- ✓ one employee director.

The Board Charter requires that directors must at all times bring an independent judgement to bear on all Board decisions. Each Director has confirmed that he or she is independent (that is, free from any business or other association with Teachers Federation Health that could materially interfere with the Director's independent judgement). Details of each Director's skills, experience, expertise, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report.

The Chairperson is an independent and Non-Executive Director appointed by the Board. The Chairperson's responsibilities include:

- ✓ leading the Board in reviewing and discussing Board matters;
- ✓ ensuring the efficient organisation and conduct of the Board's function;
- ✓ promoting constructive relations between Board members and between the Board and management; and
- ✓ reviewing corporate governance matters with the CEO and reporting on those matters to the Board.

Appointment and Election of Directors

Teachers Federation Health seeks to have a Board comprised of directors that collectively have a range of skills, knowledge and experience to:

- ✓ understand and manage the risks to the organisation;
- ✓ understand and ensure compliance with the organisation's legal prudential obligations;
- ✓ effectively oversee the management of the organisation; and
- ✓ effectively contribute to the Board's deliberations and processes.

The private health insurance industry is heavily regulated and complex and as such directors need to have qualifications or experience that enables them to work within this environment. PHIAC mandates governance and prudential standards that require ongoing compliance and all directors must develop and maintain a sound understanding of these obligations. To this end, the Board has established a set of general criteria and skills that would ensure that all directors of the Company would be able to carry out their responsibilities effectively.

Specific criteria may be developed for each appointment, having regard to:

- ✓ the immediate collective capacity of the Board in terms of the mix of skills, experiences, functional orientation and personal qualities;
- ✓ the Board's renewal policy, succession plans and business development intentions; and
- ✓ diversity, but only as a secondary dimension to skills, experience and personal qualities.

The Board has developed a role description for directors that details the role and responsibilities of directors as well as the professional qualifications and skills required. Each director has a letter of appointment setting out the terms and conditions of their appointment and to ensure that they clearly understand the corporate expectations of them.

Directors are appointed and/or elected to the Board in accordance with the Constitution, which places limits on the period in which an elected director may hold office without re-election by the members of the Company. An elected member director must not hold office without re-election for more than two years. Specialist directors are appointed for a term of up to three years and the employee director is appointed for a term of up to two years. Retiring directors are eligible for re-election. Directors appointed to the Board (other than the elected member directors and the employee director) must have their appointment confirmed by the members at the Company's next Annual General Meeting.

Director Induction and Education

Directors participate in an induction program upon appointment and in addition, the Board has also established a program of continuing education. This includes sessions with experts in the particular fields relevant to Teachers Federation Health operations and attendance at relevant conferences and seminars. The training and education programs ensure Directors keep up to date with developments in a dynamic and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by the Australian Institute of Company Directors.

Board Meetings

The Board meets regularly during the year according to a schedule determined at the end of each calendar year. The scheduled meetings are supplemented by special purpose meetings where required. An extensive agenda is prepared for each meeting. The agenda enables Directors to be adequately informed about the operations of Teachers Federation Health, to monitor management's implementation of key strategic initiatives and to consider the environment in which the health benefits fund operates. Matters of a strategic nature are given priority.

In addition to the Board meetings, a structured directors' development and strategy review is the major focus of the board strategy day held at least annually.

Conflicts of Interest

Teachers Federation Health actively promotes ethical and responsible decision making. Directors are required to disclose any conflicts and material personal interests to the Board. Where necessary the Board will evaluate whether a director should participate in the consideration of a matter by using the mechanism set out in the Constitution and the Corporations Act 2001 (Cth). Directors regularly review their positions to assist in the avoidance of situations where the interests of the directors might affect, or appear to affect, decision making by the Board.

Fit and Proper

Teachers Federation Health has developed and implemented a Fit and Proper Policy for Responsible Persons to assist in assessing the fitness and propriety of Teachers Federation Health Responsible Persons (as defined in the policy) both prior to their appointment and on an ongoing basis. A person in a Responsible Person position must have the appropriate skills, experience and knowledge to perform that role ("competencies") and must act with the requisite character, diligence, honesty, integrity and judgment ("character"). A person will be considered "Fit and Proper" if he or she is assessed to meet substantially the assessment criteria set out in this policy and, if appropriate, in the position description for their role.

A person's fitness and propriety will be assessed against the assessment criteria listed in the policy, and any specific requirements set out in the position description for the Responsible Person role. In the case of Directors, the assessment criteria apply to the Directors "collectively", rather than each individual Director necessarily meeting all the criteria, such that the Board as a whole meets the criteria.

The assessment consists of an attestation by the individual together with an assessment by either the Board in relation to the Chairperson, the Chairperson in relation to a director and the CEO for Executive Managers and Senior Managers. The Company undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. The policy includes a process for dealing with and reporting breaches of the policy, together with the protection of whistleblowers.

Access to Company Information and Independent Professional Advice

Managers responsible for critical areas of the business are regularly requested to brief the Board and its Committees so as to assist Directors in maintaining their familiarity with, and understanding of Teachers Federation Health activities. These briefings contribute to the assessment made by the Board about the performance of management in running the business. External professionals and consultants also brief the Board and its Committees where appropriate.

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

Remuneration of Directors and Executive Management

In accordance with clause 15.9 of the Teachers Federation Health Constitution, directors are to be paid, in the aggregate, the remuneration determined by resolution at a meeting of the Company members. In November 2010, the Company members determined an aggregate amount of \$70,000 is to be paid to directors as a whole and divided among the twelve directors in accordance with the Director Remuneration Policy. For the twelve months ended 30 June 2012, the total remuneration paid and divided among the directors was \$46,777.

Teachers Federation Health has a Directors' Remuneration Policy that guides and regulates the manner in which payments are made to Board members. Director remuneration is based on average standard hours for preparation for and attendance at Board and committee meetings with payments reflecting fair acknowledgement of participation time and effort by directors. The payment rate is based on the hourly rate for a Head Teacher in Schools. In addition, as required by legislation superannuation is paid in respect of remuneration at the rate provided by the Superannuation Guarantee Charge (currently 9%) and directors receive in-house health insurance on a pro-rata monthly basis at the rate of \$1,333 pa (cumulative).

Directors are reimbursed for expenses to cover costs incurred when attending meetings, conferences, courses etc and for professional registration fees; for example, membership of Australian Institute of Company Directors. Directors and Officers Insurance is provided by the fund. Directors receive access to Directors training through Board seminars, endorsed conferences and seminars and industry based training for Company Directors.

The Board, based on recommendations from the People and Remuneration Committee, determines the remuneration of the CEO as part of the incumbent's terms and conditions of appointment. Teachers Federation Health policy in respect of the CEO and Executive Management incorporates remuneration that is competitively set so the organisation can attract, motivate and retain high calibre executives to lead the Company. The People and Remuneration Committee reviews the remuneration of the CEO, Executive Management and other management and professional staff annually through a process that considers individual performance and relevant comparative market remuneration data from an independent third party.

The CEO and Executive Management have individual, team and overall business key performance indicators set each year. The People and Remuneration Committee annually reviews the performance of the CEO in a structured process that includes performance against targets set. The outcome of this review is reported to the Board as a whole. The CEO annually reviews the performance of Executive Management in a structured process that includes performance against targets set. The outcome of this review is reported to the People and Remuneration Committee.

There is no surplus share, performance payment or long term incentive payments (such as share options) made to any Director, the CEO or Executive Manager of the Company.

Board Performance

The Board has a policy of undertaking an annual assessment of its collective performance and the performance of individual directors and of its committees. This assessment may be by way of self assessment and is periodically supplemented by facilitation by a third party inclusive of interviews with directors. The Chairperson formally discusses the results of the performance review with individual directors and the Board as a whole. The discussion also considers the effectiveness of the Board and its contribution to the Company. Each of the Board's committees also reviews its performance against the objectives of its respective Charter from time to time.

The review of Directors conducted in 2011 included engagement of an external consultant who interviewed each director individually and then discussed the results with the Chairperson, who in turn reviewed the performance of the Board, Committees and the Director's performance with each Director.

Directors' and Officers' Insurance

Teachers Federation Health maintains an insurance policy for the benefit of the directors, the company secretary, officers and employees (as defined by the policy) insuring all insured persons against a liability (and not including any liabilities for which insurance is prohibited under s199B of the Corporations Act 2001 (Cth)). In accordance with commercial practice, the insurance policy prohibits the disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premiums.

Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Each committee has its own written charter setting out its responsibilities, composition, structure and the manner in which the committee is to operate. The charter of each Committee is reviewed from time to time. Board committees have delegated authority within their charter of responsibilities and make recommendations to the Board. Activities of each committee are reported to the Board at the next full Board meeting.

Details about the membership of committees and the attendance of members at committee meetings are set out in the Directors' report.

Audit and Finance Committee

The Audit and Finance Committee has been established to assist the Board fulfil its statutory and regulatory responsibilities relating to the financial reports, the financial condition of Teachers Federation Health and the health benefits fund conducted by Teachers Federation Health and matters concerning the appointed actuary and the auditors.

The Committee makes recommendations to the Board on the appropriateness of the accounting principles adopted by management, verification of those principles from internal and external auditors, investment objectives, strategic benchmarks, investment structure, investment target allocations and investment delegations for Teachers Federation Health investment portfolio and monitors performance against the Teachers Federation Health Capital Management Plan.

The Committee comprises five (5) members each of whom have appropriate financial experience and understanding of the private health insurance industry. The Chairperson of the Board is not permitted to be Chairperson of the Audit and Finance Committee.

The Committee's responsibilities also include:

- ✓ an objective non-executive review of the effectiveness of the financial reporting framework to ensure the balance, transparency and integrity of published financial information;
- ✓ the appointment, role and performance of the Appointed Actuary;
- ✓ the effectiveness of Teachers Federation Health internal control systems and internal audit function; and
- ✓ the independent audit process including the appointment, independence, performance and remuneration of the external auditor.

The Committee Charter provides that the Committee meet at least four times per year. The Committee met eight times during the reporting year. The External Auditor met with the Committee twice during the year and, on one occasion, without management being present.

People and Remuneration Committee

The People and Remuneration Committee has been established to assist the Board in fulfilling its statutory and regulatory responsibilities and to oversee, review and make recommendations to the Board relating to human resource matters and compliance with employment laws and regulations. The Committee is comprised of five (5) members of the Board. The principal responsibilities of the Committee are to:

- ✓ make recommendations to the Board on the necessary and desirable competencies of the Board, Board succession plans, the process of evaluation of the performance of the Board, its committees and directors;
- ✓ make recommendations to the Board on the appointment of new Board member candidates, having regard to their skills, experience and expertise;
- ✓ develop and review induction procedures, continuing development and education programs for Board directors;
- ✓ establish and conduct the annual performance evaluation of the CEO and report to the Board the outcomes of this review;

- ✓ review with the CEO the outcomes of the annual performance evaluation of direct reports to the CEO and other key staff as identified by the committee from time to time;
- ✓ review the conditions of employment and annual remuneration of the CEO and report the outcomes of this review to the Board;
- ✓ review and approve the recommendations of the CEO relating to the conditions of employment and annual remuneration of the Executive Management and other management and professional staff not covered by the Teachers Federation Health staff agreement;
- ✓ periodically review with the CEO, the Teachers Federation Health organisational capability and succession plan for employees, managers and executives; and
- ✓ review people-related issues and policies generally.

The Committee met seven times during the reporting year.

Risk and Governance Committee

The Risk and Governance Committee has been established to assist the Board fulfil its statutory and fiduciary responsibilities relating to the effectiveness of Teachers Federation Health's risk management and Teachers Federation Health's process for monitoring compliance with laws, regulations and Teachers Federation Health's policies. The Committee develops and recommends to the Board for approval, corporate governance principles, policies and practices which should apply to Teachers Federation Health. The Committee comprises five (5) members of the Board.

The Committee also make recommendations to the Board on:

- ✓ Teachers Federation Health's systems and procedures for compliance with laws, regulations, internal policies and industry standards;
- ✓ Teachers Federation Health's system of risk management and internal control including:
 - the effectiveness Teachers Federation Health's risk management and internal control framework, including the Teachers Federation Health Risk Management Plan and Risk Register, having regard to Teachers Federation Health's risk management culture;

- the identification and assessment of the material risks facing Teachers Federation Health considered against Teachers Federation Health's risk appetite;
- the Teachers Federation Health Business Continuity and Disaster Recovery Plan; and
- the appropriate level of reporting on the performance and application of the risk management and internal control system throughout Teachers Federation Health;
- ✓ best practice developments in corporate governance;
- ✓ Teachers Federation Health corporate governance policies and practices;
- ✓ corporate governance, regulatory and compliance issues including the Private Health Insurance Act 2007, PHIAC Standards and Regulations, the Corporations Act and ASIC requirements; and
- ✓ disclosure of corporate governance policies and information to ensure effective communication of Teachers Federation Health corporate governance practice.

The Committee met four times during the reporting year.

Strategy Committee

The Strategy Committee has been established to assist the Board in fulfilling its responsibilities relating to the development and implementation of corporate strategy for Teachers Federation Health. The Committee is comprised of five (5) members of the Board.

The principal responsibilities of the Committee are to:

- ✓ review strategy and recommend refinements, as necessary, to the Board to enhance the Company's competitive position and long term performance;
- ✓ consider viable and likely opportunities and threats that are expected to be presented to the Company as further rationalisation and change occurs in the private health insurance industry;
- ✓ inform the Board of any other strategic developments and make appropriate recommendations as required;
- ✓ work with management on the development and articulation of any strategic plan or initiative for recommendation to the Board; and
- ✓ assist management with recommendations regarding specific strategies such as new products or new markets.

The Committee met six times during the reporting year.

Accountability and Audit

External Audit

The Company has retained Grant Thornton ("External Auditor") to audit its records and financial statements of the Company for the 2012 financial year.

The Audit and Finance Committee meets with the External Auditor during the year to:

- ✓ discuss the external audit and internal audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements;
- ✓ review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made; and
- ✓ finalise annual reporting, review the preliminary financial report prior to sign-off and any significant adjustments as a result of the auditor's findings.

The financial and operational performance of Teachers Federation Health is monitored by the Board monthly through regular management reporting of performance against budgets and other relevant key performance indicators. These budgets have been established by management and approved by the Board. The External Auditor reviews and tests the system of internal controls, to the extent necessary, for an independent opinion on the financial statements at the end of the year.

The External Auditor is invited to attend the Annual General Meeting and is available to answer questions from members of the Company on the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by Teachers Federation Health and the independence of the auditor in relation to the conduct of the audit.

Internal Controls

The Board is responsible for the overall internal control framework and for reviewing its effectiveness. The key features of the control environment include the Charters of the Board and each of its Committees and a clear organisational structure with documented delegation of authority for the Board to Executive Management.

Internal Audit

Internal audit operates under its own Charter. The internal audit function provides an independent and objective internal audit review of Teachers Federation Health risks and how the key internal controls are designed and are operating so as to provide reasonable assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of management or the Board.

These controls have been established by management and are reviewed from time to time by the internal auditor and the findings of this review reported to the Audit and Finance Committee and the Board.

For the 2012 financial year, internal audit services were provided by Trevor Edgoose Management Services Pty Ltd under an outsourced arrangement. Teachers Federation Health is currently undertaking a tender process for the provision of internal audit services to Teachers Federation Health for a 3 year term under a similar arrangement. It is expected this process will be completed by the end of September 2012 with the internal auditor appointed at that time.

Risk Management

Teachers Federation Health has a comprehensive system of risk management and controls. This risk management framework is critical to the safety, reputation and sustainability of the operations of the Company and to the ongoing viability of the health benefits fund operated by Teachers Federation Health. A detailed Risk Management Plan based on the Australian/New Zealand Risk Management Standard: AS/NZS ISO 31000:2009 has been developed and implemented by management and endorsed by the Board. The various risk management practices are undertaken to provide reasonable assurance to the Board of the effectiveness of the risk management framework within the overriding principle that business risk is a basic line management responsibility – all managers, not just the CEO, share that responsibility.

Both the Board and the Risk and Governance Committee receive frequent updates about the management of risk. At each Board meeting, the CEO updates the Board on developments in relation to the material business risks facing Teachers Federation Health. The Board reviews and sets Teachers Federation Health's risk appetite on an annual basis.

Annually, the CEO and other senior managers responsible for risk management provide a declaration to the Board regarding the structure, management and effectiveness of the Company's risk management systems. A similar declaration is provided by the Board to the industry regulator, PHIAC, as part of the annual compliance reports.

Ethical Standards

Code of Conduct

Teachers Federation Health has adopted a Code of Conduct that applies to all directors, officers, employees, contactors and consultants to Teachers Federation Health. This code sets out the ethical standards and rules of Teachers Federation Health and provides a framework to guide compliance with legal and other obligations to stakeholders including:

- ✓ the avoidance of conflicts of interest or disclosure of conflicts of interest if one occurs;
- ✓ the appropriate use of corporate opportunities and other benefits;
- ✓ compliance with the Privacy Act 1988 (Cth);
- ✓ the integrity and security of confidential information;
- ✓ dealing honestly and fairly with all parties; and
- ✓ compliance with relevant laws and regulations.

Industry Code of Practice

Teachers Federation Health operates under the Private Health Insurance Code of Conduct. The Code forms the basis for the manner in which the people of Teachers Federation Health perform their work and requires Teachers Federation Health to operate its business in an open and honest manner with contributors, employees, providers, the regulator and the health insurance industry. The purpose of the Code is to enhance regulatory compliance and service standards across the industry.

Teachers Federation Health has regularly submitted annual self audits and has been assessed by the PHI Code of Conduct – Compliance Committee as being a compliant fund. Recently the PHI Code of Conduct – Compliance Committee determined that Teachers Federation Health should be invited to participate in the triennial self audit process. Consistent with the above, Teachers Federation Health is now required to submit a certification yearly that states it is compliant with the Code and self audit. Every three years, Teachers Federation Health will have to complete and submit a full self audit. The next full self audit is due 2014.

Diversity

Teachers Federation Health seeks to maintain an appropriate mix of skills, expertise, experience and diversity on the Board to ensure an understanding of and competence to deal with current and emerging issues relating to Teachers Federation Health business and enhance the performance of the Company. Diversity in this context includes, but is not limited to gender, age, ethnicity and cultural background.

The Company is in the process of implementing a formal diversity policy, including measurable objectives for achieving gender diversity.

The Company is an EOWA Employer of Choice for Women. The number of woman across the organisation as at the date of this report is as follows:

Category	Number	Percentage of category
Women on the Board	5	42%
Women in senior executive positions	1	12.5%
Women in management positions	11	73%
Women employees in whole organisation	131	63%

Whistleblower Policy

Teachers Federation Health has developed and implemented a Whistleblower Policy that encourages and provides a framework for all Teachers Federation Health employees to report any corrupt or improper conduct or any genuine matters of behaviours that they honestly believe contravene Teachers Federation Health policies or the law including:

- ✓ dishonest behaviour;
- ✓ fraudulent activity;
- ✓ corrupt practices;
- ✓ illegal activities;
- ✓ unethical activity including a breach of the Teachers Federation Health Code of Conduct;
- ✓ unsafe work practices;
- ✓ intimidation, harassment, discrimination, disadvantage or adverse treatment in relation to a person's employment; and any other conduct that may cause financial or non financial loss to Teachers Federation Health or be otherwise detrimental to the interests of Teachers Federation Health.

“Teachers Federation
Health is proud to be
an EOWA Employer of
Choice for Women.”



Discussion and Analysis of the Financial Statements

Information on Teachers Federation Health Limited Financial Statements

The financial statements and disclosures in the concise financial report have been derived from the 2012 financial report of Teachers Federation Health Limited.

A copy of the full financial report and auditor's report will be sent to any member, free of charge, upon request.

The discussion and analysis is provided to assist members in understanding the concise financial report. The discussion and analysis is based on Teachers Federation Health Limited's financial report and the information contained in the concise financial report has been derived from the full 2012 financial report of Teachers Federation Health Limited.

Statement of Comprehensive Income

Surplus for the year of \$30,246,298 was down \$314,630 from the prior year (2011: \$30,560,928), largely due to an increase the unexpired risk liability to \$5,084,221 (2011: nil). This was offset by higher premium revenue due to slightly better than expected membership growth.

Premium revenues of \$361,450,926 increased 9.61% from the prior year (2011: \$329,745,876) due to an increase in members and premium rates. Net claims incurred of \$315,545,059 increased by 7.46% (2011: \$293,652,844). The additional claims result from a combination of member increases in recent years and the increased costs of services.

Statement of Financial Position

Total assets increased by \$51,541,529 from \$245,487,958 in 2011 to \$297,029,487 in 2012, representing an increase of 21.00%. This increase was mainly attributable to a significant surplus in cash from operations thus leading additional financial investments being acquired, in addition to large amounts of premiums being paid in advance at the end of the year to avoid the means testing of the rebate scheme.

Total liabilities have also increased by \$21,295,231 from \$71,089,473 in 2011 to \$92,384,704 in 2012 due to an increase in sundry payables, health benefits reinsurance trust fund and members contributions received in advance.

Equity has increased by 17.34% from \$174,398,485 in 2011 to \$204,644,783 in 2012. This was due to the net surplus for the year increasing retained earnings by \$30,246,298.

Statement of Cash Flows

Cash has increased by \$7,495,990 from \$10,409,389 in 2011 to \$17,905,379 in 2012 representing an increase of 72.01%. The net cash inflow from operating activities increased by \$16,065,613 from \$29,264,592 in 2011 to \$45,330,205 in 2012 due to an increase in members premiums received and proportionally less benefits being paid. Excess cash has been invested, with net cash used in investing activities in the current year being \$37,834,215 (2011: \$28,694,782).

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012	2011
		\$	\$
Premium Revenue	2	361,450,926	329,745,876
Claims expense		(297,403,252)	(271,703,131)
Risk equalisation trust fund expense		(10,445,199)	(14,723,974)
State levies		(7,696,608)	(7,225,739)
Net claims incurred		(315,545,059)	(293,652,844)
Unexpired risk liability (increase)/decrease		(5,084,221)	2,789,000
Claims handling expenses		(12,328,254)	(11,088,415)
Other underwriting expenses		(12,185,603)	(10,873,181)
Underwriting expenses		(29,598,078)	(19,172,596)
Underwriting result		16,307,789	16,920,436
Investment revenue		14,932,866	13,762,580
Other revenues		6,885,774	6,414,467
Impairment losses		-	(927,980)
Fair value gain on investment trusts		(880,294)	1,016,735
Cost of goods sold		(2,007,667)	(2,305,469)
Other expenses		(4,590,477)	(3,869,556)
Finance costs		(401,693)	(450,285)
Surplus before income tax		30,246,298	30,560,928
Income tax expense		-	-
Surplus for the year after income tax		30,246,298	30,560,928
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		30,246,298	30,560,928

Statement of Financial Position

As at 30 June 2012

	Note	2012	2011
		\$	\$
Current assets			
Cash and cash equivalents		17,905,379	10,409,389
Trade and other receivables		21,585,911	14,658,486
Inventories		299,454	300,874
Financial assets		88,412,000	149,287,269
Other current assets		2,046,886	126,690
Total current assets		130,249,630	174,782,708
Non-current assets			
Financial assets		155,721,657	61,292,497
Property, plant and equipment		10,804,343	9,063,054
Trade and other receivables		63,998	-
Intangible assets		189,859	349,699
Total non-current assets		166,779,857	70,705,250
Total assets		297,029,487	245,487,958
Current liabilities			
Trade and other payables		16,075,689	7,613,414
Other current liabilities		41,755,836	25,329,825
Provisions		33,508,114	37,624,710
Total current liabilities		91,339,639	70,567,949
Non-current liabilities			
Provisions		1,045,065	521,524
Total non-current liabilities		1,045,065	521,524
Total liabilities		92,384,704	71,089,473
Net assets		204,644,783	174,398,485
Equity			
Reserves		1,725,225	1,725,225
Retained earnings		202,919,558	172,673,260
Total equity		204,644,783	174,398,485

Statement of Changes in Equity

For year ended 30 June 2012

	Share Capital	Asset Revaluation Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2010	-	701,696	142,112,332	142,814,028
Total comprehensive income for the year	-	-	30,560,928	30,560,928
Increase in valuation of property in use	-	1,023,529	-	1,023,529
Balance at 30 June 2011	-	1,725,225	172,673,260	174,398,485
Total comprehensive income for the year	-	-	30,246,298	30,246,298
Balance at 30 June 2012	-	1,725,225	202,919,558	204,644,783

Statement of Cash Flows

For year ended 30 June 2012

	2012	2011
	\$	\$
Cash flows from operating activities		
Receipts from members' premiums	372,499,307	330,688,427
Benefits paid to members	(324,469,294)	(295,139,643)
Receipts from customers	7,006,331	6,796,002
Payments to suppliers and employees	(23,191,539)	(25,663,928)
Interest received	13,887,093	13,034,019
Finance costs	(401,693)	(450,285)
Net cash provided by operating activities	45,330,205	29,264,592
Cash flows from investing activities		
Proceeds from sale of investments	473,332,015	183,980,678
Purchase of intangibles	(18,733)	(582,907)
Purchase of property, plant and equipment	(3,297,797)	(1,260,847)
Purchase of investments	(507,849,700)	(210,831,706)
Net cash used in investing activities	(37,834,215)	(28,694,782)
Net change in cash and cash equivalents held	7,495,990	569,810
Cash and cash equivalents at beginning of financial year	10,409,389	9,839,579
Cash and cash equivalents at end of financial year	17,905,379	10,409,389

Notes to the Financial Statements

For the year ended 30 June 2012

1 Statement of Significant Accounting Policies

The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports and the Corporations Act 2001.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of Teachers Federation Health Limited. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of Teachers Federation Health Limited as the full financial report. A copy of the full financial report and auditor's report will be sent to any member, free of charge, upon request.

All amounts presented are in Australian dollars.

The accounting policies have been consistently applied by the company and are consistent with those of the previous year.

2 Revenue

	2012	2011
	\$	\$
Premium revenue	361,450,926	329,745,876
Investment revenue	14,932,866	13,762,580
Other revenue		
Eyecare centres	5,607,433	5,609,377
Other revenue	1,278,341	805,090
Total other income	6,885,774	6,414,467

3 Events After the Balance Sheet Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



Directors' Declaration

The directors of the Company declare that the concise financial report for the financial year ended 30 June 2012, as set out on pages 28 to 33:

- (a) complies with Accounting Standard AASB 1039: Concise Financial Reports; and
- (b) is an extract from the full financial report for the year ended 30 June 2012 and has been derived from and is consistent with the full financial report of the Company.

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

H M MacGregor

Director



Dated this 4th day of October 2012
Sydney, NSW

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Independent Auditor's Report To the Members of Teachers Federation Health Limited

Report on the concise financial report

We have audited the accompanying concise financial report of Teachers Federation Health Limited comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of Teachers Federation Health Limited for the year ended 30 June 2012. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors responsibility for the concise financial report

The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 Concise Financial Reports, and the Corporations Act 2001, and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Teachers Federation Health Limited for the year ended 30 June 2012. Our audit report on the financial report for the year was signed on 27 September 2012 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's

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judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 Concise Financial Reports.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the Directors of Teachers Federation Health Limited on 27 September 2012, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of Teachers Federation Health Limited for the year ended 30 June 2012 complies with Accounting Standard AASB 1039 Concise Financial Reports.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A G Rigele
Partner - Audit & Assurance

Sydney, 4 October 2012



Teachers Federation Health Limited

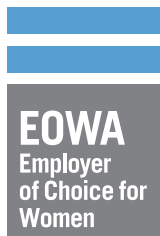
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Teachers Federation Health Ltd. is a signatory to the Private Health Insurance Code of Conduct.

For the well-being of teachers.