

ANNUAL REPORT



2016/17

**TEACHERS
HEALTH** 

We're for teachers

Teachers Federation Health Ltd. ABN 86 097 030 414. A Registered Private Health Insurer.

FINANCIAL SNAPSHOT

(\$M)	FY16/17	FY15/16	Change	Change %
Premium revenue	597.9	543.8	54.1	10.0%
Claims	534.0	495.1	38.9	7.9%
Gross margin	63.9	48.7	15.2	31.2%
Payout ratio	89%	91%		
Operating surplus	36.4	22.8	13.6	59.6%
Net assets	320.5	280.4	40.1	14.3%
Membership	148,746	140,214	8,532	6.1%

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FROM THE CHAIRPERSON



Helen MacGregor
Chairperson

It is my pleasure to report once again that Teachers Federation Health has had a successful year.

We aim to offer the best value private health insurance products and services to teachers and their families and the broader education industry. This is our guiding principal purpose and sets the benchmark for our operating activities.

The operating environment

Government policy continues to be a significant influence shaping private health insurance in Australia. There has been a reduction in the real value of the private health insurance rebate and the low wage inflation rate has put additional pressure on the affordability of insurance cover across the sector.

The Federal Government continues to look for ways to contain costs in both the broader health industry and in private health insurance in particular. This in turn has led more and more people to reassess the value of private health insurance and the option of relying predominantly on Medicare.

Teachers Health continues to focus on helping our policyholders and families to achieve the best possible health outcomes. Our key business strategy is to build trust and confidence in our products and services and maintain positive engagement and communication with our policyholders.

Teachers Health continues to maintain strong relationships with our partner education unions and the education community more widely. These relationships enhance our understanding of the needs of policyholders, the future direction of teaching and education and consequently the future challenges for private health insurance for teachers. The benefit of trade union membership is directly linked to the benefit of the private health insurance that we provide.

Growth and sustainability

Our policyholder base continued to grow strongly in 2016–17 with new and younger people across the country joining Teachers Health. At the same time, our existing members chose to continue with the Fund in overwhelming numbers with Teachers Health enjoying industry leading retention rates of 96.2%. Overall, in this last year, our policyholder base grew by 6.1% against an industry wide growth of 1.0%. Our growth in membership continues to be steady and sustainable.

Teachers Health revenue grew by 10.0% and we continue to maintain our capital reserves at appropriate and stable levels. We maintained our focus on providing value to members returning 89.3 cents in benefits for every dollar of contributions income received. Teachers Health operations continue to be efficient and effectively controlled. An indication of this is a management expense ratio below 6.9%, considerably lower than the industry average of 8.9%.

Teachers Health creates value for members by focusing on minimising premium rate increases while maintaining a range of quality health insurance products to meet different members' needs. We are a member-focused health fund and pay no dividends to investors or shareholders.

Governance issues

The Australian Prudential Regulation Authority (APRA) is progressing its three-year workplan for Private Health Insurers, with a current focus on risk management and governance issues. The Board is committed to ensuring that Teachers Health remains actively involved in these consultations. Teachers Health continues to ensure its practices in relation to governance, risk management and other regulatory standards are compliant and meet the expectations of all stakeholders.

We also look to the work of the Private Health Insurance Ombudsman (PHIO) and the Australian Competition and Consumer Commission for reports and advice in regards to consumer protection, regulations and best practice.

People and culture

The staff of Teachers Health continue to be one of the Fund's greatest assets. All directors and employees are provided with the opportunity to attend training appropriate to their professional needs through a range of development initiatives, supported by regular evaluation and monitoring. This both assists with the retention of high quality staff and supports the business in its endeavours for continuous improvement.

Diversity continues to be a cornerstone of our employment practices and Teachers Health

works to ensure all employees are treated equally with fairness, pay equity and respect, free from harassment and discrimination. Pleasingly, again in 2016–17, Teachers Health has been recognised as an employer of choice for gender equality by the Workplace Gender Equality Agency.

The Teachers Health Foundation

The Teachers Health Foundation provides financial support in the form of grants for health and medical research, aimed at delivering better health outcomes for the education and wider community.

During the year, grants were awarded to Deakin University to understand the barriers to creating a healthy eating and activity workplace (\$55,000), Australian Catholic University to conduct a study on the effects of mindfulness on teacher resilience and wellbeing (\$150,000) and a three-year grant to the Jack Brockhoff Program, University of Melbourne to look at the impact of major disasters, such as bushfires on school communities (\$250,000).

In addition, the Hunter Institute of Mental Health published their report entitled "Start Well" on the assessment of peer support as a strategy for improving wellbeing of early career teachers.

The future

Teachers Health remains well positioned for the future. With a clear strategic direction that provides guidance to activities of the Fund and with the financial strength and dedicated workforce to execute our initiatives, the Fund is extremely well placed to continue to deliver excellent value and service to our members and to succeed in a climate of continued volatility and change.

In closing

Once again, I thank my fellow directors for their continued support and commitment throughout a busy year and for their work on the various Board sub-committees. In particular, I would like to thank Nicole Smith, Chair of our Audit and Finance Committee, for her work on the Board over the last seven years.

Teachers Health's management team and staff throughout the organisation are a vital component of our continued success. The Board of Directors and I thank them once again for their effort and dedication throughout the year.

H M MacGregor

CHAIRPERSON

Dated this 21st day of September 2017
Sydney, NSW

FROM THE CEO



Brad Joyce
Chief Executive Officer

I am pleased to report that Teachers Health has had a very successful year in 2016–17. Continued strong growth in our policyholder base, together with positive operating margins, positions the business well to maximise growth opportunities and deal with future challenges.

The strong result was particularly significant in the face of continuing challenges in the market, including intensified concerns over the affordability of health insurance and the increasing media commentary focusing on the rising cost of premiums and the quality of policies contributing to a lack of confidence in the category. In addition to this, there has been an increase in competition as the larger funds have intensified their efforts in the face of decreased private health insurance participation. The year 2016–17 also saw the introduction of a number of new private health insurers.

As the only health fund exclusively for the education community, we have continued to work closely with the industry, our stakeholders and our members to ensure Teachers Health's ongoing commitment to providing high quality, affordable, value for money health insurance supported by excellent customer service.

Teachers Health members' experience sits at the heart of our organisation's objectives and values. Accordingly, we believe it is important to continuously strengthen our capability and improve our customer service and efficiencies. We have an ongoing commitment to achieving these goals.

Policyholder growth

The private health insurance sector experienced significant headwinds in

2016–17 in relation to growth and retention of members. Teachers Health, however, continues to grow strongly with policyholder growth significantly higher than the industry. As at 30 June 2017, Teachers Health has over 148,000 policyholders with more than 310,000 lives covered.

Teachers Health remains the largest health fund with dedicated focus on an industry sector – education. The word of mouth recommendations and advocacy of our existing members and our stakeholders continues to play a pivotal role in the ongoing growth and success of Teachers Health.

UniHealth, a brand of Teachers Health with its focus on tertiary education staff, has also continued to grow with 1,500 policyholders now part of the Fund.

Looking ahead, Teachers Health will continue to provide competitively priced products, great cover at affordable prices and excellent customer service to all members.

Financial performance

Teachers Health typically operates at low but financially sustainable margins, ensuring that policyholders obtain great value for their premiums, whilst ensuring ongoing financial stability of the business and effective management of the Fund's capital reserves. The operating surplus for 2016–17 of \$36.4m reflects an appropriate and prudent return to ensure the longer-term sustainability of the business.

Teachers Health returns the majority of premiums (89.3% in 2017) as benefit payments. Over the 2016–17 financial year, claims costs, inclusive of levies and payments in respect of risk equalisation, grew by \$38.8m, to \$533.4m (+7.8%) while premium income grew by \$54.1m, to \$597.9m (+10.0%).

Our continued investment in process improvement and business capability enables Teachers Health to maintain a management expense ratio of <6.9%, well below recent industry averages (the most recently available comparative is 8.9% for the twelve months to June 2017).

Further initiatives are planned for the coming year to ensure high quality service continues to be delivered in a cost efficient manner.

Other revenue streams

A number of additional revenue streams contribute substantially to the overall

commercial success of Teachers Health and assist in minimising the unavoidable annual increase to premiums. In 2016–17 these totalled \$11.6m. Many of these also assist in providing quality health solutions to Teachers Health members, including:

- > Teachers Healthcare Services providing support for chronic disease management and wellness initiatives
- > Teachers Eyecare, Dental, Chiropractic and Physiotherapy services
- > Provision of travel and general insurance policies.

In addition, and despite continued low performance in the fixed interest investment market, investments achieved a return of \$13.8m over the year.

Strategic focus

The strategic focus of Teachers Health over the year has continued to be directed towards initiatives to support growth and retention while at the same time being broadened to focus on improving internal capabilities to deliver a deeper customer-focused mindset. This member centric outlook is now at the heart of our key business decisions.

During the last financial year, Teachers Health also launched a separate and new health fund dedicated exclusively to nurses and midwives. Replicating the successful business model and leveraging the strengths and experience of Teachers Health, the new fund will contribute to increasing the size and scale of the Teachers Health organisation and over time will provide an additional source of investment income.

People and culture

The Teachers Health brand sits at the heart of our organisation – it's our DNA. In 2016–17 we embarked on an initiative specifically designed to achieve clarity and alignment around our brand and culture – who we are and what we stand for. The results of this work provide a clear road map for the organisation that includes our beliefs, our spirit, our purpose, our attitude and our promise to members – We're for teachers.

Teachers Health could not succeed without the continuing contribution of our dedicated staff. Much of the success of our organisation can be attributed to what I believe underpins our thriving business – a gender diverse organisation as part of an overall diverse workforce. Over the past decade, Teachers

Health's Board of Directors and I have been strongly committed to supporting and achieving a culture of gender equality and diversity throughout the organisation where both men and women can excel.

The areas where I have been personally committed to achieving gender equality across the company have been ensuring pay equity for men and women in the same jobs, ensuring women have the same access as men to take on leadership positions and where possible and appropriate making available flexible working arrangements to men and women who need them.

This, combined with our support of relevant learning opportunities and a workplace where work-life balance is valued, assists the business in attracting and retaining quality people, allowing Teachers Health to benefit from the skills of a highly diverse workforce.

Our success in this area has been recognised by the Australian Government through the attainment of certification as an Employer of Choice for Gender Equality over several years.

The community

Teachers Health continues to have strong ties with the education community. Over the past year, we have continued to work closely with our union partners and education employers in all states and territories in a range of ways that support and give back to the sector.

Teachers Health believes that our relationships with the wider education community are fundamental and we have continued to concentrate on three key areas of support: reward and recognition, professional development and health and wellbeing initiatives.

Throughout the year, Teachers Health has provided funding to support a range of causes and activities including:

- > Stewart House
- > NSW: Public Education Foundation
- > QLD: Teacher of the Year
- > TAS: New Teacher of the Year
- > ACT: Reconciliation Award
- > SA: Education Awards – Primary Teaching Award
- > WA: Education Awards – Primary Teacher of the year Award
- > Nationally: Continued support of the Australian Principal's Health and Wellbeing Report.

In addition, our Business Development team visited over 1,900 schools and education workplaces across the country, interacting with members and potential members to grow awareness of the Fund and directly support the intimate relationship the Fund has with its policyholders.

Looking forward

Teachers Health is well positioned to continue to support our policyholders and assist them in achieving quality health outcomes. Our strategy has been developed to ensure we implement effective and appropriate responses to the ever-changing private health insurance landscape and competitive marketplace in which we operate.

We remain focused on operating the Fund in a responsible and sustainable manner, whilst ensuring that premiums remain as affordable as possible. Growth remains a vital focus to ensure the resilience and sustainability of the Fund. We continue to work hard to attract new members from our eligible market. Our focus on strengthening our overall capability and continually improving the member experience is central to our planning.

Teachers Health will also continue to seek opportunities to diversify our sources of income and will retain sufficient capital to both meet our regulatory requirements and support business initiatives. We will remain adaptable and agile in an increasingly complex market.

Our strong financial position, combined with our well-developed business plans and dedicated team, will assist in reaching our objective of helping Teachers Health policyholders to achieve their best possible health outcomes.

B S Joyce

CHIEF EXECUTIVE OFFICER



Dated this 21st day of September 2017
Sydney, NSW

**WE REMAIN THE
ONLY HEALTH
INSURER
EXCLUSIVELY
FOR THE
EDUCATION
COMMUNITY
♥ THEIR
FAMILIES**

DONNA
TEACHERS HEALTH MEMBER

REVIEW OF OPERATIONS

Growth

Policyholder growth

Members are at the heart of Teachers Federation Health Ltd’s (trading as Teachers Health) business strategy. Growth is a key component of supporting this strategy as it helps to reduce the overall administrative cost per policyholder and enables continued benefit improvements, and the provision of value added services including dental, eyecare, disease prevention and management services. Higher rates of growth in lower age cohorts assists in mitigating the escalating cost of benefit payments. Together, these actions assist in keeping future premium increases as low as financially sustainable.

Teachers Health continues to achieve net policyholder growth significantly above that recorded by the industry.

Members are at the heart of what we do

While NSW continues to account for 70% of our policyholder base, higher growth rates are being achieved in other states. In FY16/17, we achieved 4.9% net growth in NSW and net growth across the remaining states of 10.0%. Lapse rates for the year are broadly in line with last year. Teachers Health continues to enjoy industry leading retention rates of around 96%.

Financials

As a member-focused organisation, Teachers Health works to ensure that revenue is used to provide quality, relevant cover options at competitive premiums while ensuring the ongoing financial sustainability of the Fund.

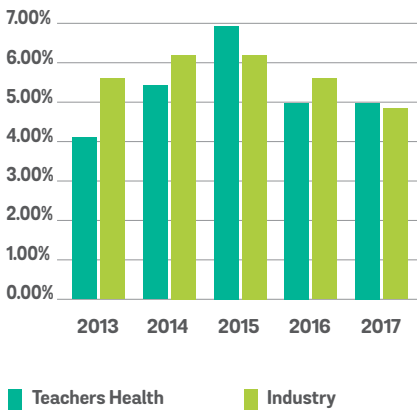
Premium revenue

Annual premium revenue is now over \$597m. This growth is the result of the combined effects of the continued membership growth, combined with the Teachers Health pricing policy which is based on the need to cover growth in claims to achieve a sustainable

The five year average premium increase of 5.26%pa remains below the industry average of 5.68%pa.

and responsible level of operating surplus and to maintain capital reserves at a level appropriate to a health fund of this size.

WEIGHTED AVERAGE RATE INCREASE



Benefit payments

Benefit payments include: hospital charges, doctor fees, dental and eye-care payments, ambulance levies, ancillary services such as physiotherapy, speech therapy and chiropractic services as well as regulatory risk equalisation payments, and member wellness and disease management programs.

In FY16/17, Teachers Health incurred total benefit payments of \$534m, a 7.8% increase on FY15/16 (\$495m) and returned an average of \$3,983 for every policyholder, up from \$3,906 in the prior year¹. Teachers Health continues to return a high proportion of contributions to policyholders at over 89c in every premium dollar in 2017.

Administrative costs

Teachers Health is proud to deliver high quality customer service at one of the lowest administrative costs in the industry.

In FY16/17, total administrative management expenses were \$41.2m, representing 6.9% of contribution income, well under the industry average of 8.8%.²

Teachers Health’s business strategy is to continue to provide its policyholders with a differentiated member experience including easier ways to conduct business with the Fund. We continue to invest in a range of projects aimed at delivering enhanced capabilities essential to maintain the competitiveness of the organisation and the delivery of exceptional member experience.

Operating surplus

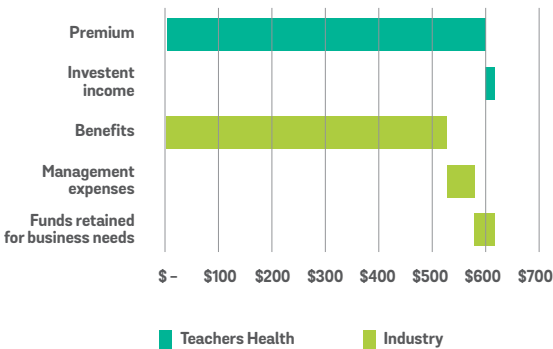
This year, benefit growth was slightly lower than premium rate growth, which increased business margins. The overall gross margin has increased over the year to 10.7% (FY15/16: 9.1%).

Gross margin = Premiums, less benefits

Operating surplus = Premiums, less benefits, less expenses, plus investment income

Teachers Health’s premium rate increase in 2017, combined with effective management of the capital position, resulted in an operating surplus of \$36.4m.

HOW INCOME WAS SPENT FY16/17



Investments and capital

Investments and other revenue

Investment income assists Teachers Health in supporting its capital base and the Board’s objective to keep premium increases to a minimum, while continuing to make important investments in initiatives that improve the overall capability, efficiency and resilience of the business.

In FY16/17, the investment performance of Teachers Health increased to \$13.8m (FY15/16: \$9.1m).

Capital

Teachers Health’s capital position remains strong, with assets held in excess of prudential requirements and financial obligations well matched against cash and other interest bearing deposits.

This sound financial position secures policyholder entitlements and allows the business to implement business strategies to suit the targeted growth rate and market conditions.

TEACHERS HEALTH CONTINUES TO BALANCE CAPITAL REQUIREMENTS AGAINST PREMIUM INCREASES FOR THE SECURITY OF OUR POLICYHOLDERS



¹The calculation method has been altered from prior years to reflect average membership over the year.
²Industry figures are taken from the APRA quarterly statistics for June 2017.

DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of Teachers Federation Health Limited (Teachers Health or the Fund) and the entities it controlled at the end, or during the year, ended 30 June 2017. Throughout the report, the consolidated entity is referred to as the Group.

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, M. 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

N E DAWSON

B.A. (MAQ), Dip. Ed. (UNE), M. Ed. LL. M. (USYD), B. Leg S (MAQ), Grad Cert Leg P (UTS), Dip. ACG (GIA), MAICD, AGIA, FANZCN

Independent non-executive director
Appointed director in September 2010

Special responsibilities:

Chairperson of the Risk and Governance Committee and member of the People and Remuneration Committee

J M DIXON

B. Com. (Eco. and Acc.), Dip. Ed., Grad. Dip. Marketing, MAICD
Non-executive director
Appointed director in June 2001

Special responsibilities:

Member of the Strategy Committee and the People and Remuneration Committee

M C FOGARTY

B.A. (USYD), Dip. Ed. (USYD), M. Ed. (UTS), PHD (UTS), MAICD
Independent non-executive director
Appointed director in November 2010

Special responsibilities:

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

M MULHERON

BA Dip Ed
Non-executive director
Appointed director in February 2012

Special responsibilities:

None

T J MULROY

BA Dip Ed (NSW), MAICD
Independent non-executive director
Appointed director in November 2012

Special responsibilities:

Member of the Audit and Finance Committee

M ROSICKY

BA Visual Arts, Dip Ed
Independent non-executive director
Appointed director in November 2013

Special responsibilities:

Member of the Risk and Governance Committee

N S SMITH

B.Fin.Admin. (UNE), C.A., GAICD
Independent non-executive director
Appointed director in September 2010

Special responsibilities:

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

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:

Deputy Chairperson of the Board, Chairperson of the Strategy Committee and member of the People and Remuneration 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 in 2006

D N LETHBRIDGE

LLB, MBA, Grad Dip ACG, FGIA, FCIS, GAICD
Appointed Company Secretary in April 2012
Mr Lethbridge was appointed Chief Operating Officer of Teachers Health in February 2012

Fund objectives

Teachers 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 Health delivers the value propositions designed to attract and retain members by providing members with competitively priced 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 Health's objectives are to continue to execute the current Strategic Plan and seek ways to improve and increase growth and retention (both in terms of revenue and policyholders) and lift the capability of the business to support this growth.



MELISSA
TEACHERS HEALTH MEMBER

Fund strategy

Teachers Health's strategy to deliver these objectives is through a number of strategic initiatives:

- > Policyholder growth – to increase our organic policyholder growth across Australia;
- > Diversification and expansion – to consider opportunities for non-organic growth;
- > Health management – to provide an integrated wellness, prevention and disease management solution for our policyholders; and
- > Capability – to enhance the efficiency and effectiveness of the business.

Principal activities

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

- > the operation of its restricted access private health insurance business;
- > the operation of Teachers Health Centres Eyecare, Dental, physiotherapy, chiropractic and remedial message businesses; and
- > the operation of Teachers Healthcare Services care coordination for chronic disease management and hospital substitute programs.

The Fund also provided travel and general insurance under authorised representative agreements.

During the financial year, the Fund invested in a wholly owned subsidiary which established a new restricted access private health insurance fund, "Nurses & Midwives Health". The Fund also manages the operations of Nurses & Midwives Health (NMH) pursuant to a Management and Services Agreement.

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

Measuring performance

Teachers Health 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 Fund. Key success factors and a range of operational key performance indicators are identified as part of the business planning process and reported against during the course of the financial year.

Meetings of Directors

During the financial year, 25 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

Name	Board Meetings		Committee Meetings							
			Risk & Governance Committee		Audit & Finance Committee		Strategy Committee		People & Remuneration Committee	
	E	A	E	A	E	A	E	A	E	A
N E Dawson	9	9	4	4					5	5
J M Dixon	9	8					2	1	5	5
M C Fogarty	9	9			5	4			5	5
H M MacGregor	9	9	4	4	5	5	2	2	5	5
M Mulheron	9	3								
T Mulroy	9	8			5	5				
M Rosicky	9	8	4	4						
N S Smith	9	7			5	5	2	2		
D Wynne	9	8					2	1	5	5

Table Key:

E – Number of meetings eligible to attend
A – Number of meetings attended

Members’ guarantee

The Fund is limited by guarantee and hence has no contributed equity. If the Fund is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the Fund) that remains after payment of all of the debts and liabilities of the Fund 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 Fund is wound up and cannot meet its debts, the Constitution states that each member of the Fund is required to contribute a maximum of ten dollars (\$10) towards meeting any outstanding obligations of the Fund. The total amount that members of the Fund were liable to contribute at 30 June 2017 if the Fund was wound up was one hundred and eighty dollars (\$180).

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 13 and forms part of this Directors’ report.

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

Allen MacGregor

H M MacGregor

Director
Dated this 21st day of September 2017
Sydney, NSW

AUDITORS INDEPENDENCE DECLARATION



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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 2017, I declare that, to the best of my knowledge and belief, there have been:

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M A Adam-Smith

M A Adam-Smith
Partner - Audit & Assurance

Sydney, 21 September 2017

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ANDREW
TEACHERS HEALTH MEMBER

CORPORATE GOVERNANCE STATEMENT

Governance at Teachers Health

Teachers Health 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 Health, which it believes is vital to the wellbeing of the Fund. Consequently, Teachers Health has adopted a comprehensive framework of corporate governance guidelines and policies that are reviewed on a regular basis.

As at 30 June 2017, 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 third edition (ASX Guidelines) as far as they are relevant and 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 Fund members, Fund contributors, regulatory authorities and the general community.

Dedicated corporate governance guidelines on the Fund's website (teachershealth.com.au) provide a detailed description of Teachers Health's governance framework and associated practices, with links to key documents.

The Fund is regulated by Australian Prudential Regulatory Authority (APRA). APRA has determined prudential standards pertaining to governance and the Fund provides regular reports to APRA.

As a separate corporate entity, Nurses & Midwives Health (NMH) has its own corporate governance framework, which, as appropriate, largely replicates that of Teachers Health. As a registered private health insurer, NMH is also regulated by APRA.

Board of Directors

Roles and responsibilities

The roles and responsibilities of the Board are set out in, 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 Health and effective oversight of management. The Board ensures that the Fund 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 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 Chief Executive Officer (CEO) in achieving Board approved strategies and budgets against key performance indicators set by the Board and approving CEO remuneration policies and practices;
- > 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 Health's integrity;
- > Oversight of financial and capital management including establishing and overseeing Teachers Health's accounting and financial management systems, monitoring Teachers Health's financial results on an ongoing basis, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of Teachers 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 privacy, work, health and safety) that govern the operations of Teachers 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 CEO the authority to manage and control the day-to-day affairs of Teachers 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 Fund. Under the Fund's Delegation of Authorities Policy, the CEO, Executive Management and other employees of Teachers 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

At the date of this report, the Board comprises nine Directors, each of whom is a non-executive Director. In accordance with the criteria set out in the Health Insurance (prudential standard) determination made by APRA, the Board has a majority of independent Directors, one of whom is the chairperson. As set out in the Fund's Constitution, the Board is made up of the following classes of Directors:

- > two ex-officio Directors, being the Branch President and the Branch Secretary of the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch;
- > up to five elected member (policyholder) Directors;
- > two specialist Directors;
- > a specialist Chair; and
- > unless the Board otherwise determines, one employee Director. The Board has resolved not to fill the vacancy for the employee Director position.

The Board Charter requires that Directors must at all times bring an independent judgement to bear on all Board decisions. Details of each Director’s 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 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. APRA 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 Fund 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.

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 Fund. 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. Retiring Directors are eligible for re-election. Directors appointed to the Board (other than the elected member Directors) must have their appointment confirmed by the members at the Fund’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 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 external organisations such as the Australian Institute of Company Directors and Governance Institute of Australia.

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 Health, to monitor management’s implementation of key strategic initiatives, performance of the Risk Management Strategy and Framework and to consider the environment in which the health benefits fund operates. In addition to the Board meetings, a structured Directors’ development and strategy review is the major focus of the Board Workshop held at least annually.

Conflicts of interest

Teachers 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 Health has developed and implemented a Fit and Proper Policy for Responsible Persons to assist in assessing the fitness and propriety of Teachers Health Responsible Persons (as defined in the policy). 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. The assessment consists of an attestation by the individual and the Fund 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.

Access to Group 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 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 Health to assist them to carry out their duties as Directors. The procedure provides that any such advice is generally made available to all Directors.

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 2016, the Company Members determined an aggregate amount of \$120,000 is to be paid to Directors as a whole and divided among the Directors in accordance with the Director Remuneration Policy. For the

twelve months ended 30 June 2017, total remuneration paid and divided among the directors relating to the 2016/17 year was \$70,845.18.

Teachers 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 (9.5%) 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 Group. Reimbursement is also made to Directors for loss of salary or leave entitlement resulting from their attendance at Board and Committee meetings upon presentation to the CEO of appropriate documentation to validate the claim. 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 Health’s 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 Group. The People and Remuneration Committee review the

remuneration of the CEO and Executive Management 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 Group.

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 a third-party facilitator. 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 Group. Each of the Board’s committees also reviews its performance against the objectives of its respective Charter from time to time.

Directors’ and officers’ insurance

Teachers 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. Where there are matters of relevance to more than one Committee, a joint meeting of those Committees may be held to discuss the matter, or the matter may be dealt with by one Committee before being referred to the other Committee.

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 Health and the health benefits fund conducted by Teachers 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 Health investment portfolio and monitors performance against the Teachers Health Capital Management Plan.

The Committee comprises of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board with appropriate financial experience and understanding of the private health insurance industry. The Board determines the chairperson of the Committee who is an independent non-executive member of the Board and not the chairperson of the Board.

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 Health’s internal control systems and internal audit function;
- > assessment of the investment activities including strategy, objective and performance; and
- > the independent audit process including the appointment, independence, performance and remuneration of the external auditor.

Since the establishment of Nurses & Midwives Health (NMH), the Audit and Finance Committee has responsibility for the oversight of the Management and Services Agreement between the Company and NMH.

The Committee Charter provides that the Committee meet not less than three (3) times per year. The Committee met five (5) times during the reporting year. The External Auditor met with the Committee five (5) times during the year, including 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;

- > periodically review with the CEO, the Teachers Health organisational capability and succession plan for employees, managers and executives; and
- > review people-related issues and policies generally.

The Committee met five (5) 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 by providing objective, non-executive oversight and review of the effectiveness of the implementation and operation of Teachers Health’s risk and compliance management framework.

The Committee comprises of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board with appropriate risk management and governance experience and understanding of the private health insurance industry.

The Board determines the chairperson of the Committee who is an independent non-executive member of the Board and not the chairperson of the Board.

Within its scope of authority, the Committee reviews and makes recommendations to the Board on:

- > Teachers Health's system of risk management and internal control including:
 - > the effectiveness of Teachers Health's Risk Management Strategy and Framework, having regard to the organisation's risk management culture;
 - > the identification and assessment of the material risks facing Teachers Health considered against the organisation's risk appetite;
 - > the organisation's Business Continuity and Disaster Recovery framework;
 - > the appropriate level of reporting on the performance and application of the risk management and internal control system throughout Teachers Health; and
 - > best practice developments in corporate governance;
- > Teachers Health corporate governance policies and practices including:
 - > Teachers Health's systems and procedures for compliance with laws, regulations, internal policies and industry standards;
 - > corporate governance, regulatory and compliance issues including the Private Health Insurance Act 2007, Private Health Insurance (Prudential Supervision) Act 2015, APRA Standards, Rules and Reporting Standards, Ministerial Private Health Insurance Rules, the Corporations Act and ASIC requirements;
 - > disclosure of corporate governance policies and information to ensure effective communication of Teachers Health corporate governance

- practices; and
- > best practice developments in corporate governance.

The Committee met four (4) 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 Health. The Committee is comprised of four (4) 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 Group's competitive position and long term performance;
- > consider viable and likely opportunities and threats that are expected to be presented to the Group 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 two (2) times during the reporting year.

Accountability and audit

External audit

The Group has retained Grant Thornton ("External Auditor") to audit its records and financial statements of the Group for the 2017 financial year and also to perform various regulatory and compliance audits.

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

- > discuss the external audit, 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 Health is monitored by the Board 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 Group on the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by Teachers 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 from the Board to Executive Management.



ANDREW & MELISSA
TEACHERS HEALTH MEMBERS

Internal audit

Internal audit operates under its own Charter. PWC was appointed as the internal auditor from 1 January 2016. The internal audit function provides an independent and objective review of the management of Teachers Health material risks and the implementation of effective controls designed to manage these material risks, and provide reasonable assurance against material misstatement or loss by enabling the timely identification of matters that require the attention of management or the Board. These controls have been established by management and are reviewed periodically by internal audit, with the findings of reviews reported to the Audit and Finance Committee and the Board.

Risk management

Teachers Health recognises effective risk management is good management practice, supports achieving organisational objectives and is an integral part of sound corporate governance. A detailed Risk Management Strategy and Framework based on ISO 31000:2009 has been developed and implemented by management and endorsed by the Board. This risk management framework is critical to the safety, reputation and sustainability of the operations of the business and to the ongoing viability of the health benefits fund operated by Teachers Health. 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 Health. The Board reviews and sets Teachers Health’s risk appetite on an annual basis.

Ethical standards

Code of Conduct

Teachers Health has adopted a Code of Conduct that applies to all Directors, officers, employees, contractors and consultants to Teachers Health. This code sets out the ethical standards and rules of Teachers 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;
- > acting appropriately in relation to 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 Conduct

Teachers Health operates under the Private Health Industry Code of Conduct. The Code forms the basis for the manner in which the people of Teachers Health perform their work and requires Teachers 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 Health has regularly submitted annual self-audits and has been assessed by the PHI Code of Conduct – Compliance Committee as being a compliant fund. Teachers Health is required to submit a certification yearly that states it is compliant with the code via a self-audit. Every three years, Teachers Health completes and submits a full self-audit.

Diversity and inclusion

Teachers 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 Health business and enhance its performance. The Board has determined to set a voluntary target for women on the Board at or above 40%.

The Fund has been a WGEA Employer of Choice for Gender Equality since 2014 and an EOWA Employer of Choice for Women since 2011. Teachers Health has publicly reaffirmed its commitment to gender equality and inclusion within the organisation on its website. Continuous improvement, including that of diversity, inclusion and gender equality, remain an ongoing objective for Teachers Health. The number of women across the organisation as at 31 March 2017 is shown in the table on the following page.



MELISSA
TEACHERS HEALTH MEMBER

In accordance with the requirements of the Workplace Gender Equality Act 2012, on 31 May 2017, Teachers Health lodged its annual public report with the Workplace Gender Equality Agency. Access a copy of the report at teachershealth.com.au or at wgea.gov.au.

Category	Number	Percentage of Category
Women on the Board	4	44%
Women in senior executive positions	2	18%
Women in management positions	18	51%
Women employees in whole organisation	197	68%

Whistleblower policy

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

- > dishonest behaviour;
- > fraudulent activity;
- > corrupt practices;
- > illegal activities;
- > unethical activity including a breach of the Teachers Health;
- > Code of Conduct;
- > unsafe work practices; and
- > 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 Health or be otherwise detrimental to the interests of Teachers Health.



FINANCIAL STATEMENTS

KEY FINANCIAL METRICS

Premium revenue

Premium revenue of \$597.9m this year (2016: \$543.8) is brought about by increase in membership growth of 6.1% and rate increase of 4.96%.

Net claims incurred

Net claims increased by 7.9% (2016: 12.1%) with benefits paid to members amounting to \$534.0m (2016: \$495.1m) this year as a result of membership, cost and utilisation growth. This translates to 89 cents paid back to members in benefits for every dollar Teachers Health received in premiums.

Underwriting result

The Group achieved an underwriting result of \$22.4m (2016: \$13.4m) which is a 67.2% increase from last year.

Assets

Total assets increased to \$463.5m (2016: \$408.9) derived from the increase in members' contributions and rebate receivable from Medicare.

Liabilities

Total liabilities reached \$143.0m (2016: \$128.4m) brought about by the increases in provision for outstanding claims, contributions received in advance for 2017 and risk equalisation provision.

Equity

Equity of \$320.5m (2016: \$280.4m) increased due to 2017 surplus of \$36.4 and the revaluation of directly-held properties located in Surry Hills and Hamilton.

Cash flow

Cash and cash equivalents balance of \$65.7m (2016: \$45.3m) increased by 45.0% as a result of net increase in membership premiums received in 2017 compared to benefits paid.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		\$	\$
Premium revenue	3	597,958,883	543,814,107
Claims expense		(504,627,871)	(469,545,329)
Risk equalisation trust fund expense		(17,410,935)	(14,484,957)
State levies		(11,905,631)	(11,048,456)
Net claims incurred		(533,944,437)	(495,078,742)
Unexpired risk liability (increase)/decrease		(300,000)	511,886
Claims handling expenses	4	(19,740,031)	(17,179,039)
Other underwriting expenses	4	(21,540,737)	(18,650,158)
Underwriting expenses		(41,580,768)	(35,317,311)
Underwriting result		22,433,678	13,418,054
Investment revenue	3	13,788,660	9,082,234
Other revenues	3	11,649,880	11,590,821
Cost of goods sold	4	(2,426,920)	(2,353,409)
Other expenses	4	(8,551,320)	(8,498,240)
Finance costs	4	(460,180)	(439,922)
Surplus before income tax		36,433,798	22,799,538
Income tax expense	1c	-	-
Surplus for the year after income tax		36,433,798	22,799,538
Other comprehensive income			
Property revaluation that will not be reclassified subsequently to profit or loss		3,667,742	-
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		40,101,540	22,799,538

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017	2016
		\$	\$
Current assets			
Cash and cash equivalents	7	65,723,477	45,333,810
Trade and other receivables	8	26,073,095	24,498,225
Inventories	9	423,555	350,559
Financial assets	10	191,900,000	178,829,801
Other current assets	11	2,186,624	1,842,309
Total current assets		286,306,751	250,854,704
Non-current assets			
Financial assets	10	161,474,968	144,613,877
Property, plant and equipment	12	14,590,625	12,079,060
Intangible assets	13	1,161,374	1,319,981
Total non-current assets		177,226,967	158,012,918
Total assets		463,533,718	408,867,622
Current liabilities			
Trade and other payables	14	23,775,174	25,134,503
Other current liabilities	15	61,715,683	53,183,845
Provisions	16	55,519,615	49,133,652
Total current liabilities		141,010,472	127,452,000
Non-current liabilities			
Provisions	16	2,010,768	1,004,684
Total non-current liabilities		2,010,768	1,004,684
Total liabilities		143,021,240	128,456,684
Net assets		320,512,478	280,410,938
Equity			
Reserves	17	6,948,801	3,281,059
Retained earnings		313,563,677	277,129,879
Total equity		320,512,478	280,410,938

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED 30 JUNE 2017

	Asset Revaluation Reserve	Retained Earnings	Total
	\$	\$	\$
Balance at 1 July 2015	3,281,059	254,330,341	257,611,400
Profit for the year	–	22,799,538	22,799,538
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	22,799,538	22,799,538
Balance at 30 June 2016	3,281,059	277,129,879	280,410,938
Revaluation surplus	3,667,742		3,667,742
Profit for the year		36,433,798	36,433,798
Other comprehensive income	–	–	–
Total comprehensive income for the year	3,667,742	36,433,798	40,101,540
Balance at 30 June 2017	6,948,801	313,563,677	320,512,478

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		\$	\$
Cash flows from operating activities			
Receipts from members' premiums		605,197,899	547,182,063
Benefits paid to members		(525,883,113)	(488,666,943)
Receipts from customers		12,862,593	11,496,014
Payments to suppliers and employees		(52,813,207)	(40,284,128)
Interest received		10,750,571	11,024,559
Finance costs		(460,180)	(405,331)
Net cash provided by/(used in) operating activities	20a	49,654,563	40,346,234
Cash flows from investing activities			
Proceeds from sale of investments		22,777,026	12,114,293
Purchase of intangibles		(544,403)	(743,488)
Purchase of property, plant and equipment		(1,497,519)	(825,535)
Purchase of investments		(50,000,000)	(52,900,000)
Net cash provided by/(used in) investing activities		(29,264,896)	(42,354,730)
Net change in cash and cash equivalents held		20,389,667	(2,008,496)
Cash and cash equivalents at beginning of financial year		45,333,810	47,342,306
Cash and cash equivalents at end of financial year	7	65,723,477	45,333,810

This statement should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 30 JUNE 2017

1. Statement of significant accounting policies

The consolidated general purpose financial statements of the Group have been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Teachers Federation Health Limited is a not-for-profit entity for the purpose of preparing financial statements.

Teachers Federation Health Limited (the company) trading as Teachers Health, is a company limited by guarantee, incorporated and domiciled in Australia.

STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). A statement of compliance with International Financial Reporting Standards cannot be made due to the company applying not-for-profit sector specific requirements contained in the AIFRS.

The financial statements were authorised for issue by the Directors on 21 September 2017.

BASIS OF PREPARATION

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation:

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'Group'. Further details of the Company's subsidiaries and other entities are set out on Note 24.

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

Nurses and Midwives Health Pty Ltd is a wholly owned subsidiary of the parent Teachers Federation Health Limited. It operates a separate registered health

benefits fund under its own Private Health Insurance (PHI) license. As such the subsidiary must separately comply with all relevant PHI legislation as well as APRA rules, Prudential Standards and Practice Guides.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests

c. Income tax

The Group is a private insurer within the meaning of the Private Health Insurance Act 2007 and is exempt from income tax assessment under section 50-30 of the Income Tax Assessment Act 1997.

d. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Property in use is shown at its fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction). Valuations are performed every three years or when we believe there has been a material movement in the value of the assets.

Increases in the carrying amount arising on revaluation of properties in use are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same class of asset are charged against the related revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office furniture and equipment	33%
Motor vehicles	15-20%
Computer equipment	33%
Buildings	2%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

e. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of

the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

f. Financial instruments

Initial recognition and measurement
Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instrument classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Effective interest rate method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments, other than those financial assets 'at fair value through profit or loss'.

b. Parent entity information

Information relating to Teachers Federation Health Limited

	2017	2016
	\$	\$
Statement of financial position		
Current assets	276,482,623	250,714,773
Total assets	463,709,591	408,727,691
Current liabilities	139,951,796	127,452,000
Total liabilities	141,955,881	128,220,491
Reserves	6,948,801	3,281,059
Retained earnings	314,804,909	277,226,141
Total equity	321,753,709	280,507,200
Statement of profit or loss or other comprehensive income		
Profit for the year	37,578,768	22,895,800
Other comprehensive income	-	-
Revaluation of property	3,667,742	-
Total comprehensive income	41,246,510	22,895,800

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of significant accounting policies (cont.)

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss in accordance with AASB1023 General Insurance Contracts, or realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

The carrying amount of financial assets, including uncollectible trade receivables, is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to

an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118 Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using the probability weighted discounted cash flow approach. The probability has been based on:

- > the likelihood of the guaranteed party defaulting in a 12-month period;
- > the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- > the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities

assumed is recognised in profit or loss.

g. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

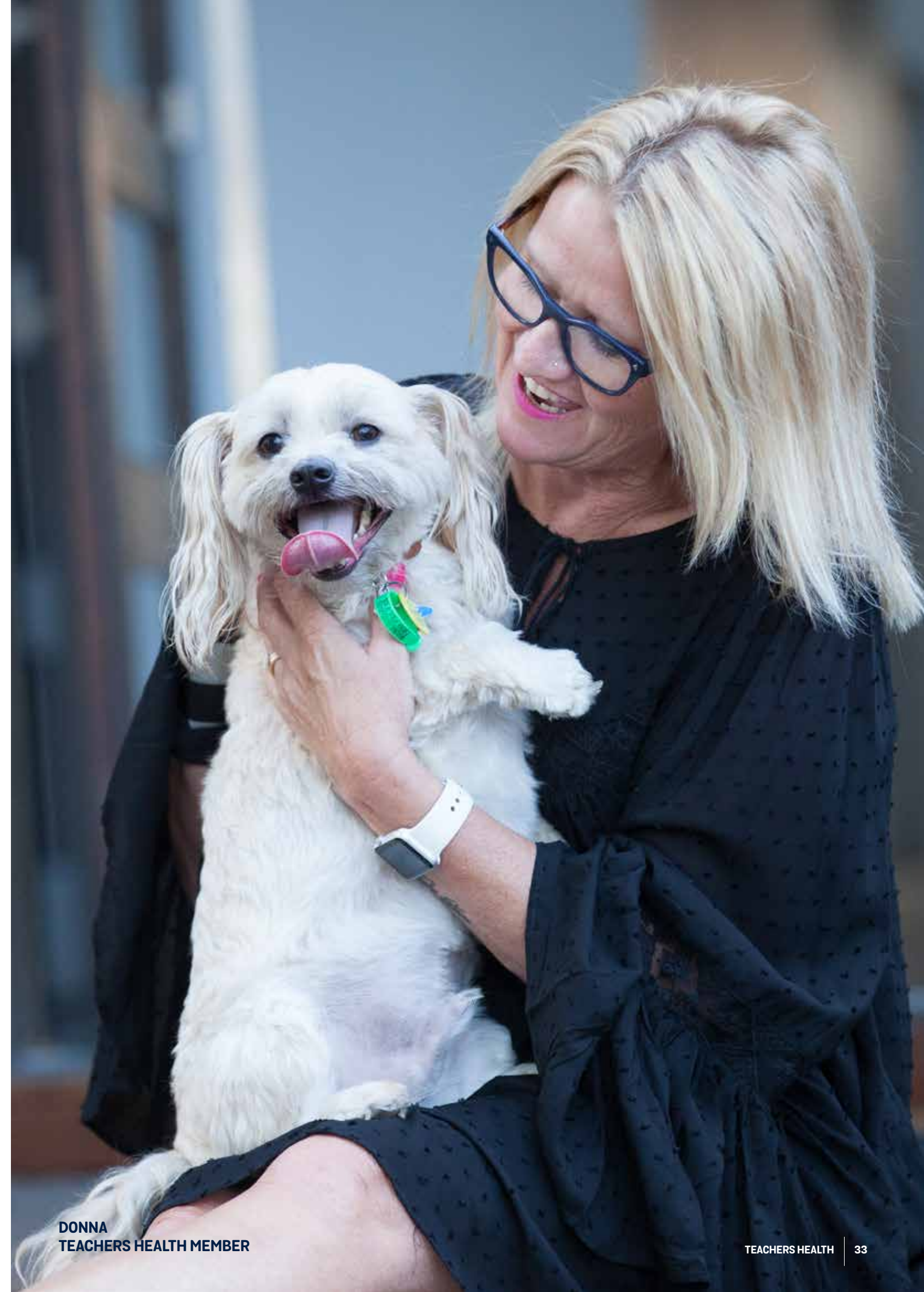
h. Intangibles

Computer software

Computer software has a finite useful life and is carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis to allocate the cost of the software over their useful lives being three years.

Licences

Licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis to allocate the cost of the licence over their useful lives.



DONNA
TEACHERS HEALTH MEMBER

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of significant accounting policies (cont.)

Amortisation

The amortisation rates used for each class of intangible assets are:

Class of intangible	Amortisation rate
Computer software	33.33%
Licences	25%

i. Employee benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's liabilities for annual leave and long service leave are included in other long term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees.

The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least

twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.

Post-employment benefits plans

The Group provides post-employment benefits through defined contribution plans.

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

j. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

k. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

l. Revenue

Premium revenue is recorded on an accruals basis, reflecting contributions received adjusted for the opening and closing contributions in advance and in arrears. Contributions received in advance are recorded as a liability, and contributions in arrears (to the extent recoverable) are recorded as an asset. Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by

the policyholder.

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Lease income from operating leases where the Group is the lessor is recognised in the income statement on a straight-line basis over the lease term. All revenue is stated net of the amount of goods and services tax (GST).

m. Claims

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unrepresented and outstanding claims. The provision for unrepresented and outstanding claims provides for claims reported but not assessed, and claims incurred but not reported.

In addition to the provision for unrepresented and outstanding claims, an unearned premium liability is also provided for to meet the costs, including claims handling costs that will arise under current insurance contracts.

n. Risk equalisation

Amounts payable to the Risk Equalisation Trust Fund (RETF) are recorded in the statement of financial performance in the period for which the payments relate. Any amounts owing at the balance date in relation to the period are brought to account as liabilities.

o. Inventories – eyecare

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the basis of full purchase price. Overheads are applied on the basis of normal operating capacity.

p. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

q. Outstanding claims liability

Provision is made at the year-end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred, but not settled, at the reporting date under insurance contracts issued by the Group. The expected future payments include those in relation to claims reported but not yet paid, and claims incurred but not yet reported, together with allowances for RETF consequences and claims handling expenses. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

r. Unexpired risk liability

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the present value of the expected future cashflows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, then the premium is deemed to be deficient. The Group applies a risk margin to achieve the same probability of

sufficiency for future claims as achieved by the estimate of the outstanding claims liability.

s. Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the profit or loss.

t. Accounting for joint ventures

Interests in joint ventures are accounted for using the equity method of accounting where material to the Group.

u. Assets backing private health insurance liabilities

As part of the investment strategy, the Group actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities. The Board has adopted a conservative approach to maintain 75% of the investment portfolio in Cash and Interest Rate Securities and a maximum of 15% in Equities.

All financial assets backing insurance liabilities are classified as fair value through the profit or loss in accordance with the accounting policy set out in Note 1 (d). With the exception of inventory – eyecare centre, intangibles and property, plant and equipment, the Group has determined that all assets are held to back private health insurance

liabilities and their accounting treatment is as set out above.

v. Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

w. Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates.

The key areas in which critical estimates are applied are as described below:

Fair value of directly-held properties

Directly-held property is measured at fair value at last valuation date less subsequent depreciation. The Group engages independent registered valuers to value each of its directly-held properties once every three years.

Outstanding claims provision

Provision is made at the year-end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contract issued by the Group. The expected future payments include those in relation to claims reported but not yet paid, and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for the RETF consequences and claims handling expense. Given the inherent uncertainty in establishing claims provisions, it is likely that actual results will differ from the original estimate.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of significant accounting policies (cont.)

In calculating the estimated cost of unpaid claims, the Group uses estimation techniques based upon statistical analysis of historical data. Allowance is made, however for changes or uncertainties which may distort the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes to the Group’s processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods.

The calculation was determined taking into account benefits paid as at 30 June 2017.

The risk margin has been based on an analysis of the past experience of the Group. The analysis examined the volatility of the past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from the RETF based upon the gross provision.

Details of specific key estimates and judgments used in deriving the outstanding claims liability at year end are detailed in Notes 2 and 16(b).

Unexpired risk liability

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience and based on no membership growth.

Details of specific key estimates and judgments used in deriving the unexpired risk liability at year end are detailed in Note 16(c).

x. Adoption of new and revised accounting standards

During the current year, the Group has adopted all new or revised Australian Accounting Standards and Interpretations which are applicable to the Group’s operations.

AASB 2015–2 Amendments to Australian Accounting Standards– Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB’s Disclosure Initiative project.

The amendments clarify the materiality requirements in AASB 101, including the emphasis on the potentially detrimental effect of obscuring useful information with immaterial information. It also adds requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position and clarifies that AASB 101’s specified line items can be disaggregated.

There is no impact on the Group’s financial statements when the amendment took effect on 1 January 2016.

y. New accounting standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group does not anticipate early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

Standard	Impact
AASB 9 Financial Instruments (applicable for reporting periods beginning on or after 1 January 2018)	<p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity’s business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none">The change attributable to changes in credit risk are presented in other comprehensive income (OCI); andThe remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>The Group has yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group’s preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.</p>
AASB 15 Revenue from Contracts with Customers (applicable for reporting periods beginning on or after 1 January 2018)	<p>AASB15 replaces AASB118 Revenue, AASB 111 Construction Contracts and some revenue-related interpretations:</p> <ul style="list-style-type: none">Establishes a new revenue recognition modelChanges the basis for deciding whether revenue is to be recognised over time or at a point in timeExpands and improves disclosures about revenue. <p>The Group has yet to undertake a detailed assessment of the impact of AASB15. However, based on the Group’s preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.</p>
AASB 16 Leases (applicable for reporting periods beginning on or after 1 January 2019)	<p>AASB 16 replaces AASB 117 Leases and some lease-related interpretations:</p> <ul style="list-style-type: none">Requires all leases to be accounted for “on-balance sheet” by lessees, other than short-term and low value asset leasesProvides new guidance on the application of the definition of lease and on sale and lease back accountingLargely retains the existing lessor accounting requirements in AASB 117Requires new and different disclosures about leases. <p>The Group is yet to undertake a detailed assessment of the impact of AASB 16.</p>
AASB 17 Insurance Contracts (applicable reporting periods commencing on or after 1 January 2021)	<p>On 19 July 2017, Australian Accounting Standard Board issued AASB 17 Insurance Contracts, incorporating the recently issued IFRS 17 Insurance Contracts. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. IFRS 17 will change the accounting for insurance contracts by the Company.</p> <p>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.</p> <p>The Group has yet to undertake a detailed assessment of the impacts of AASB 17.</p>

NOTES TO THE FINANCIAL STATEMENTS

2. Actuarial assumptions and methods

ACTUARIAL METHODS

The outstanding claims estimate for Teachers Health is derived based on four valuation classes, namely Hospital – Eclipse, Hospital – Other, Medical and General Treatment services. For Nurses & Midwives Health, the outstanding claims estimate is derived based on two valuation classes, namely Hospital/Medical and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

For Teachers Health, the outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2016: actual claims as at the balance date).

The outstanding claims provision for Nurses & Midwives Health has been estimated based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims and membership as at the balance date.

Actuarial assumptions

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

Variables – Teachers Health	2017 Hospital	2017 Medical	2017 General Treatment	2016 Hospital	2016 Medical	2016 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	89	91	96	89	91	95
Expense rate	1.17	1.17	1.17	1.14	1.14	1.14
Discount rate	–	–	–	–	–	–
Risk equalisation rate	4.57	4.57	–	5.12	5.12	–
Risk margin	7.00	7.00	7.00	6.00	6.00	6.00

Variables – Nurses & Midwives Health	2017 Hospital	2017 Medical	2017 General Treatment	2016 Hospital	2016 Medical	2016 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	48	48	88	–	–	–
Expense rate	1.08	1.08	1.08	–	–	–
Discount rate	–	–	–	–	–	–
Risk equalisation rate	6.94	6.94	–	–	–	–
Risk margin	12.5	12.5	12.5	–	–	–

The risk margin for Teachers Health in 2017 is 7.0% reflecting the use of no hindsight in the calculation of the provision (2016: 6.0% margin using no hindsight). Nurses & Midwives Health has a higher risk margin, given the size of the business, and is 12.5% utilising no hindsight.

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

i. Assumed proportion paid to date

The assumed proportion paid to date summarises the application of the chain ladder method described above to determine the total expected claims incurred in each service month.

Manual adjustments are then made for reasonableness (where necessary) to the current month and previous month. These adjustments are made by calculating the average incurred benefit per Single Equivalent Unit (SEU) per working day for each

month and graphing the results for the past four years. The seasonality exhibited by the service type is reasonably consistent from year to year, with each year’s service type showing an increase in incurred benefits from the previous year. Based on these graphs, knowledge of the industry, and details of recent Teachers Health experience, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits and hence the outstanding claims provision.

ii. Discount rate

As claims for health Groups are generally settled within one year, no discounting of claims is applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. An increase in the proportion assumed paid to date, would lead to more claims being paid earlier and therefore a decrease in the liability.

iii. Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase or decrease in this expense would have a corresponding effect on the claims expense.

iv. Risk equalisation allowance

Risk Equalisation is a mechanism designed to help support community rating. The Group is typically a net contributor to the risk equalisation pools. This allowance represents the expected contribution to be made into the pool in respect of the outstanding claims. Increasing the margin adopted will increase the overall provision in respect of outstanding claims.

v. Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 75% (2016: 75%). An increase or decrease in this margin would have a corresponding effect on the claims expense.

Sensitivity analysis – insurance contracts

Summary

The Group conducts sensitivity analysis 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 above. The movement in any key variable will impact the performance and equity of the Group.

Impact on key variables:

Variables	Movement in Variable	Adjustments on Surplus	Adjusted amount included in Statement of Profit or loss and other comprehensive income	Adjustments on Equity	Adjusted amount included in Statement of financial position
		\$'000	\$'000	\$'000	\$'000
Assumed portion paid to date	+10%	54,771	(48,974)	54,771	(4,511)
	–10%	(49,791)	55,588	(49,791)	100,051
Expense rate	+10%	(147)	5,943	(147)	50,406
	–10%	142	5,654	142	50,117
Discount rate	–	–	–	N/A	N/A
	–	–	–	N/A	N/A
Risk equalisation rate	+10%	(657)	6,543	(657)	50,916
	–10%	597	5,199	597	49,663
Risk margin	+10%	(1,418)	7,214	(1,418)	51,677
	–10%	1,289	4,507	1,298	48,970

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue

	2017	2016
	\$	\$
Premium revenue	597,958,883	543,814,107
Investment revenue	13,788,660	9,082,234
Other revenue		
Eyecare centres	6,154,352	6,181,692
Dental centres	2,873,068	2,767,191
Travel insurance	767,488	814,989
Healthcare services	821,334	571,888
Other revenue	1,033,638	1,255,062
Total other income	11,649,880	11,590,821

4. Expenses

Expenses by function

	2017	2016
	\$	\$
Claims handling expenses	(19,740,031)	(17,179,039)
Other underwriting expenses	(21,540,737)	(18,650,158)
Cost of goods sold – eyecare centres	(2,007,169)	(1,951,569)
Cost of goods sold – dental centres	(419,751)	(401,840)
Donation to Teachers Health Foundation	–	–
Finance costs	(460,180)	(439,922)
Other operating expenses		
Eyecare centres	(4,150,090)	(4,128,734)
Dental centres	(2,501,608)	(2,504,274)
Travel insurance	(413,419)	(450,870)
Healthcare services	(847,932)	(668,149)
Other	(638,271)	(746,213)
Total expenses (excluding direct claims expenses)	(52,719,188)	(47,120,768)

Expenses by nature

	2017	2016
	\$	\$
Employee benefits	(25,147,910)	(22,452,717)
Depreciation and amortisation	(3,347,705)	(3,408,310)
Finance costs	(460,180)	(439,922)
Changes in inventories – eyecare centres	(2,007,169)	(1,951,569)
Changes in inventories – dental centres	(419,751)	(401,840)
Donation to Teachers Health Foundation	–	–
Commission	(2,455,511)	(2,211,651)
Electronic claims processing fee	(1,155,605)	(1,148,017)
Software and licences	(2,730,543)	(1,886,067)
Marketing and publicity	(4,384,388)	(1,894,022)
Consulting	(2,898,425)	(3,692,703)
Printing and stationery	(384,014)	(438,838)
Postages	(538,063)	(491,317)
Rental and outgoings	(2,768,882)	(2,776,976)
Insurance	(235,069)	(175,024)
Motor vehicle and travel	(482,707)	(495,274)
Telephones	(576,895)	(377,222)
Investment expense	(382,586)	(625,566)
Other	(2,343,785)	(2,253,733)
Total expenses (excluding direct claims expenses)	(52,719,188)	(47,120,768)

5. Key management personnel compensation

The key management personnel compensation included within employee expenses is:

	2017	2016
	\$	\$
Short-term employee benefits		
Salary and fees	2,672,628	2,730,935
Other benefits	90,000	90,000
	2,762,628	2,820,935
Post-employment benefits		
Superannuation	182,971	189,258
Total key management personnel compensation	2,945,599	3,010,193

Key management personnel are those who have the responsibility for planning, directing and controlling the activities of the Group and consist of the Directors, CEO and direct reports.

NOTES TO THE FINANCIAL STATEMENTS

6. Auditors' remuneration

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity and related parties.

	2017	2016
	\$	\$
Grant Thornton audit services:		
Audit of the financial report	160,750	125,000
Audit of APRA HRF 602.0	12,000	7,750
Audit of APRA HRF 601.0	20,000	15,500
Audit of Medicare premium reduction scheme	12,000	7,750
	204,750	156,000
Grant Thornton non-audit services:		
Tax compliance and advisory services	30,791	31,566
Risk advisory services	-	1,750
	30,791	33,316
Total auditor's remuneration	235,541	189,316

7. Cash and cash equivalents

	2017	2016
	\$	\$
Cash on hand	5,350	5,350
Cash at bank	65,718,127	45,328,460
Total cash and cash equivalents	65,723,477	45,333,810

8. Trade and other receivables

	2017	2016
	\$	\$
Current		
Trade receivables	351,345	237,747
Allowance for impairment of receivables	-	-
	351,345	237,747
Premiums in arrears	2,740,131	2,384,561
Medicare rebate	17,941,205	17,003,953
Investment income receivable	2,330,796	2,001,022
Other receivables	2,709,618	2,870,942
Total current trade and other receivables	26,073,095	24,498,225

The carrying value of short term receivables is considered a reasonable approximation to fair value. All of the trade and other receivables have been reviewed for indicators of impairment, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	Within trade terms	Past due but not impaired (days overdue)			Past due and impaired	Gross amount
		< 30	31-60	> 60		
2017						
Trade receivables	351,345	-	-	-	-	351,345
Premiums in arrears	2,578,127	107,666	32,913	21,425	-	2,740,131
Medicare rebate	17,941,205	-	-	-	-	17,941,205
Investment income receivable	2,330,796	-	-	-	-	2,330,796
Other receivables	2,709,618	-	-	-	-	2,709,618
	25,911,091	107,666	32,913	21,425	-	26,073,095

	Within trade terms	Past due but not impaired (days overdue)			Past due and impaired	Gross amount
		< 30	31-60	> 60		
2016						
Trade receivables	237,747	-	-	-	-	237,747
Premiums in arrears	2,243,617	80,053	29,458	31,433	-	2,384,561
Medicare rebate	17,003,953	-	-	-	-	17,003,953
Investment income receivable	2,001,022	-	-	-	-	2,001,022
Other receivables	2,870,942	-	-	-	-	2,870,942
	24,357,281	80,053	29,458	31,433	-	24,498,225

9. Inventories

	2017	2016
	\$	\$
Finished goods – eyecare centres, at cost	423,555	350,559

NOTES TO THE FINANCIAL STATEMENTS

10. Financial assets

	2017	2016
	\$	\$
Current		
Fixed interest rate securities, at fair value	191,900,000	167,900,000
Bills of exchange and promissory notes, at fair value	–	10,929,801
	191,900,000	178,829,801
Non-Current		
Fixed interest rate securities, at fair value	–	5,000,000
Equity trusts, at fair value	28,387,924	26,256,502
Debt trusts, at fair value	133,087,044	113,357,375
Other	–	–
	161,474,968	144,613,877

11. Other assets

	2017	2016
	\$	\$
Prepayments	29,386	42,675
Bond	2,157,238	1,799,634
	2,186,624	1,842,309

12. Property, plant and equipment

	2017	2016
	\$	\$
Property in use	(a)	
At fair value	11,800,000	8,714,017
Accumulated depreciation	(19,667)	(422,002)
Total property in use	11,780,333	8,292,015
Computer equipment		
At cost	1,785,479	1,418,541
Accumulated depreciation	(1,386,202)	(1,136,120)
Total computer equipment	399,277	282,421
Motor vehicles		
At cost	645,626	581,483
Accumulated depreciation	(328,153)	(222,915)
Total Motor Vehicles	317,473	358,568
Office furniture and equipment		
At cost	13,515,538	12,452,096
Accumulated depreciation	(11,421,997)	(9,306,040)
Total office furniture and equipment	2,093,542	3,146,056
Total property, plant and equipment	14,590,625	12,079,060

(a) The fair value of the property was estimated using observable data on recent transactions and rental yields for similar properties. The Hamilton property revaluation was done by independent valuer Castle Property on 10 May 2017. The Surry Hills property revaluation was done by independent valuer Keen Property on 11 May 2017.

NOTES TO THE FINANCIAL STATEMENTS

12. Property, plant and equipment (cont.)

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Property in use	Computer equipment	Motor vehicles	Office furniture and equipment	Total
	\$	\$	\$	\$	\$
Balance at 30 June 2015	8,466,296	473,363	277,306	4,436,973	13,653,938
Additions	–	141,866	196,742	486,927	825,535
Disposals	–	(305,345)	(92,252)	(3,688)	(401,285)
Depreciation expense	(174,281)	(332,224)	(97,413)	(1,777,845)	(2,381,763)
Accumulated depreciation written back on disposal	–	304,762	74,185	3,688	382,635
Accumulated depreciation written back on revaluation	–	–	–	–	–
Revaluation surplus	–	–	–	–	–
Balance at 30 June 2016	8,292,015	282,422	358,568	3,146,055	12,079,060
Additions	–	366,937	64,144	1,066,437	1,497,518
Disposals	–	–	–	(2,995)	(2,995)
Depreciation expense	(179,423)	(250,082)	(105,238)	(2,118,952)	(2,653,694)
Accumulated depreciation written back on disposal	–	–	–	2995	2995
Accumulated depreciation written back on revaluation	581,758	–	–	–	581,759
Revaluation surplus	3,085,983	–	–	–	–
Carrying amount at 30 June 2017	11,780,333	399,277	317,473	2,093,542	14,590,625

13. Intangible assets

	2017	2016
	\$	\$
Computer software		
Cost	1,139,800	595,397
Accumulated amortisation	(531,081)	(279,197)
Net carrying value	608,718	316,200
Licences		
Cost	1,867,584	1,876,584
Accumulated amortisation	(1,314,928)	(872,803)
Net carrying value	552,656	1,003,781
Total Intangible Assets	1,161,374	1,391,981

Movements in carrying amounts

	Computer software	Licences	Total
Balance at 1 July 2015	315,956	688,584	1,004,540
Additions	153,987	1,188,000	1,341,987
Amortisation charge	(153,743)	(872,803)	(1,026,546)
Accumulated amortisation	–	–	–
Written back on disposal	–	–	–
Balance at 30 June 2016	316,200	1,003,781	1,319,981
Additions	544,403	–	544,403
Amortisation charge	(251,885)	(451,125)	(703,010)
Accumulated amortisation	–	–	–
Written back on disposal	–	–	–
Carrying amount at 30 June 2017	608,718	552,656	1,161,374

14. Trade and other payables

	2017	2016
	\$	\$
Trade creditors	984,281	1,695,648
Sundry payables and accrued expenses	16,025,893	18,938,855
Health Benefit Reinsurance Trust Fund payable	6,765,000	4,500,000
	23,775,174	25,134,503

NOTES TO THE FINANCIAL STATEMENTS

15. Other current liabilities

	2017	2016
	\$	\$
Contributions in advance (earned unclosed business)	60,217,185	51,794,409
Unearned unclosed business	1,498,498	1,389,436
	61,715,683	53,183,845

16. Provisions

	Note	2017	2016
		\$	\$
Current			
Employee benefits	(a)	4,960,245	4,670,606
Outstanding claims	(b)	50,259,370	44,463,046
Unexpired risk liability	(c)	300,000	–
		55,519,615	49,133,652
Non-current			
Employee benefits	(a)	1,210,768	1,004,684
Make good–Level 3&4 260 Elizabeth St		800,000	
		2,010,768	1,004,684

	Employee benefits	Outstanding claims	Unexpired risk liability	Make good	Total
	\$	\$		\$	\$
Balance at 1 July 2016	5,675,290	44,463,046		–	50,138,336
Net amounts recognised/ (used) during the year	495,723	5,796,324	300,000	800,000	7,392,047
Amounts reversed during the period	–	–	–	–	–
Balance at 30 June 2017	6,171,013	50,259,370	300,000	800,000	57,530,383

(a) Provision for employee benefits

A provision has been recognised for employee entitlements relating to annual and long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 1.

(b) Provision for outstanding claims

	2017	2016
	\$	\$
Outstanding claims – central estimate of the expected future payment for claims incurred	44,677,171	39,803,953
Claims handling expense	544,276	472,510
Gross outstanding claims liability	45,221,447	40,276,463
Outstanding claims – expected payments to the RETF in relation to the central estimate	1,745,447	1,669,807
Risk margin	3,292,477	2,516,776
Net outstanding claims liability	50,259,370	44,463,046

(i) Risk margin

Teachers Health:

(i) The risk margin of 7.0% (2016: 6.0%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2016: 75%). This risk margin has increased due to increased volatility in the underlying claims and processing patterns.

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of past experience of the company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on four valuation classes, namely Hospital – Eclipse, Hospital – Other, Medical and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2016: actual claims as at the balance date).

As claims for health funds are generally settled within one year, no discounting of claims is usually applies as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balances. Changes in the gross outstanding claims can be analysed as follows:

Nurses & Midwives Health:

(i) The risk margin of 12.5% (2016: nil) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2016:nil).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on industry benchmarking.

The outstanding claims estimate is derived based on two valuation classes, namely Hospital/Medical and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

NOTES TO THE FINANCIAL STATEMENTS

16. Provisions (cont.)

The outstanding claims provision has been estimated based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims and membership as at the balance date.

As claims for health funds are generally settled within one year, no discounting of claims is usually applying as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balances. Changes in the gross outstanding claims can be analysed as follows:

	2017	2016
	\$	\$
Gross outstanding claims at beginning of period	40,276,463	34,237,901
Administration component	(472,510)	(469,640)
Central estimate at beginning of period	39,803,953	33,768,262
Change in claims incurred for the prior year	(880,665)	(852,034)
Claims paid in respect of the prior year	(40,162,136)	(35,172,338)
Claims incurred during the year (expected)	504,966,289	504,595,628
Claims paid during the year (expected)	(459,050,271)	(462,535,565)
Central estimate at end of period	44,677,171	39,803,953
Administration component	544,276	472,510
Gross outstanding claims at end of period	45,221,447	40,276,463

(c) Provision for unexpired risk liability

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2017	\$	\$	\$	\$
Hospital and General Treatment Combined Premium	60,217,185	1,498,498	421,885,012	483,600,695
Outflows				
Central estimate of future benefits	53,768,758	1,343,447	379,016,903	434,129,108
Central estimate of future management expenses	3,632,100	90,379	25,439,551	29,162,030
Risk margin	1,729,830	43,327	12,350,079	14,123,235
Total outflows	59,130,688	1,477,153	416,806,533	477,414,373
Total deficiency	(1,086,497)	(21,345)	(5,078,480)	(6,186,322)
Total unexpired risk liability	11,344	464	288,192	300,000

The liability adequacy testing as at 30 June 2017 resulted in a deficiency of \$300,000 in the subsidiary Nurses & Midwives Health.

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2016	\$	\$	\$	\$
Hospital and General Treatment Combined Premium	51,794,409	1,389,436	378,300,809	431,484,654
Outflows				
Central estimate of future benefits	46,696,239	1,256,448	344,488,783	392,441,470
Central estimate of future management expenses	3,037,742	81,491	22,187,342	25,306,575
Risk margin	1,492,019	40,138	11,000,284	12,532,441
Total outflows	51,226,000	1,378,077	377,676,409	430,280,486
Total deficiency	(568,409)	(11,359)	(624,400)	(1,204,168)
Total unexpired risk liability	-	-	-	-

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience compared to projected and based on no membership growth.

The risk margins have been estimated in respect of each private health insurer to equate to a probability of adequacy of 75% (2016: 75%). For Teachers Health, the risk margin is 3.0% (2016: 3.0%), and for Nurses & Midwives Health 7.5%. These margins are applied to the respective benefits, risk equalisation, state levies and claims related expenses forecasts when determining the unexpired risk liability.

17. Reserves

Asset revaluation reserve

The asset revaluation reserve records the revaluations of non-current assets. The current balance of this reserve, being \$6,948,801 has been recognised as a result of the revaluation of the property in use this financial year and prior year revaluations.

Asset revaluation reserve movement	
	\$
Balance at 1 July 2015	3,281,059
–Revaluation	-
Balance at 30 June 2016	3,281,059
–Revaluation	3,667,742
Balance at 30 June 2017	6,948,801

NOTES TO THE FINANCIAL STATEMENTS

18. Capital and leasing commitments

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	2017	2016
	\$	\$
Payable — minimum lease payments		
– not later than 12 months	1,509,769	1,509,769
– between 12 months and five years	4,237,475	4,237,475
– greater than five years	–	–
	5,747,244	5,747,244

The operating lease commitments relate to non-cancellable premises leases entered for the operation of Health Services centres within Parramatta and Richmond and administrative premises within Surry Hills

19. Segment reporting

The Group operates predominantly in one operating segment.

20. Cash flow information

	2017	2016
	\$	\$
(a) Reconciliation of Cash Flow from Operations with Surplus after Income Tax		
Surplus after income tax	36,433,798	22,799,538
Non-cash flows in surplus:		
– Depreciation	2,653,695	2,381,763
– Amortisation	703,010	1,026,547
– Net loss on disposal of property, plant and equipment	9000	18,650
– Fair value losses/(gain) on investment trusts	(2,708,316)	2,110,524
Changes in assets and liabilities		
– Decrease/(increase) in trade and term debtors	(1,574,871)	(4,377,802)
– Decrease/(increase) in inventories – eyecare centres	(72,995)	(28,720)
– Decrease/(increase) in other assets	(344,315)	(12,812)
– Decrease/(increase) in non-current trade receivables	–	–
– Increase/(decrease) in payables	(1,359,329)	2,644,254
– Increase/(decrease) in other liabilities	8,531,838	6,323,669
– Increase/(decrease) in provisions	7,392,048	7,460,623
Cash flow from operations	49,654,563	40,346,234

21. 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

22. Related party transactions

The following table details transactions with related parties.

	Note	2017	2016
		\$	\$
Teachers Dental	(a)	225,866	219,127

(a) The Group receives rental income for the sub-letting of premises in Surry Hills.

23. Financial instruments

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2017	2016
	\$	\$
Financial assets		
Cash and cash equivalents	65,723,477	45,333,810
Financial assets at fair value through profit or loss		
– Equity trusts	28,387,924	26,256,502
– Debt trusts	133,087,044	113,357,375
– Fixed interest rate securities	191,900,000	172,900,000
– Bills of exchange and promissory notes	10,929,801	10,929,801
Loans and receivables	26,073,095	24,498,225
	445,171,540	393,275,713

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments (cont.)

	2017	2016
Financial liabilities	\$	\$
Financial liabilities at amortised cost		
– Trade and other payables	23,775,174	25,134,503
– Other liabilities	61,715,683	53,183,845
	85,490,856	78,318,348

The net carrying amounts for these financial assets and liabilities are equal to their fair values. The financial assets and liabilities above are classified as Level 1 in accordance with the requirements of AASB13 Fair Value Measurement.

The Group holds land and buildings at fair value of \$11.8m classified as Level 2. The Level 2 fair value of land and buildings has been derived using the market value approach. The key inputs under this approach are the current observable prices in an active market for similar properties in the same location and condition, and the net market rental income as at valuation date, capitalised at an appropriate market yield.

The Group does not have any derivative instruments at 30 June 2017 (2016: nil).

The Audit and Finance Committee has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. An investment policy has been developed in order to comply with APRA’s requirements.

The Group’s overall investment strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. The main risks the Group is exposed to through its financial instruments have been addressed below including; market risks, liquidity risks, credit risks and insurance risks.

Market risks

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

	Weighted average effective interest rate	Within 1 year	Fixed interest rate maturing 1 to 5 years	Greater than 5 years	Total
	%	\$	\$	\$	\$
2017					
Financial assets					
Cash and cash equivalents	1.35%	65,723,477	–	–	65,723,477
Fixed interest rate securities	2.80%	191,900,000	–	–	191,900,000
Debt trusts	2.20%	–	133,087,044	–	133,087,044
Bills of exchange and promissory notes	–	–	–	–	–
Total interest bearing financial assets		257,623,477	133,087,044	–	390,710,521
2016					
Financial assets					
Cash and cash equivalents	1.67%	45,333,810	–	–	45,333,810
Fixed interest rate securities	2.95%	167,900,000	5,000,000	–	172,900,000
Debt trusts	1.70%	–	113,357,375	–	113,357,375
Bills of exchange and promissory notes	3.69%	10,929,801	–	–	10,929,801
Total interest bearing financial assets		224,163,611	118,357,375	–	342,520,986

The following table illustrates sensitivities to the Group’s exposures to changes in interest rates. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	2017		2016	
	\$	\$	\$	\$
Interest rate movement	+2.00%	–2.00%	+2.00%	–2.00%
Impact on net result for the year	7,814,210	(7,814,210)	6,849,170	(6,849,170)
Impact on equity	7,814,210	(7,814,210)	6,849,170	(6,849,170)

Equity price risk

The Group holds investments with various equity investment portfolios. These investments are held for long-term strategic purposes rather than trading.

The following table illustrates sensitivities to the Group’s exposures to changes in equity prices. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	2017		2016	
	\$	\$	\$	\$
Equity price movement	+5.00%	–5.00%	+5.00%	–5.00%
Impact on net result for the year	1,919,396	(1,919,396)	1,312,825	(1,312,825)
Impact on equity	1,919,396	(1,919,396)	1,312,825	(1,312,825)

Foreign currency risk

The Company is not exposed to any direct material foreign currency risk (other than indirectly through unhedged exposure to foreign equity).

Commodity price risk

The Company is not exposed to any material commodity price risk.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- > preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- > maintaining a reputable credit profile
- > managing credit risk related to financial assets
- > investing only in surplus cash with major financial institutions
- > comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables on the following pages reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management’s expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management’s expectations that banking facilities will be rolled forward.

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments (cont.)

Financial liability and financial asset maturity analysis

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2017	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	23,775,174	–	–	23,775,174
Other liabilities	61,715,683	–	–	61,715,683
Total contractual outflows	85,490,856	–	–	85,490,856
Total expected outflows	85,490,856	–	–	85,490,856
Financial assets — cash flows realisable				
Cash and cash equivalents	65,723,477	–	–	65,723,477
Loans and receivables	26,073,095	–	–	26,073,095
Fixed interest rate securities	191,900,000	–	–	191,900,000
Equity trusts	–	–	28,387,924	26,387,924
Debt trusts	–	133,087,044	–	133,087,044
Total anticipated inflows	283,696,572	133,087,044	28,387,924	445,171,540
Net inflow on financial instruments	198,205,716	133,087,044	28,387,924	359,680,684

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2016	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	25,134,503	–	–	25,134,503
Other liabilities	53,183,845	–	–	53,183,845
Total contractual outflows	78,318,348	–	–	78,318,348
Total expected outflows	78,318,348	–	–	78,318,348
Financial assets — cash flows realisable				
Cash and cash equivalents	45,333,810	–	–	45,333,810
Loans and receivables	24,498,225	–	–	24,498,225
Fixed interest rate securities	167,900,000	5,000,000	–	172,900,000
Equity trusts	–	–	26,256,502	26,256,502
Debt trusts	–	113,357,375	–	113,357,375
Bills of exchange and promissory notes	10,929,801	–	–	10,929,801
Total anticipated inflows	248,661,836	118,357,375	26,256,502	393,275,713
Net inflow on financial instruments	170,343,488	118,357,375	26,256,502	314,957,365

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contractual obligations that could lead to a financial loss to the Group.

Management monitors credit risk by actively assessing the rating quality and liquidity of counter parties. The below table demonstrates the translation of grading used to assess the investments held by the Group.

APRA Grade	Standard & Poor’s	Moody’s	AM Best	Maximum exposure
1	AAA to AA	Aaa to Aa3	A++ to A+	100%
2	A+ AA–	A1 A2 A3	A to A–	50%
3	BBB+ to BBB–	Baa1 to Baa3	B++ to B+	20%
4	BB+ to B–	Ba1 to B3	B to C–	1%
5	CCC+ to D	Below B3	Below C–	1%
Unrated	–	–	–	20%

NOTES TO THE FINANCIAL STATEMENTS

23. Financial instruments (cont.)

Analysis of Standard & Poor’s Ratings:

AAA to AA–:	Encompasses the major Australian banks and the Australian Government
A+ to A–	Enables exposure to the region Australian banks that offer good risk/rewards
BBB+ to BBB–	Provides for greater exposure to regional Australian banks and hybrid securities, but a maximum of 30% is set as a prudent level when combined with liquidity requirements
Unrated	Enables access to a wide range of ASX Listed instruments and non–bank securities such as credit unions and building societies

The investment policy adopted by the Group is designed to meet the standards set by APRA. Below is an analysis of the credit risk as it stands at year end.

APRA Grading						
	1	2	3	4	Unrated	Total
2017						
Cash and cash equivalents	65,718,127	–	–	–	5,350	65,723,477
Loans and receivables	–	–	–	–	26,073,095	26,073,095
Fixed interest rate securities	132,000,000	59,900,000	–	–	–	191,900,000
Equity trusts	–	–	–	–	28,387,924	28,387,924
Debt trusts	75,131,444	56,654,234	805,228	–	496,138	133,087,044
Bills of exchange and promissory notes	–	–	–	–	–	–
Total	272,849,571	116,554,234	805,228	–	54,962,508	445,171,540
% of total	61.29%	26.18%	0.18%	0.0%	12.35%	
Maximum allowable per investment policy	100%	50%	2%	2%	20%	

APRA Grading						
	1	2	3	4	Unrated	Total
2016						
Cash and cash equivalents	45,328,460	–	–	–	5,350	45,333,810
Loans and receivables	–	–	–	–	24,498,225	24,498,225
Fixed interest rate securities	128,000,000	44,900,000	–	–	–	172,900,000
Equity trusts	–	–	–	–	26,256,502	26,256,502
Debt trusts	66,654,137	44,776,163	453,430	–	1,473,646	113,357,375
Bills of exchange and promissory notes	–	10,929,801	–	–	–	10,929,801
Total	239,898,260	100,605,964	453,430	–	52,233,721	393,275,712
% of total	61.02%	25.58%	0.12%	0.0%	13.28%	
Maximum allowable per investment policy	100%	50%	2%	2%	20%	

24. Interest in subsidiaries and other entities

Name of entity	Note	Country of incorporation and principal place of business	Principal activity	Group’s proportionate of ownership	
				2017	2016
Nurses & Midwives Health Pty Ltd	1a	Australia	Providing private health insurance	100%	100%
Teachers Healthcare Services Pty Ltd	1a	Australia	Broader health cover services of care coordination	100%	100%
Teachers Federation Health Foundation Pty Ltd*	1a	Australia	Trustee for foundation, funding or promoting medical research	100%	100%
Teachers Dental (Surry Hills)**	1t	Australia	Dental services	51%	51%

* This entity did not actively trade during the year and hence no impact on the consolidated statement of profit or loss and other comprehensive income.

** This entity is an unincorporated joint venture entity that is not material to the consolidated financial statements.

25. Group details

The registered office and principal place of business of the Group is:

Teachers Federation Health Limited
ABN 86 097 030 414
Level 4, Tower A
260 Elizabeth Street
SYDNEY NSW 2000

DIRECTORS' DECLARATION

The Directors of Teachers Federation Health Limited declare that:

- 1. The consolidated financial statements and notes, as set out on pages 25 to 59, are in accordance with the Corporations Act 2001 and:
 - i. comply with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - ii. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Group.
- 2. In the Directors' opinion there are reasonable grounds to believe that Teachers Federation Health Limited will be able to pay its debts as and when they become due and payable.

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

H M MacGregor
Director



Dated this 21st day of September 2017
Sydney, NSW

INDEPENDENT AUDITORS REPORT



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

Auditor's Opinion

We have audited the financial report of Teachers Federation Health Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration..

In our opinion, the accompanying financial report of Teachers Federation Health Limited is in accordance with the *Corporations Act 2001*, including:

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

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 are independent of the Group in accordance with 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.

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

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Information other than the Financial Report and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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 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, 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 the *Corporations Act 2001*. The Directors' responsibility also includes 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has 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 this 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_responsibilities/ar3.pdf. This description forms part of our auditor's report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M A Adam-Smith
Partner - Audit & Assurance



**We're for
teachers**

**TEACHERS
HEALTH** 

We're for teachers

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