Teachers Health Fund Annual Report

for the year ended 30 June 2014

Teachers Health Fund

Teachers Federation Health Ltd. ABN 86 097 030 414 trading as
Teachers Health Fund and UniHealth Insurance. A Registered Private Health Insurer.

Financial Snapshot

($M)	FY1314	FY1213	Change	Change %
Premium Revenue	434.1	396.1	37.9	9.6%
Gross Margin	32.2	26.2	6.0	23.0%
	7.4%	6.6%		
Management Expense	30.3	27.6	2.7	9.7%
	7.0%	7.0%		
Net Margin	1.9	-1.4	3.4	
	0.4%	-0.4%		
Investment and Other	15.3	13.3	2.0	15.2%
Operating Surplus	17.2	11.8	5.4	45.4%
Other Comprehensive Income	1.6	0.0	1.6	
Total Comprehensive Income	18.8	11.8	7.0	58.6%
Total Assets	337.9	314.4	23.5	7.5%
Total Liabilities	102.6	98.0	4.7	4.8%
Membership	123,172	114,680	8,492	7.4%
Market Share	1.96%	1.87%	0.09%	4.8%

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

Contents

From the Chairperson

Helen MacGregor
Chairperson

I am pleased to report that Teachers Federation Health Limited (TFH or Fund) has had another very successful year.

Our policyholder base continued to grow, with new members across the country. The Fund paid policyholders 93 cents for every dollar received in the way of claimed benefits and kept our management expense ratio at 7.0%, considerably lower than the industry average of 8.5%. The Fund revenue grew by 9.6% and we were able to maintain our capital at appropriate and stable levels while meeting our obligations for all claims and benefits.

The Operating Environment

Government policy continues to be a significant influence in shaping private health insurance in Australia. Changes such as the Australian Government Rebate on private health insurance have put additional pressure on the affordability of cover for many of our policyholders. In response we have endeavoured to minimise rate increases overall, while maintaining a range of products to meet different contributors' needs.

Our foundation aim, to be the private health insurer for teachers, the education industry and their families, where all profit is returned to the contributor members, remains our guiding principle and our business strategy is derived from this. As a not-for-profit fund, we pay no dividends to investors or shareholders.

The strong relationship we have with our partner unions and the education community, and our deep understanding of the needs of its policyholders are essential to your Fund's ongoing success. These factors define who we are and will remain, regardless of the changes faced in the environment in which we operate.

Governance

The health insurance regulator, the Private Health Insurance Administration Council (PHIAC), has continued with its program of introducing a range of standards and operating procedures which cause the industry to both update and in some instances change the way it operates. As PHIAC is transferred into the Australian Prudential Regulation Authority from 1 July 2015 we can foresee further changes. The Board is also mindful of the release of updated ASX Corporate Governance Council Principle & Recommendations that became effective from 1 July 2014 and is currently reviewing the implications of these new recommendations for the Fund.

Your Board remains current with regulatory change, and ensures that the Fund has in place the appropriate mechanisms to ensure best governance standards and compliance throughout the organisation, as we know that this is what our contributors and stakeholders expect.

The staff of TFH continue to be one of the Fund's greatest assets. Diversity is actively promoted and employees are treated with fairness and respect, free from harassment and discrimination.

Your Fund works to ensure all directors and employees receive the training appropriate to their professional needs through a range of development initiatives, supported by regular evaluation and monitoring.

At the end of 2013 we welcomed a new director to the Board in Michelle Rosicky and also saw the retirement of Sally Edsall from the Board after a long period of involvement. In July 2014 Jenny Diamond retired from the Board after a similar long period of service. On behalf of the Board, I thank Sally and Jenny for their dedication and contributions as directors of the Fund.

The Future

TFH is well positioned to look to the future with a comprehensive business strategy, strong relationships with key stakeholders and an equally strong commitment to our insured policyholders. The financial strength, strong management team and clear direction provide us with the opportunity, as the only health fund in Australia exclusively for teachers and the education community, to be the best health fund of choice for all our eligible members.

In Closing

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

TFH's management team and staff at every level in the organisation are integral to our ongoing success. The Board of Directors and I thank them for their effort and dedication throughout the year.

H M MacGregor
Chairperson

Helen MacGregor

Dated this 18th day of September 2014
Sydney, NSW

From the CEO

Brad Joyce
Chief Executive Officer

Teachers Federation Health Limited (TFH or Fund), the only health fund exclusively for the education community, has enjoyed another successful year with continued strong growth in our policyholder base together with a positive operating surplus.

Over the year we have been recognised for our commitment to our policyholders and were awarded:

- Private Health Insurer of the Year 2013 – Roy Morgan Research Customer Satisfaction Awards
- National Contact Centre of the Year (<30FTEs) - Australian Teleservices Association

We believe it is important to continue to strengthen our capability by continuing to improve our customer service and efficiencies and we have an ongoing commitment to achieving these goals.

Policyholder Growth

Our policyholder growth continues to be greater than the industry and we now have over 120,000 policyholders with over a quarter of a million lives covered. This maintains our position as the largest industry-based private health insurance fund and the seventh largest fund in Australia.

Over the past year, we have worked to ensure our product portfolio continues to meet the needs of policyholders. As part of this process, we launched a new brand, UniHealth Insurance, to meet the needs of tertiary education professionals.

Going forward, we will continue to seek ways to continue to provide great cover at affordable prices to all members of the education community and their families.

Financial Performance

TFH consciously operates at low margins, ensuring affordability of our products and that policyholders obtain great value for their premiums. Our operating surplus, $17.2m, reflects a prudent level of return to ensure that we can continue to sustain and strengthen the business whilst effectively managing our surplus capital.

Claims costs remain the single biggest expense for TFH. Inclusive of levies and payments in respect of risk equalisation claims costs are driven by increased utilisation and service costs. Over the FY1314 claims costs grew by $31.9m, to $401.9m. In comparison premium income grew by $37.9m, to $434.1m.

Our management expense ratio of 7.0% was in line with the historical performance and remains well ahead of the industry average of 8.5%. Our administrative processes are supplemented by strategic investment in initiatives that will continue to produce efficiencies over the longer term.

Other Revenue Streams

Solid investment returns were achieved in the year despite the difficult economic conditions, resulting in $15m income being earned on the Fund's investment portfolio. The Fund also generates commissions from the sale of travel and other general insurance policies as well as the return from the Teachers Eyecare, Dental and Physiotherapy businesses. These additional revenue streams are extremely important as they contribute substantially to the overall commercial success of the Fund and assist the Fund in minimising the unavoidable annual increase to premiums.

Strategic Focus

During the year there has been significant focus on attracting and retaining policyholders, both in our traditional heartland of NSW and across the nation. Significant effort has been directed toward brand awareness, campaigns, stakeholder engagement and strengthening of distribution channels.

This has been underpinned by ongoing improvements to our internal capabilities, both through infrastructure and technology enhancements, as well as staff development and training.

The provision of wellness and disease management programs for our policyholders continues with the ongoing support of a range of initiatives and health related programs that promote healthy and active lifestyles for persons covered by our polices, as well as our employees and the wider education community.

People

The success of TFH reflects the ongoing efforts of our team of committed staff. We continue to improve our strategies to attract, develop and retain the best people throughout the organisation. During the year the majority of TFH employees participated in learning activities specific to their development needs and the needs of the business.

The Fund supports employees in being able to maintain the right level of work-life balance and is a strong advocate of the benefits of a diverse workforce.

The Community

TFH has a strong culture of engaging in and supporting employee participation in community activities where we operate. During the year our Business Development team visited over 1,600 schools and education workplaces across the country, interacting with members and potential members to grow awareness of the Fund and directly supporting the intimate relationship the Fund has with its policyholders.

Our relationships with the wider education community are fundamental and we continue to focus on three key areas of support: reward and recognition, professional development, and health and well-being initiatives. Over the past year we have sponsored a number of education awards across many states and territories and have worked closely with our union partners and departments of education.

In addition, we provided support to a number of schools following the bushfires in the Blue Mountains west of Sydney and encourage staff to support a range of health and well-being focussed charities.

The Future

In our 60th anniversary year, TFH remains focused on operating the Fund in a responsible and sustainable manner that provides enhanced products and services to its policyholders.

It is vital that we are vigilant in monitoring and managing the escalating costs of health services and that we continue to attract new and younger policyholders to the Fund.

We will seek opportunities to diversify our sources of income and will retain sufficient capital to both meet our regulatory requirements and enable us to remain agile in an increasingly complex market.

The Fund remains well positioned to meet the upcoming challenges. Our sound business planning, a committed and effective Board, and dedicated and able staff provide TFH with the capability to continue to achieve its goals and objectives, now and into the future.

B S Joyce
Chief Executive Officer

Dated this 18th day of September 2014
Sydney, NSW

We remain the only health insurer exclusively for the education community

Review of Operations

Growth

Policyholder Growth

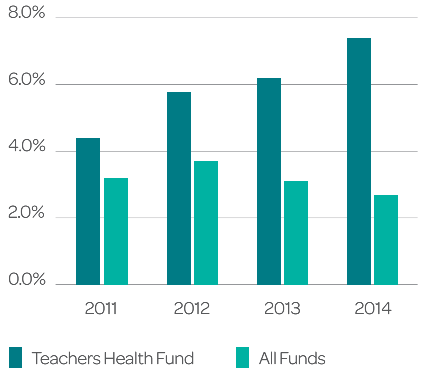
Growth is a key component of Teachers Federation Health Limited's (TFH or Fund) business strategy. Policyholder growth helps to reduce the overall administrative cost per policyholder and enables continued development of disease prevention and management services. Higher rates of growth in lower age cohorts assist in mitigating the escalating cost of benefit payments. All of these actions assist in keeping future premium increases as low as financially sustainable.

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

While NSW continues to account for over 70% of our policyholder base, TFH is continuing to achieve greater growth in other states. In FY1314, we achieved 5.6% net growth in NSW and net growth across the remaining states of nearly 13.8%.

Lapse rates for the year again reduced marginally and TFH continues to enjoy industry leading retention rates of around 97.3%.

Total Policies: Growth Rates (%)



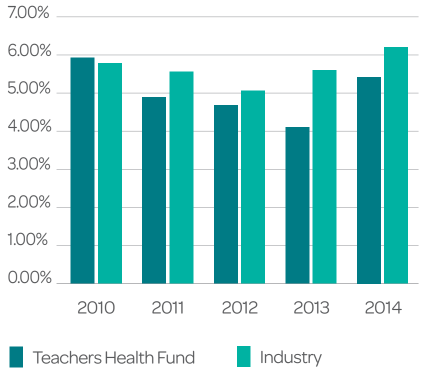
Financials

As a member focussed organisation, TFH 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 $430m. This growth is the result of TFH's pricing policy which reflects the need to cover growth in claims and achieve a sustainable and responsible level of operating surplus to maintain capital reserves at a level appropriate to a health fund of this size.

Weighted Average Rate Increase



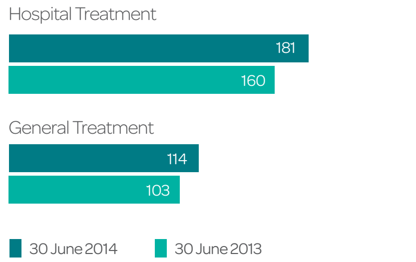
Benefit Payments

Benefit payments include: hospital 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 policyholder wellness and disease management programs.

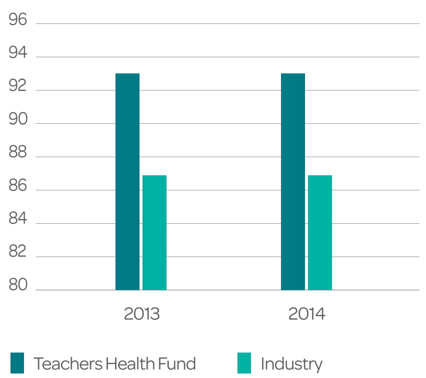
TFH incurred total benefit payments of $402m, a 8.6% increase on FY1213 ($370m). THF returned an average of $3,396 for every policyholder, up from $3,332 in FY1213.

Policyholders also utilised more services, with total hospital episodes up by 9,047 or 11.6% and general treatment episodes up by 185,420 or 9.9%.

Benefits ($ millions)



Cents in the Dollar Returned as Benefits



TFH continues to return a high proportion of contributions to policyholders.

Helping our policyholders reduce avoidable costs through appropriate prevention and management remains a key focus for TFH. In addition, we continue to monitor claiming behaviour and ensure that our benefits are appropriately tailored to meet our policyholders' needs, and also to minimise the risk of fraud.

[1] Data for this section comes from TFH's PHIAC 2 submission, PHIAC's June 14 Quarterly Statistics Report and internal management reporting. The PHIAC data is calculated in accordance with PHIAC's prudential standards and therefore may differ from figures in the financial statements which are prepared under Australian Accounting Standards

[2] Source: monthly membership report

[3] Source: monthly membership report

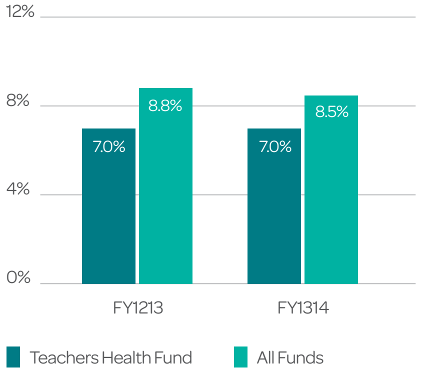
Administrative Costs

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

In FY1314 total administrative management expenses were $30.3m, representing 7.0% of contribution income, well under the industry average of 8.5%.

TFH's business strategy is to continue to provide its policyholders with easier ways to make claims and transactions, as well as find important information about the fund. With easier online claiming and a more effective website, we are delivering on this goal. Over the longer term, these initiatives will further improve efficiencies, increase customer satisfaction and ultimately achieve even lower administrative costs in the years ahead.

Management Expense Ratio



Operating Surplus

The overall gross margin increased in FY1314 to 7.4% (2013: 6.6%)

Gross Margin = Premiums less benefits

Operating Surplus = Premiums less benefits less expenses plus investment income

TFH's lower than average premium rate increase in 2014, combined with effective management of TFH's capital position, resulted in an operating surplus of $17.2m. The industry as a whole recorded a surplus of just over $1 billion.

Investments and Capital

Investments & Other Revenue

Investment income assists TFH in maintaining its capital base, and provides the financial base enabling the Board's objective to keep premium increases to a minimum, and implement growth initiatives.

The investment performance of TFH increased to over $15.2m in FY1314 (FY1213: $13.3m).

Capital

TFH'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.

Directors' Report

The Board of Directors of Teachers Federation Health Limited (TFH or Company) has pleasure in submitting its report for the year ended 30 June 2014.

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), DipACG (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 Diamond

B.A. (USYD), Dip. Ed. (Sydney Teachers College)
Independent non-executive director
Appointed director in November 2005

Special responsibilities:
Member of the People and Remuneration Committee

J M Dixon

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

Special responsibilities:
Member of the Strategy Committee

S M Edsall

B. Eco. (USYD), Dip Ed.
Independent non-executive director
Appointed director in June 2001, and retired with effect 5 November 2013

Special responsibilities:
Prior to 5 November 2013, member of the Risk and Governance Committee and Strategy 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 W Garner

Dip Mgt (MCI)
Independent non-executive director
Appointed director in July 2011

Special responsibilities:
Member of the Risk and Governance Committee and member of the Audit and Finance Committee

M Mulheron

BA Dip Ed
Independent non-executive director
Appointed director in February 2012

Special responsibilities:
None

T J Mulroy

BA Dip Ed (NSW) , AAICD
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:
None

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

Company Secretaries

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

B S Joyce

B Comm (University of Newcastle), FCPA, MAICD
Appointed company secretary in November 2010
Mr Joyce was appointed Chief Executive Officer of TFH in 2006

D N Lethbridge

LLB (Otago, NZ), Grad Dip ACG, FCIS, GAICD
Appointed company secretary in April 2012.

Mr Lethbridge was appointed Chief Operating Officer of TFH in February 2012

Directors' Report

Company Objectives

TFH'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 TFH 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, TFH'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 membership) and lift the capability of the business to support this growth.

Company Strategy

The Company'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 TFH during the financial year were:

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

The Company also provided travel, general and life insurance under an agency agreement with a third party provider. Those arrangements ceased with effect from 31 December 2013. From 1 January 2014 the Company is a third party provider of travel insurance under an authorised representative agreement.

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

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

Measuring Performance

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

Meetings of Directors

During the financial year, 24 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Board Meetings		Committee Meetings							
			Risk & Governance Committee		Audit & Finance Committee		Strategy Committee		People & Remuneration Committee	
Name	E	A	E	A	E	A	E	A	E	A
N E Dawson	8	8	4	4					3	3
J Diamond	8	5							3	2
J M Dixon	8	7					4	4		
S M Edsall (retired November 2013)	3	1	1	1			1	1		
M C Fogarty	8	8			5	4			3	3
M W Garner	8	8	4	4	5	5				
H M MacGregor	8	8	4	4	5	5	4	3	3	3
M Mulheron	8	4								
T Mulroy	8	8			5	5				
M Rosicky (appointed November 2013)	5	5								
N S Smith	8	8			5	5	4	4		
D Wynne	8	8	4	2			4	4	3	3

Table Key:
E Number of meetings eligible to attend
A Number of meetings attended

Members' guarantee

The Company is limited by guarantee and hence has no contributed equity. If the Company is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the Company) that remains after payment of all of the debts and liabilities of the company shall be paid to an entity or organisation selected by the Directors, or in default by the court, which prohibits the distribution of its assets and income to its members. If the Company is wound up and cannot meet its debts, the Constitution states that each member of the Company is required to contribute a maximum of ten dollars ($10.00) towards meeting any outstanding obligations of the Company. The total amount that members of the Company were liable to contribute at 30 June 2014 if the Company was wound up was one hundred and eighty dollars ($180.00).

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15 and forms part of this directors' report.

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

H M MacGregor
Director

Dated this 18th day of September 2014
Sydney, NSW

Auditor's Independence Declaration

Grant Thornton

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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 2014, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M A Adam-Smith
Partner - Audit & Assurance

Sydney, 18 September 2014

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Corporate Governance Statement

Governance at Teachers Federation Health

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

As at 30 June 2014, the Board's corporate governance practices are based on the corporate governance principles issued by the ASX Corporate Governance Council's Principles and Recommendations second edition (ASX Guidelines) as far as they are applicable to an unlisted, not-for-profit company limited by guarantee, and reflect the ongoing focus of the Board in discharging its responsibilities at an appropriate level to meet the full expectations of Company members, fund contributors, regulatory authorities and the general community.

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

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

Board of Directors

Roles and Responsibilities

The roles and responsibilities of the Board are set out 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 TFH and effective oversight of management. The Board ensures that the Company complies with its Constitution and all legal and regulatory requirements. The Board has reserved to itself the following specific responsibilities:

- Strategy including charting the direction, strategies and performance objectives for TFH 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 TFH integrity;
- Oversight of financial and capital management including establishing and overseeing TFH accounting and financial management systems, monitoring TFH financial results on an ongoing basis, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of TFH; 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 TFH, 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 TFH other than those specifically reserved to itself in the Board Charter and the Delegation of Authority Policy. The CEO is not a director of the Company. Under the Company's Delegation of Authorities Policy, the CEO, Executive Management and other employees of TFH 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 ten directors, each of whom is a non-executive and independent director in accordance with the criteria set out in the Private Health Insurance (Insurer Obligations) Rules 2007. As set out in the Company's Constitution, the Board is made up of the following classes of directors:

- two ex officio directors, being the President of the NSW Teachers Federation and the General Secretary of the NSW Teachers Federation;
- five elected member (policyholder) directors;
- two specialist directors; and
- one employee director

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

The Chairperson is an independent and non-executive director appointed by the Board. The Chairperson's responsibilities include:

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

Appointment and Election of Directors

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

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

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

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

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

The Board has developed a role description for directors that details the role and responsibilities of directors as well as the professional qualifications and skills required.

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

Director Induction and Education

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

Board Meetings

The Board meets regularly during the year according to a schedule determined at the end of each calendar year. The scheduled meetings are supplemented by special purpose meetings where required. An extensive agenda is prepared for each meeting. The agenda enables Directors to be adequately informed about the operations of TFH, to monitor management's implementation of key strategic initiatives and to consider the environment in which the health benefits fund operates. Matters of a strategic nature are given priority. In addition to the Board meetings, a structured directors' development and strategy review is the major focus of the Board Strategy Day held at least annually.

Conflicts of Interest

TFH 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

TFH has developed and implemented a Fit and Proper Policy for Responsible Persons to assist in assessing the fitness and propriety of TFH 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 Company undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. The policy includes a process for dealing with and reporting breaches of the policy.

Access to Company Information and Independent Professional Advice

Managers responsible for critical areas of the business are regularly requested to brief the Board and its Committees so as to assist Directors in maintaining their familiarity with, and understanding of TFH 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 TFH 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 TFH Constitution, directors are to be paid, in the aggregate, the remuneration determined by resolution at a meeting of the Company members. In November 2012, the Company members determined an aggregate amount of $100,000 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 2014, the total remuneration paid and divided among the directors was $75,030.

TFH 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 (9.25% for the reporting year, now 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 Company. 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. TFH policy in respect of the CEO and Executive Management incorporates remuneration that is competitively set so the organisation can attract, motivate and retain high calibre executives to lead the Company. The People and Remuneration Committee 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 Company.

Board Performance

The Board has a policy of undertaking an annual assessment of its collective performance and the performance of individual directors and of its committees. This assessment may be by way of self-assessment and is periodically supplemented by 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 Company. 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

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

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

The Committee's responsibilities also include:

- an objective non-executive review of the effectiveness of the financial reporting framework to ensure the balance, transparency and integrity of published financial information;
- the appointment, role and performance of the Appointed Actuary;
- the effectiveness of TFH'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.

The Committee Charter provides that the Committee meet at least four (4) times per year. The Committee met five (5) times during the reporting year. The External Auditor met with the Committee four (4) 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 TFH organisational capability and succession plan for employees, managers and executives; and
- review people-related issues and policies generally.

The Committee met three (3) times during the reporting year.

Risk and Governance Committee

The Risk and Governance Committee has been established to assist the Board fulfil its statutory and fiduciary responsibilities relating to the effectiveness of TFH's risk management and TFH's process for monitoring compliance with laws, regulations and TFH's policies. The Committee develops and recommends to the Board for approval, corporate governance principles, policies and practices which should apply to TFH. The Committee comprises four (4) members of the Board.

The Committee also make recommendations to the Board on:

- TFH's systems and procedures for compliance with laws, regulations, internal policies and industry standards;
- TFH's system of risk management and internal control including:
  - the effectiveness TFH's risk management and internal control framework, including the TFH Risk Management Plan and Risk Register, having regard to TFH's risk management culture;
  - the identification and assessment of the material risks facing TFH considered against TFH's risk appetite;
  - the TFH Business Continuity and Disaster Recovery Plan; and
  - the appropriate level of reporting on the performance and application of the risk management and internal control system throughout TFH;
- best practice developments in corporate governance;
- TFH corporate governance policies and practices;
- corporate governance, regulatory and compliance issues including the Private Health Insurance Act 2007, PHIAC Standards and Regulations, the Corporations Act and ASIC requirements; and
- disclosure of corporate governance policies and information to ensure effective communication of TFH corporate governance practice.

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 TFH. The Committee is comprised of five (5) members of the Board.

The principal responsibilities of the Committee are to:

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

The Committee met four (4) times during the reporting year.

Accountability and Audit

External audit

The Company has retained Grant Thornton ("External Auditor") to audit its records and financial statements of the Company for the 2014 financial year.

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 TFH 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 Company on the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by TFH 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.

Internal audit

Internal audit operates under its own Charter. KPMG is the Company's appointed Internal Auditor. The internal audit function provides an independent and objective internal audit review of TFH risks and how the key internal controls are designed and are operating so as to provide reasonable assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of management or the Board. These controls have been established by management and are reviewed from time to time by the internal auditor and the findings of this review reported to the Audit and Finance Committee and the Board.

Risk Management

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

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

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

Ethical Standards

Code of Conduct

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

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

Industry Code of Practice

TFH operates under the Private Health Industry Code of Conduct. The Code forms the basis for the manner in which the people of TFH perform their work and requires TFH 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.

TFH has regularly submitted annual self audits and has been assessed by the PHI Code of Conduct – Compliance Committee as being a compliant fund. TFH is required to submit a certification yearly that states it is compliant with the code and self audit. Every three years, TFH completes and submits a full self audit. TFH completed a full self audit in June 2014.

Diversity

TFH 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 TFH business and enhance the performance of the Company.

The Company has been an EOWA Employer of Choice for Women since 2011. TFH has reaffirmed its commitment to gender equality within the organisation on its website. Continuous improvement, including that of diversity and gender equality, remain an ongoing objective for TFH in its 60th year. The number of woman across the organisation as at 30 June 2014 is shown in the below table.

In accordance with the requirements of the Workplace Gender Equality Act 2012, on 29 May 2014, TFH 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.

Whistleblower Policy

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

- dishonest behaviour;
- fraudulent activity;
- corrupt practices;
- illegal activities;
- unethical activity including a breach of the TFH 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 TFH or be otherwise detrimental to the interests of TFH.

Category	Number	Percentage of category
Women on the Board	4	40%
Women in senior executive positions	2	22%
Women in management positions	23	58%
Women employees in whole organisation	166	65%

Financial Statements

Key Financial Performance

Premium Revenue

Premium revenue this year amounted to $434.1m (2013: $396.1m), an increase by 9.6% brought about by annual membership growth of 7.4% and rate increase of 5.4%.

Net Claims

Net claims incurred increased by 10.8% with benefits paid to members reaching $381.6m (2013: $343.7m) this year. This translates to over 93 cents paid back to members in benefits for every dollar TFH received in premiums.

Underwriting Result

TFH achieved a $2.7m underwriting result for 2014 which is an improvement from last year's deficit of $.9m. In 2014, the provision for unexpired risk liability decreased as a result of more favourable net margin forecasts.

Assets

Total assets increased to $337.9m in 2014 (2013: $312.4m) with increase in cash and cash equivalents by $6.5m and total financial assets by $19.0m.

Liabilities

Total liabilities reached $102.6m (2013: $95.9m), which is an increase by 7.1%. This is mainly brought about by the increase in contribution received in advance.

Equity

TFH capital of $235.3m (2013: $216.5m) increased by 8.7%. There was a revaluation of Reservoir Street property this year which saw an increase in the reserve by $1.6m.

Cash Flow

Overall cash flow performance is positive with a $5.4m increase in cash flows coming from operating activities and a significant decrease in cash outflows from investing activities in 2014. The decrease in outflows was brought about by 2013 refurbishment of leased property in 260 Elizabeth St Sydney and the Reservoir Street property.

Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2014

	Note	2014	2013
		$	$
Premium Revenue	3	434,074,100	396,130,213
Claims expense		(381,644,698)	(343,681,501)
Risk equalisation trust fund expense		(15,014,895)	(14,296,811)
State levies		(9,508,169)	(8,684,159)
Net claims incurred		**(406,167,762)**	**(366,662,471)**
Unexpired risk liability (increase)/decrease		4,306,510	(3,286,081)
Claims handling expenses	4	(15,568,074)	(13,441,414)
Other underwriting expenses	4	(13,977,163)	(13,660,009)
Underwriting expenses		**(25,238,727)**	**(30,387,504)**
Underwriting result		**2,667,611**	**(919,762)**
Investment revenue	3	14,844,488	14,057,821
Other revenues	3	11,485,284	8,855,577
Cost of goods sold	4	(2,219,942)	(2,270,600)
Other expenses	4	(9,170,776)	(7,448,417)
Finance costs	4	(389,383)	(436,529)
Surplus before income tax		**17,217,282**	**11,838,090**
Income tax expense	1a		-
Surplus for the year after income tax		**17,217,282**	**11,838,090**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Revaluation of property		1,555,834	-
Other comprehensive income net of tax		1,555,834	-
Total comprehensive income for the year		**18,773,116**	**11,838,090**

Statement of Financial Position

As at 30 June 2014

	Note	2014	2013
		$	$
Current assets			
Cash and cash equivalents	7	46,182,753	39,719,093
Trade and other receivables	8	18,860,304	18,824,009
Inventories	9	298,820	307,590
Financial assets	10	91,990,000	90,479,000
Other current assets	11	1,838,673	1,804,356
Total current assets		**159,170,550**	**151,134,048**
Non-current assets			
Financial assets	10	162,625,276	145,090,574
Property, plant and equipment	12	15,908,817	15,995,647
Intangible assets	13	197,308	141,736
Total non-current assets		**178,731,401**	**161,227,957**
Total assets		**337,901,951**	**312,362,005**
Current liabilities			
Trade and other payables	14	16,549,339	17,091,954
Other current liabilities	15	38,537,927	32,086,045
Provisions	16	46,586,707	45,567,796
Total current liabilities		**101,673,973**	**94,745,795**
Non-current liabilities			
Provisions	16	971,989	1,133,337
Total non-current liabilities		**971,989**	**1,133,337**
Total liabilities		**102,645,962**	**95,879,132**
Net assets		**235,255,989**	**216,482,873**
Equity			
Reserves	17	3,281,059	1,725,225
Retained earnings		231,974,930	214,757,648
Total equity		**235,255,989**	**216,482,873**

Statement of Changes in Equity

For year ended 30 June 2014

	Share Capital	Asset Revaluation Reserve	Retained Earnings	Total
	$	$	$	$
Balance at 1 July 2012	**-**	**1,725,225**	**202,919,558**	**204,644,783**
Profit for the year	-	-	11,838,090	11,838,090
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Balance at 30 June 2013	**-**	**1,725,225**	**214,757,648**	**216,482,873**
Profit for the year	-	-	17,217,282	17,217,282
Other comprehensive income	-	1,555,834	-	1,555,834
Total comprehensive income for the year	-	1,555,834	-	1,555,834
Balance at 30 June 2014	**-**	**3,281,059**	**231,974,930**	**235,255,989**

Statement of Cash Flows

For year ended 30 June 2014

	Note	2014	2013
		$	$
Cash flows from operating activities			
Receipts from members' premiums		439,804,698	389,669,999
Benefits paid to members		(401,637,235)	(358,476,960)
Receipts from customers		12,503,309	9,772,158
Payments to suppliers and employees		(39,183,250)	(32,796,061)
Interest received		13,242,988	11,219,667
Finance costs		(389,383)	(436,529)
Net cash provided by operating activities	20a	**24,341,127**	**18,952,274**
Cash flows from investing activities			
Proceeds from sale of investments		122,861,290	110,492,047
Purchase of intangibles		(146,015)	(96,830)
Purchase of property, plant and equipment		(1,102,742)	(7,533,777)
Purchase of investments		(139,490,000)	(100,000,000)
Net cash used in investing activities		**(17,877,467)**	**2,861,440**
Net change in cash and cash equivalents held		6,463,660	21,813,714
Cash and cash equivalents at beginning of financial year		39,719,093	17,905,379
Cash and cash equivalents at end of financial year	7	**46,182,753**	**39,719,093**

Notes to the Financial Statements

For year ended 30 June 2014

1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has 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 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 18 September 2014.

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.

Adoption of New and Revised Accounting Standards

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

AASB 13 Fair Value Measurement

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Company has however included as comparative information the AASB 13 disclosures that were required previously by AASB 7 Financial Instruments: Disclosures.

Amendments to AASB 119 Employee Benefits

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- eliminate the 'corridor method' and requires the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. As the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period, annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability. This change has had no impact on the presentation of annual leave as a current liability in accordance with AASB 101 Presentation of Financial Statements.

These amendments have had no significant impact on the Company.

Notes to the Financial Statements

1. Statement of Significant Accounting Policies (cont'd)

Significant Accounting Policies

a. Income Tax

The Company 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.

b. 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 the Directors 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 Company 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 Company 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 Company 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%
Property in use	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.

c. 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 Company 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.

d. 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'.

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 Company 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.

Notes to the Financial Statements

1. Statement of Significant Accounting Policies (cont'd)

e. Impairment of Non-Financial Assets

At each reporting date, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. 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.

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

g. Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

h. Provisions

Provisions are recognised when the Company 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.

i. 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.

j. 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 Company 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).

k. 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 unpresented and outstanding claims. The provision for unpresented and outstanding claims provides for claims received but not assessed and claims incurred but not received.

In addition to the provision for unpresented 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.

l. Risk equalisation

Amounts payable to the Risk Equalisation Trust Fund 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.

m. 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.

n. 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.

o. 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 Company. 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. Actual results could differ from the estimate.

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.

p. 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 Company applies a risk margin to achieve the same probability of sufficiency for future claims as achieved by the estimate of the outstanding claims liability.

q. 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 Company 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.

r. Accounting for joint ventures

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

s. Assets backing private health insurance liabilities

As part of the investment strategy, the Company 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 insurance backing financial assets are classified as fair value through the profit or loss in accordance with the accounting policy set out in Note 1 (d). Previously fixed interest rate securities were held at Held-to-maturity. There is no movement in fair value for both the current and prior year between these classifications and therefore the reclassification is considered immaterial.

With the exception of inventory - eyecare centre, intangibles and property, plant & equipment, the company has determined that all assets are held to back private health insurance liabilities and their accounting treatment is as treated above.

t. Comparative Figures

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

Notes to the Financial Statements

1. Statement of Significant Accounting Policies (cont'd)

u. 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 Company. Actual results may differ from these estimates. The key areas in which critical estimates are applied are as described below:

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 company. 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.

In calculating the estimated cost of unpaid claims the Company 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 Company'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 2014.

The risk margin has been based on an analysis of the past experience of the Company. 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(c).

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.

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

v. 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 Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

Standard	Impact
AASB 9 Financial Instruments (applicable for reporting periods beginning on or after 01 January 2018)	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. 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: (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. (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. (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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and • The remaining change is presented in profit or loss. 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. The company has not yet assessed the full impact of AASB9 as this standard does not apply mandatorily before 01 January 2018.
Consolidated Financial Statements (applicable for reporting periods beginning on or after 01 January 2014)	AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements and AASB Interpretation 112 Consolidation – Special Purpose Entities. The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control. This is likely to lead to more entities being consolidated into the group. There will be no material impact on the transactions and balances recognised in the financial statements of the Company.

Notes to the Financial Statements

1. Statement of Significant Accounting Policies (cont'd)

Standard	Impact
Joint Arrangements (applicable for reporting periods beginning on or after 01 January 2014)	AASB 11 replaces AASB 131 Interests in Joint Ventures and AASB Interpretation 113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. The distribution from Teachers Dental is recognised in the accounts on receipt of the distribution. The company will reassess the adoption of AASB 11 next year.
AASB 12 Disclosure of Interest in Other Entities (applicable for reporting periods beginning on or after 01 January 2014).	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures introduced by AASB 12 include disclosures about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.
AASB 127 Separate Financial Statements (applicable for reporting periods beginning on or after 01 January 2014).	As a consequence of issuing AASB 10, AASB 11 and AASB 12, revised versions of AASB 127 and AASB 128 have also been issued. AASB 127 now only deals with separate financial statements. AASB 128 incorporates the requirements in Interpretation 113 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, and guidance relating to the equity method for associates and joint ventures. When this revised standard is adopted for the first time for the financial year ending 30 June 2015, there will be no impact on the financial statements because it introduces no new requirements.
AASB 128 Investments in Associates and Joint Ventures (applicable for reporting periods beginning on or after 01 January 2014).	AASB 127 now only deals with separate financial statements. AASB 128 incorporates the requirements in Interpretation 113 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, and guidance relating to the equity method for associates and joint ventures. When this revised standard is adopted for the first time for the financial year ending 30 June 2015, there will be no impact on the financial statements because it introduces no new requirements.
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards (applicable for reporting periods beginning on or after 01 January 2014).	AASB 2011-7 makes various consequential amendments to Australian Accounting Standards arising from AASB 10, AASB 11, AASB 12, AASB 127 (August 2011) and AASB 128 (August 2011). When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any material impact on the Company given that they are largely of an editorial nature.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

2. Actuarial Assumptions and Methods

Actuarial Methods

The outstanding claims estimate is derived based on three valuation classes, namely Hospital, Medical and General Treatment services.

In calculating the estimated cost of unpaid claims a chain ladder method is used. The chain ladder method assumes that the development pattern of the current claims will be consistent with historical experience. This means that the payments in a given period, relative to claims incurred in prior periods, remains relatively stable over time. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

Actuarial Assumptions

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

Variables	2014 Hospital	2014 Medical	2014 General Treatment	2013 Hospital	2013 Medical	2013 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	89	91	94	91	91	95
Expense rate	1.52	1.52	1.52	1.50	1.50	1.50
Discount rate	-	-	-	-	-	-
Risk equalisation rate	5.82	5.82	-	6.83	6.83	-
Risk margin	5.00	5.00	5.00	6.75	6.75	6.75

The risk margin of 5.0% (2013:6.75%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2013: 75%).

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 current month less 1 results. 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 TFH 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 funds are generally settled within one year, no discounting of claims is usually 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.

2. Actuarial Assumptions and Methods (cont'd)

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. TFH 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 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 and has been set at a level estimated to equate to a probability of adequacy of 75% (2013: 75%). An increase or decrease in this expense would have a corresponding effect on the claims expense.

Sensitivity analysis – insurance contracts

Summary
The Company 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 company.

Impact on key variables:

Variables	Movement in Variable	Adjustments on Surplus	Adjusted amount included in Income Statement	Adjustments on Equity	Adjusted amount included in Balance Sheet
		$'000	$'000	$'000	$'000
Assumed portion paid to date	+10%	34,910	(30,130)	34,910	3,555
	-10%	(31,737)	36,517	(31,737)	70,202
Expense rate	+10%	(55)	4,835	(55)	38,520
	-10%	50	4,731	50	38,416
Discount rate	-	N/A	N/A	N/A	N/A
	-	N/A	N/A	N/A	N/A
Risk equalisation rate	+10%	(161)	4,942	(161)	38,626
	-10%	146	4,634	146	38,319
Risk margin	+10%	(183)	4,964	(183)	38,649
	-10%	167	4,614	167	38,299

3. Revenue

	Note	2014	2013
		$	$
Premium revenue		**434,074,100**	**396,130,213**
Investment revenue		**14,844,488**	**14,057,821**
Other revenue			
Eyecare centres		7,893,357	7,090,694
Dental centres		2,872,751	1,448,826
Travel insurance		405,531	-
Other revenue		313,645	316,057
Total other income		**11,485,284**	**8,855,577**

4. Expenses

Expenses by function

	Note	2014	2013
		$	$
Claims handling expenses		(15,568,074)	(13,441,414)
Other underwriting expenses		(13,977,163)	(13,660,009)
Fair value gain on investment trusts		-	-
Cost of goods sold – eyecare centres		(1,824,378)	(1,995,239)
Cost of goods sold – dental clinic		(395,564)	(275,361)
Other operating expenses		(8,707,434)	(6,952,927)
Finance costs		(389,383)	(436,529)
Total expenses (excluding direct claims expenses)		**(40,861,996)**	**(36,761,479)**

Notes to the Financial Statements

4. Expenses (cont'd)

Expenses by nature

	2014	2013
	$	$
Employee benefits	(20,015,257)	(17,221,097)
Depreciation and amortisation	(2,801,077)	(2,402,294)
Finance costs	(389,383)	(436,529)
Changes in inventories - eyecare centre	(1,824,378)	(1,955,094)
Changes in inventories – dental clinic	(395,564)	(275,361)
Fair value gain on investment trusts	-	-
Other	(15,436,337)	(14,471,104)
Total expenses (excluding direct claims expenses)	**(40,861,996)**	**(36,761,479)**

5. Key Management Personnel Compensation

The key management personnel compensation included within employee expenses is:

	2014	2013
	$	$
Short-term employee benefits		
Salary and fees	2,453,269	1,927,245
Other benefits	89,331	155,528
	2,542,600	2,082,773
Post-employment benefits		
Superannuation	164,371	153,470
Total key management personnel compensation	**2,706,971**	**2,236,243**

Key management personnel are those who have the responsibility for planning, directing and controlling the activities of the company and consist of the directors, CEO and those employees who report directly to him.

6. Auditors' Remuneration

	2014	2013
		$
Grant Thornton audit services:		
Audit of the financial report	118,000	118,000
Audit of PHIAC 2 return	7,500	7,500
Audit of PHIAC 1 returns	15,000	15,000
Audit of Medicare premium reduction scheme	7,500	7,500
	148,000	**148,000**
Grant Thornton non-audit services:		
Tax compliance and advisory service	3,500	3,850
Total auditor's remuneration	**151,500**	**151,850**

7. Cash and Cash Equivalents

	2014	2013
		$
Cash on hand	5,050	5,050
Cash at bank	46,177,703	39,714,043
Total cash and cash equivalents	**46,182,753**	**39,719,093**

Notes to the Financial Statements

8. Trade and Other Receivables

	2014	2013
	$	$
Current		
Trade receivables	204,577	122,666
Allowance for impairment of receivables	-	-
	204,577	**122,666**
Premiums in arrears	4,116,101	3,930,261
Medicare rebate	11,197,412	10,661,969
Investment income receivable	2,097,910	2,913,400
Other receivables	1,244,304	1,195,713
Total current trade and other receivables	**18,860,304**	**18,824,009**

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		
2014						
Trade receivables	204,577	-	-	-	-	204,577
Premiums in arrears	3,672,129	306,816	92,016	45,140	-	4,116,101
Medicare rebate	11,197,412	-	-	-	-	11,197,412
Investment income receivable	2,097,910	-	-	-	-	2,097,910
Other receivables	1,294,518	-	-	-	-	1,294,518
	18,860,304	**-**	**-**	**-**		**18,860,304**

	Within trade terms	Past due but not impaired (days overdue)			Past due and impaired	Gross amount
		< 30	31-60	> 60		
2013						
Trade receivables	122,666	-	-	-	-	122,666
Premiums in arrears	3,820,755	69,881	6,710	32,915	-	3,930,261
Medicare rebate	10,661,969	-	-	-	-	10,661,969
Investment income receivable	2,913,400	-	-	-	-	2,913,400
Other receivables	1,195,713	-	-	-	-	1,195,713
	18,824,009	**-**	**-**	**-**	**-**	**18,824,009**

9. Inventories

	2014	2013
	$	$
Finished goods – Eyecare Centres, at cost	**298,820**	**307,590**

10. Financial Assets

	Note	2014	2013
		$	$
Current			
Fixed interest rate securities, at fair value		86,490,000	82,490,000
Bills of exchange and promissory notes, at fair value		5,500,000	7,989,000
		91,990,000	**90,479,000**
Non Current			
Fixed interest rate securities, at fair value		-	1,000,000
Bills of exchange and promissory notes, at fair value		22,191,203	30,780,000
Equity trusts, at fair value		27,087,069	11,482,622
Debt trusts, at fair value		113,332,421	101,815,057
Other		14,583	12,895
		162,625,276	**145,090,574**

11. Other Assets

	Note	2014	2013
		$	$
Prepayments		35,631	4,216
Bond		1,803,042	1,800,140
		1,838,673	**1,804,356**

Notes to the Financial Statements

12. Property, Plant and Equipment

	Note	2014	2013
		$	$
Property in use			
At fair value	(a)	8,714,017	7,514,017
Accumulated depreciation		(73,441)	(276,994)
Total property in use		**8,640,576**	**7,237,023**
Computer equipment			
At cost		1,312,197	1,667,091
Accumulated depreciation		(714,763)	(954,997)
Total computer equipment		**597,434**	**712,094**
Motor vehicles			
At cost		462,445	411,266
Accumulated depreciation		(201,332)	(210,533)
Total Motor Vehicles		**261,113**	**200,733**
Office furniture and equipment			
At cost		11,837,775	11,322,823
Accumulated depreciation		(5,428,081)	(3,477,026)
Total office furniture and equipment		**6,409,694**	**7,845,797**
Total property, plant and equipment		**15,908,817**	**15,995,647**

(a) The fair value of the property in use was independently valued by Darren Keen of Keen Property Pty Limited as at 14 May 2014. This valuation has been conducted on the basis of market value and has been performed through a review of sale and rental values of comparable properties within close proximity. Reservoir St Surry Hills property valuation increased by $1.2m this financial year based upon this independent valuation.

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 1 July 2012	7,387,303	416,270	282,986	2,717,782	10,804,343
Additions	-	696,687	-	6,837,089	7,533,776
Disposals	-	(187,733)	-	(969,497)	(1,157,230)
Depreciation expense	(150,280)	(400,325)	(82,253)	(1,608,176)	(2,241,034)
Accumulated depreciation written back on disposal	-	187,195	-	868,600	1,055,795
Balance at 30 June 2013	**7,237,023**	**712,094**	**200,733**	**7,845,798**	**15,995,648**
Additions	-	257,268	181,613	663,860	1,102,741
Disposals	-	(612,163)	(130,434)	(148,909)	(891,506)
Depreciation expense	(152,280)	(370,275)	(88,120)	(2,099,964)	(2,710,639)
Accumulated depreciation written back on disposal	-	610,510	97,321	148,909	856,740
Accumulated depreciation written back on revaluation	355,833	-	-	-	355,833
Revaluation	1,200,000	-	-	-	1,200,000
Carrying amount at 30 June 2014	**8,640,576**	**597,434**	**261,113**	**6,409,694**	**15,908,817**

Notes to the Financial Statements

13. Intangible Assets

	Note	2014	2013
		$	$
Computer software			
Cost		314,688	599,702
Accumulated impairment losses			-
Accumulated amortisation		(117,380)	(457,966)
Net carrying value		**197,308**	**141,736**
Opening balance		141,736	189,859
Additions		146,015	96,830
Disposals		(431,028)	(140,146)
Accumulated amortisation written back on disposal		431,022	
Amortisation charge		(90,437)	(4,807)
Net carrying value		**197,308**	**141,736**

14. Trade and Other Payables

	Note	2014	2013
		$	$
Trade creditors		632,969	1,093,927
Claims payables and accrued expenses		12,916,370	12,748,027
Health Benefit Reinsurance Trust Fund payable		3,000,000	3,250,000
		16,549,339	**17,091,954**

15. Other Current Liabilities

	Note	2014	2013
		$	$
Contributions in advance (earned unclosed business)		36,426,237	29,998,548
Unearned unclosed business		2,111,690	2,087,497
		38,537,927	**32,086,045**

16. Provisions

	Note	2014	2013
		$	$
Current			
Employee benefits	(a)	4,057,536	3,512,642
Outstanding claims	(c)	38,465,379	33,684,852
Unexpired risk liability	(d)	4,063,792	8,370,302
		46,586,707	**45,567,796**
Non-current			
Employee benefits	(a)	971,989	683,337
Defined benefit obligation	(b)	-	450,000
		971,989	**1,133,337**

	Employee Benefits	Defined benefit obligation	Outstanding claims	Unexpired risk liability	Total
	$	$	$	$	$
Movements in provisions	---	-	-	-	-
Balance at 1 July 2013	4,195,979	450,000	33,684,852	8,370,302	46,701,133
Amounts used during the year	-	-	-	-	-
Amounts raised during the year	833,545	-	4,780,527	-	5,364,072
Amounts reversed during the period	-	(450,000)	-	(4,306,510)	(4,506,510)
Balance at 30 June 2014	**5,029,524**	**-**	**38,465,379**	**4,063,792**	**47,558,695**

(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 defined benefit obligation

As at 1 May 2014, TFH ceased its defined benefit superannuation arrangements. For the three remaining employees, a five year underpin was offered to ensure that they would not be disadvantaged by the change. This underpin, and the associated administrative and valuation costs, have been valued allowing for potential adverse experience, to ensure that the obligations can be met when and if required. This residual underpin obligation has been included within the employee benefits provision at 30 June 2014.

Given the immaterial net position of the defined benefit fund, disclosure in accordance with AASB119 Employee Benefits per paragraph 120A has not been made.

16. Provisions (cont'd)

(c) Provision for outstanding claims

	2014	2013
	$	$
Outstanding claims – central estimate of the expected future payment for claims incurred	34,475,531	29,600,975
Claims handling expense	546,981	464,836
Gross outstanding claims liability	**35,022,512**	**30,065,811**
Outstanding claims – expected payments to the RETF in relation to the central estimate	1,611,183	1,489,087
Risk margin	1,831,684	2,129,956
Net outstanding claims liability	**38,465,379**	**33,684,854**

(i) Risk margin

The risk margin of 5.0% (2013: 6.75%) of the underlying liability has been estimated to equate to a probability of adequacy of approximately 75% (2013: 75%). The risk margin has decreased due to a reduced volatility in the outstanding claims estimates.

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 the 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 three 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.

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 balance date.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied 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 balance. Changes in the gross outstanding claims can be analysed as follows:

	2014	2013
	$	$
Gross outstanding claims at beginning of period	30,065,811	23,020,763
Administration component	(464,836)	(345,661)
Central estimate at beginning of period	**29,600,975**	**22,675,102**
Change in claims incurred for the prior year	(1,755,320)	3,143,196
Claims paid in respect of the prior year	(27,765,403)	(23,509,020)
Claims incurred during the year (expected)	383,500,278	339,218,717
Claims paid during the year (expected)	(349,104,999)	(311,927,020)
Central estimate at end of period	**34,475,531**	**29,600,975**
Administration component	546,981	464,836
Gross outstanding claims at end of period	**35,022,512**	**30,065,811**

(d) Provision for unexpired risk liability

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2014	$	$	$	$
Hospital and General Treatment Combined Premium	**36,426,237**	**2,111,690**	**301,927,631**	**340,465,558**
Outflows				
Central estimate of future benefits	32,830,513	1,908,867	277,304,203	312,043,583
Central estimate of future management expenses	2,229,128	129,226	18,476,662	20,835,016
Risk margin	1,227,087	71,334	10,352,330	11,650,751
Total outflows	**36,286,728**	**2,109,427**	**306,133,195**	**344,529,350**
Total deficiency	**(139,509)**	**(2,263)**	**4,205,564**	**4,063,792**
Total unexpired risk liability	**(139,509)**	**(2,263)**	**4,205,564**	**4,063,792**

16. Provisions (cont'd)

2013	Unearned premium $	Unearned unclosed business $	Constructive obligation $	Total $
Hospital and General Treatment Combined Premium	**29,998,549**	**2,087,497**	**276,333,326**	**308,419,372**
Outflows				
Central estimate of future benefits	28,198,636	1,979,088	259,062,493	289,240,217
Central estimate of future management expenses	1,775,110	124,185	16,397,582	18,296,877
Risk margin	899,956	62,625	8,290,000	9,252,581
Total outflows	**30,873,702**	**2,165,898**	**283,750,075**	**316,789,675**
Total deficiency	**875,153**	**78,401**	**7,416,749**	**8,370,303**
Total unexpired risk liability	**875,153**	**78,401**	**7,416,749**	**8,370,303**

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 margin of 3.5% (2013: 3.0%) that is applied to the benefits, risk equalisation, state levies and claims related expenses cashflows has been estimated to equate to a probability of adequacy of approximately 75% (2013: 75%).

17. Reserves

Asset revaluation reserve
The asset revaluation reserve records the revaluations of non-current assets. The current balance of this reserve, being $3,281,059 has been recognised as a result of the revaluation of the property in use this financial year and prior year revaluations.

18. Capital and Leasing Commitments

(a) Operating Lease Commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements

	Note	2014 $	2013 $
Payable – minimum lease payments			
- not later than 12 months		1,636,001	1,636,001
- between 12 months and five years		5,586,291	5,858,439
- greater than five years		1,363,853	2,727,706
		8,586,145	**10,222,146**

The operating lease commitments relate to non-cancellable premises leases entered for the operation of eyecare centres within Parramatta, Hamilton and Melbourne and administrative premises' within Surry Hills.

19. Segment Reporting

The Company operates predominantly in one business segment, being the provision of health benefits, and in one geographical segment, being Australia. The Company also provides eye care and dental services. As part of its activities as a health benefits provider, the Company undertakes investments.

Notes to the Financial Statements

20. Cash Flow Information

	2014	2013
	$	$
(a) Reconciliation of Cash Flow from Operations with Surplus after Income Tax		
Surplus after income tax	17,217,282	11,838,090
Non-cash flows in surplus:		
- Depreciation	2,801,075	2,385,672
- Net loss on disposal of property, plant and equipment	34,772	101,754
- Fair value (gain)/losses on investment trusts	(2,416,991)	(1,927,964)
Changes in assets and liabilities		
- Decrease /(increase) in trade and term debtors	(36,295)	2,761,902
- (Increase)/decrease in inventories – eyecare centres	8,771	(8,136)
- Decrease/(increase) in other assets	(34,317)	242,530
- Decrease/(increase) in non-current trade receivables	-	63,998
- Increase in payables	(542,615)	1,016,265
- (Decrease) in other liabilities	6,451,882	(9,669,791)
- Increase in provisions	857,563	12,147,954
Cash flow from operations	**24,341,127**	**18,952,274**

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

22. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following table details transactions with related parties.

	Note	2014	2013
		$	$
Teachers Dental	(a)	208,260	224,400

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

23. Financial Instruments

The Company'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:

	2014	2013
Financial assets	$	$
Cash and cash equivalents	46,182,753	39,719,093
Financial assets at fair value through profit or loss		
- Equity trusts	27,087,069	11,482,622
- Debt trusts	113,332,421	101,815,057
- Fixed interest rate securities	86,490,000	83,490,000
- Bills of exchange and promissory notes	27,691,203	38,769,000
Loans and receivables	18,874,887	18,946,675
	319,658,333	**294,222,447**

	2014	2013
Financial liabilities	$	$
Financial liabilities at amortised cost		
- Trade and other payables	16,549,339	17,091,954
- Other Liabilities	38,537,927	32,086,045
	55,087,266	**49,177,999**

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 Company does not have any derivative instruments at 30 June 2014 (2013: nil).

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

The Company's overall investment strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance. The main risks the company 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.

23. Financial Instruments (cont'd)

	Weighted average effective interest rate	Within 1 year	Fixed interest rate maturing 1 to 5 years	Greater than 5 years	Total
	%	$	$	$	$
2014					
Financial assets					
Cash and cash equivalents	2.04%	46,182,753	-	-	46,182,753
Fixed interest rate securities	3.89%	86,490,000	-	-	86,490,000
Debt trusts	5.30%	-	113,332,421	-	113,332,421
Bills of exchange and promissory notes	6.38%	-	27,691,203	-	27,691,203
Total interest bearing financials assets		**132,672,753**	**141,023,624**	**-**	**273,696,377**
2013					
Financial Assets					
Cash and cash equivalents	1.90%	39,719,093	-	-	39,719,093
Fixed interest rate securities	4.98%	82,490,000	1,000,000	-	83,490,000
Debt trusts	3.50%	-	-	101,815,057	101,815,057
Bills of exchange and promissory notes	6.35%	7,989,000	29,610,000	1,170,000	38,769,000
Total interest bearing financials assets		**130,198,093**	**30,610,000**	**102,985,057**	**263,793,150**

The following table illustrates sensitivities to the Company'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.

	2014		2013	
	$	$	$	$
Interest rate movement	+2.00%	-2.00%	+2.00%	-2.00%
Impact on net result for the year	5,473,928	(5,473,928)	5,275,863	(5,275,863)
Impact on equity	5,473,928	(5,473,928)	5,275,863	(5,275,863)

Equity price risk
The Company 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 Company'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.

	2014		2013	
	$	$	$	$
Equity price movement	+5.00%	-5.00%	+5.00%	-5.00%
Impact on net result for the year	1,354,353	(1,354,353)	574,131	(574,131)
Impact on equity	1,354,353	(1,354,353)	574,131	(574,131)

Foreign currency risk
The Company is not exposed to any material foreign currency risk.

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

Notes to the Financial Statements

23. Financial Instruments (cont'd)

Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Company 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 below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect expectations 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 expectations that banking facilities will be rolled forward.

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2014	$	$	$	$
Financial liabilities due for payment				
Trade and other payables	16,549,339	-	-	16,549,339
Other Liabilities	38,537,927	-	-	38,537,927
Total contractual outflows	**55,087,266**	**-**	**-**	**55,087,266**
Total expected outflows	**55,087,266**	**-**	**-**	**55,087,266**
Financial assets — cash flows realisable				
Cash and cash equivalents	46,182,753	-	-	46,182,753
Loans and receivables	18,874,887	-	-	18,874,887
Fixed interest rate securities	86,490,000	-	-	86,490,000
Equity trusts	-	-	27,087,069	27,087,069
Debt trusts	-	-	113,332,421	113,332,421
Bills of exchange and promissory notes	5,500,000	22,191,203		27,691,203
Total Anticipated Inflows	**157,047,640**	**22,191,203**	**140,419,490**	**319,658,333**
Net inflow on financial instruments	**101,960,374**	**22,191,203**	**140,419,490**	**264,571,067**

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2013	$	$	$	$
Financial liabilities due for payment				
Trade and other payables	17,091,954	-	-	17,091,954
Other Liabilities	32,086,045	-	-	32,086,045
Total contractual outflows	**49,177,999**	**-**	**-**	**49,177,999**
Total expected outflows	**49,177,999**	**-**	**-**	**49,177,999**
Financial assets — cash flows realisable				
Cash and cash equivalents	39,719,093	-	-	39,719,093
Loans and receivables	18,824,009	-	-	18,824,009
Fixed interest rate securities	82,490,000	1,000,000	-	83,490,000
Equity trusts	-	-	11,482,622	11,482,622
Debt trusts	-	-	101,815,057	101,815,057
Bills of exchange and promissory notes	7.989,000	29,610,000	1,170,000	38,769,000
Total Anticipated Inflows	**149,022,102**	**30,610,000**	**114,467,679**	**294,099,781**
Net inflow on financial instruments	**99,844,103**	**30,610,000**	**114,467,679**	**244,921,782**

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 Company.

Credit risk is monitored 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 Company. The ratings are based on Standard & Poor's rating system.

Long Term Credit Ratings	Short Term Credit Ratings	PHIAC Rating	Maximum Limit
AAA	A-1+	1	100%
AA	A-2	1	100%
A	A-2	2	50%
BBB	A-3	2	20%
BB to B	B	3	2% (combined)
C to D	C to D	4	
Unrated*	Unrated		20%

Notes to the Financial Statements

23. Financial Instruments (cont'd)

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 Company is designed to meet the standards set by PHIAC. Below is an analysis of the credit risk as it stands at year end.

	PHIAC Grading*					
	1	2	3	4	Unrated	Total
2014						
Cash and cash equivalents	46,177,703	-	-	-	5,050	46,182,753
Loans and receivables	-	-	-	-	18,874,887	18,874,887
Fixed interest rate securities	82,490,000	4,000,000	-	-	-	86,490,000
Equity trusts			-	-	27,087,069	27,087,069
Debt trusts	72,077,828	36,191,266	1,911,066	186,570	2,965,691	113,332,421
Bills of exchange and promissory notes	3,000,000	22,191,203			2,500,000	27,691,203
Total	**203,745,531**	**62,382,469**	**1,911,066**	**186,570**	**51,432,697**	**319,658,333**
% of total	63.7%	19.5%	0.6%	0.1%	16.1%	-
Maximum allowable per investment policy	100%	50%	2%	2%	20%	-

* PHIAC grading changed as a result of new Capital Standards.

	PHIAC Grading					
	1	2	3	4	Unrated	Total
2013						
Cash and cash equivalents	-	39,714,043	-	-	5,050	39,719,093
Loans and receivables	-	-	-	-	18,824,009	18,824,009
Fixed interest rate securities	-	77,490,000	4,000,000	2,000,000	-	83,490,000
Equity trusts		-	-	-	11,482,622	11,482,622
Debt trusts	101,815,057	-	-	-	-	101,815,057
Bills of exchange and promissory notes	4,989,000	3,016,000	17,826,000	10,438,000	2,500,000	38,769,000
Total	**106,804,057**	**120,220,043**	**21,826,000**	**12,438,000**	**32,811,681**	**294,099,781**
% of total	35.9%	37.7%	10.3%	4.2%	11.9%	-
Maximum allowable per investment policy #	100%	100%	60%	30%	25%	-

Old limits

24. Company Details

The registered office and principal place of business of the Company 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 the Company declare that:

1. The financial statements and notes, as set out on pages 28 to 63, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company.
2. In the Directors' opinion there are reasonable grounds to believe that the Company 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

Helen MacGregor

Dated this 18th day of September 2014
Sydney, NSW

Independent Auditor's Report

Grant Thornton

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

We have audited the accompanying financial report of Teachers Federation Health Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' responsibility 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Auditor's opinion
In our opinion the 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 company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the Corporations Regulations 2001

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M A Adam-Smith
Partner - Audit & Assurance

Sydney, 18 September 2014

Teachers Federation Health Limited
trading as Teachers Health Fund and
UniHealth Insurance

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

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