Annual Report 2017/2018

TEACHERS HEALTH

We're for teachers

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

Teachers Health members Melissa and Andrew

OUR PROMISE

We're for Teachers.

We're for the educators,
the inspirers and the nurturers.

The ones who lead the way
and the ones behind the scenes.

For the teachers who put in the hard yards
and make it look simple,
you inspire us to do the same for you.

Just as every child deserves a teacher champion,
we believe every teacher deserves a health champion.

We're part of the education community –
our role is to serve you as well as you've served our kids.

We care for you in sickness and health
because your wellbeing is important to so many.

We're invested in your future,
just as you're invested in future generations.

We're with you from your first day to your last day,
at sport time to report time.

We're here for you when your feet are sore,
your voice is gone and your patience is tested.

We're for people, not profit.
Everything we do is for the benefit of our members.

We are Teachers Health,
we're for Teachers.

Contents

From the Chairperson

Chairperson, Ms Helen MacGregor pictured with Deputy Chair, Mr David Wynne (left) and Chief Executive Officer, Mr Brad Joyce (right).

Helen MacGregor
Chairperson

I'm pleased to report on another successful year for Teachers Health. Our guiding purpose – to provide teachers, their families and the broader education community with the best value private health insurance products and services – is stronger than ever and at the heart of everything we do.

The bigger picture

Government policy has continued to have a significant impact on the private health insurance industry over the past 12 months – none more so than the private health insurance reforms which will remain a major focus for us in the year ahead. We've been active in industry-wide discussions and workshops regarding these reforms, while advocating for change that minimises the risk of creating unintended consequences.

The intention of the reforms is good – to make health insurance more affordable, simpler to understand and sustainable. The challenge will be to implement them in an environment of premium capping and the reclassification of products, without a significant detrimental impact to members. The priority for the next year will be to align our product range to meet the reform criteria and, at the same time, deliver the quality we're known for.

The Mental Health Waiver reform which came into effect on 1 April 2018 has been welcomed by professionals and patients alike. We're very happy to be able to be able to offer this opportunity to our members to further support their health and wellbeing, where needed.

Much has been made this year of the proposal to cap health insurance premiums. Teachers Health welcomes well-considered initiatives that improve the affordability of health insurance for our members. In the absence of complementary reforms to reduce the increases to the inputs that drive up the cost of claims, there does need to be some caution on this proposal. Teachers Health continues to advocate with policymakers in order to minimise any unintended consequences of these reforms that would impact the viability of our fund.

Together, we're stronger

Teachers Health was started for teachers, by teachers and, to this day, the teaching community remains at the centre of our business philosophy and strategy. We pride ourselves on having a deep understanding of our members' needs and this is supported by our relationships with our partner education unions and stakeholders in the wider education community. These relationships have been at the forefront of our membership growth over the years – helping us attract potential members, support current members, and give back to the education community through reward and recognition initiatives and professional development. Over the past year we've sponsored over 200 professional development events and conferences nationally including:

- NSW Schools Spectacular Event
- QLD Showcase Education Awards
- SA Education Awards
- WA Education Awards
- ACT Reconciliation Award
- AEU National New Educators Conference VIC
- Cool Australia – online learning.

Our relationships are also central to our practical support of the health and wellbeing of our community. During the year we've sponsored the Australian Schools Principals Health & Wellbeing Survey and the Victorian Principals Association – Health and Wellbeing Awards. Other sponsorships have focused on early career teachers: the Department of Education Tasmania – Teachers Health Outstanding Young Teacher Award; and the Public Education Foundation – Teachers Health Early Career Scholarship.

It doesn't stop there. Our Business Development team has visited over 2,100 schools nationwide in the past year – bringing in new members and increasingly supporting our retention of current members by providing an opportunity for face-to-face conversations with the fund.

We were delighted to be recognised as a Diamond Supporter by Stewart House – their highest sponsorship category – acknowledging the donations and support provided by Teachers Health over many years to assist their work with public school children in need. It's an honour that reflects our ongoing commitment to supporting the education community and our passion for social responsibility.

We have found enormous strength, opportunity and benefit in working with partners and stakeholders from across the education community and look forward to building on this in the future. Our members are, as always, at the heart of everything we do, and we continue to work hard to retain current members – making sure that they recognise both the value of private health insurance and the qualities that set us apart from other funds.

Great minds, thinking alike

We established the Teachers Health Foundation in 2014 to give back to our members through the funding of health and medical research aimed at delivering better health outcomes for the education community. During the year, the Foundation invested in research programs designed to benefit the teaching community. Grants were awarded to the University of Wollongong, SMART infrastructure – a program focused on uncovering prevalent and emerging health issues in the education sector through claims data analysis, and the University of Newcastle's School of Medicine and Public Health for a program addressing the health risk behaviours of the education workforce to enhance the wellbeing of primary school teachers.

Projects that commenced in the previous financial year also continued: the Jack Brockhoff Child Health and Wellbeing Program focused on disaster impact profiling in schools, the Hunter Medical Research Institute for their program concerning physical activity intervention for the prevention and treatment of type 2 diabetes, the Australian Catholic University's Learning Sciences Australia Institute Australia's Teacher Wellbeing (Mindfulness) program, and Deakin University's Pilot Study of outcomes for teachers regarding the evaluation of the amended Victorian Achievement Program for schools. We look forward to hearing the outcomes of these research programs.

More than just health insurance

A number of additional revenue streams contributed to the overall commercial success of Teachers Health during the past year – many of which also assisted the fund in providing quality health solutions to our members. Teachers Healthcare Services provides care coordination for chronic disease management and wellness initiatives; Teachers Health Centres provide eyecare, dental, chiropractic and physiotherapy services, and we continue to provide travel and general insurance policies through third party partners. In the last financial year, we were delighted to open our fifth Teachers Health Centre (Adelaide), our first in South Australia, giving even more members access to quality eyecare and dental services. The supplementary revenue streams from these additional services and our investment earnings also helps minimise the unavoidable annual increase to premiums.

And finally, thank you

I thank my fellow Directors for their continued support and commitment, including their work on the Board sub-committees. I would like to acknowledge the work and contribution of Nicole Smith who retired from the Board in September last year and welcome Susan Roberts who has joined the Teachers Health Board as her replacement. The Board and I also thank Teachers Health's management team and staff for their work and ongoing dedication to supporting our members and providing a high quality member experience.

With our defined purpose, beliefs and attitude, and a clear strategic direction, Teachers Health is well-positioned to succeed in a climate of change into the future. We are committed to continuing to deliver excellent value and service to our members, who are at the heart of everything we do.

H M MacGregor
CHAIRPERSON

Helen MacGregor

Dated this 25th day of September 2018
Sydney, NSW

> "Teachers Health is well positioned to succeed in a climate of change into the future."

From the CEO

CEO, Mr Brad Joyce pictured with THF staff.

Brad Joyce
Chief Executive Officer

I'm pleased to report that Teachers Health has had another successful year in 2017/2018. This is true financially – with continued growth in our membership base and positive operating margins – and, importantly, in terms of what we do and what we stand for, supporting our members and the education community and making a difference to the lives of those who sit at the heart of everything we do.

Strength in numbers

Our membership base continued to grow strongly, with new and younger members across the country joining Teachers Health. As at 30 June 2018, Teachers Health had over 156,000 health insurance memberships with more than 327,000 lives covered, reinforcing our position as Australia's largest industry-focused health fund.

Our existing members also chose to stay with us in overwhelming numbers, allowing us to enjoy an industry-leading retention rate of 96.4%. Overall, our membership base grew by 5.3% – a particularly pleasing result in a challenging market. Teachers Health's growth continues to be steady and sustainable. Revenue grew by 8.9%, with capital reserves at appropriate and stable levels at the end of the financial year.

Teachers Health maintained its focus on providing value to members – returning 91.5 cents in benefits for every dollar of contribution income received. We worked hard to minimise premium rate increases and operated efficiently and effectively, as demonstrated by our management expense ratio of 7%.

In January 2017, Nurses & Midwives Health commenced operations as a wholly owned subsidiary of Teachers Health. Nurses & Midwives Health has shown strong growth over the past 18 months, and the operation of two insurers has provided valuable learnings and insights to both organisations.

Supporting our members

We understand that one of the key issues that members (and the broader Australian population) are facing is the affordability of private health insurance. Any decision to increase premiums is not taken lightly and this was part of the reason why this year we announced our lowest premium increase in over a decade. With an average premium increase of 2.84%, Teachers Health was well below the big health insurers and the industry average of 3.95%.

Ultimately, our pricing continues to reflect the need to meet the ever-increasing costs of covering our members' claims whilst achieving a responsible level of operating surplus. This helps ensure the commercial sustainability and stability of the fund. We're proud to be a member-focused fund that operates at low, financially sustainable, margins. Teachers Health's low premium increase further reinforces the value of being with a not-for-profit, for member health fund.

Leading the way in satisfaction

The secret to our success is quite simple: we really do put our members at the heart of everything we do. We're a health fund built on experience, service and loyalty – and the advocacy of our members and stakeholders plays a central role in our ongoing growth and success. As such, we're continuously strengthening our capabilities and improving the services and experience we provide.

Our hard work is paying off. We're delighted to be leading the way in customer satisfaction in health insurance, according to Roy Morgan Research findings published throughout the year. With an overall customer satisfaction rating of 83.4%, Teachers Health is the top performer out of the 15 largest health insurers in Australia (Roy Morgan Research, December 2017)[1]. We're also Australia's most trusted private health insurance fund (Roy Morgan Single Source (Australia), May 2018)[2].

We also consistently rate highly when it comes to member advocacy, with an average Net Promoter Score of 71% (IPSOS)[3].

We're pleased to be getting so many things right for our members. But we won't stop there. We'll continue to work hard to get to know you, and understand what you need from us, and discover what we're getting right and what we can do better.

Working with HEART

Our brand is the culmination of what we stand for – our values, our beliefs, our purpose, and how we act towards our members and each other. We continue to reaffirm these and our promise to members – We're for teachers. We place our members at the HEART of everything we do, and we're focused on achieving the best outcomes for them. We make our decisions with HEART in mind and consider the impact our decisions have on members.

We're also growing and reinforcing our HEART culture internally – building a positive workplace culture which will, in turn, help us to create a positive experience for every member. Teachers Health simply could not succeed without the contribution of our dedicated people, and much of our success can be attributed to what I believe underpins our thriving business – a genuinely diverse organisation. Over the past decade, the Board and I have been strongly committed to supporting and achieving a culture of gender equality and diversity throughout Teachers Health, supporting both women and men to excel.

Our position as a leader in workplace gender equality was reaffirmed again this year with the awarding of the Employer of Choice for Gender Equality citation from the Workplace Gender Equality Agency. We're proud to have received this for the seventh year running. Many of Teachers Health's 330 employees have benefited from parental leave and return-to-work policies, gender pay-gap reviews, flexible work arrangements, and the promotion of women in leadership positions. We've also started the White Ribbon Workplace Accreditation Program, demonstrating our commitment to preventing violence against women.

Here for teachers, for good

Created from humble beginnings, Teachers Health has evolved with the changing face of health insurance. But our original determination, to help those in the education community and their families as they faced the challenges and cost of illness or injury, remains at the forefront of everything we do.

We're continually focused on operating the fund in a responsible and sustainable manner, while ensuring that our premiums remain affordable to support as many members as possible. And we're well positioned to respond effectively to the ever-changing landscape of private health insurance, making the most of vital growth opportunities to ensure the stability of the fund; identifying further opportunities to diversify our sources of income; and being adaptable and agile. We do this with well-developed business plans and a dedicated team – to overcome future challenges in an increasingly competitive and complex market.

While Teachers Health continues to grow and attract new members across Australia, we're proud of our history and we remain true to our founding philosophy and guiding principles. But we're even more excited about our future successes and story yet to be written.

B S Joyce
Chief Executive Officer

Dated this 25th day of September 2018
Sydney, NSW

> "The secret to our success is quite simple: we really do put our members at the heart of everything we do."

1. http://www.roymorgan.com/findings/7431-satisfaction-with-private-health-insurers-continues-to-decline-201712072330

2. http://www.roymorganonlinestore.com/Browse/Australia/Health-Insurance/Health-Insurance-Net-Trust-Score/Roy-Morgan-Private-Health-Insurance-Net-Trust-Scor.aspx

3. IPSOS 2017, http://www.roymorgan.com/findings/7431-satisfaction-with-private-health-insurers-continues-to-decline-201712072330

MEMBERS AT THE HEART OF EVERYTHING WE DO

PEOPLE

65,533
People moving better∞

119,281
BRIGHTER SMILES#

83,544
Sets of eyes seeing more clearly<

2,063
Mums supported with the arrival of their new bundles^

29,578
Podiatry consults to keep people on their feet>

1,877 Hearts cared for~

6,579 Gym memberships supported‡

951 New knees*

14,746 Massages to relax†

NUMBERS

156,231 MEMBERSHIPS

327,000 PEOPLE COVERED

7.0%
Management expenses

96.4%
Retention rate

DOLLARS

92%

91.5c IN EVERY $1
Average return to members

$595M
Total claims

$3,909
Average return to members (claims)

$650M
Premium revenue

$266,715 BIGGEST CLAIM~

Disclaimer: July 2017 – June 2018 claims data. #Periodic oral examination. ^Pregnancy related claims less abortion. *Total knee replacements. ~Hospital coronary care. <Optical frames. >Podiatry consultation. †Remedial massage. ‡Preventative health product – health management – gym membership. ∞Physiotherapy including ante-post natal and physiotherapy device. ~Largest single episode over the period. All the figures in the infographic relate to Teachers Health. Memberships refers to Policyholders.

Directors' report

Your Directors present their report on the consolidated entity consisting of Teachers Federation Health Limited (Teachers Health or the Fund) and the entities it controlled at the end, or during the year, ended 30 June 2018. Throughout the report, the consolidated entity is referred to as the Group.

Directors

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

H M MacGregor

B.A. (USYD), Dip. Ed, M. Ed. (USYD), MAICD
Chairperson, non-executive Director
Appointed Director in June 2001

Special responsibilities:

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

N E Dawson

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

Non-executive Director
Appointed Diirector in September 2010

Special responsibilities:

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

J M Dixon

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

Special responsibilities:

Member of the Strategy Committee and the People and Remuneration Committee.

M C Fogarty

B.A. (USYD), Dip. Ed. (USYD), M. Ed. (UTS), EdD (UTS), MAICD
Non-executive Director
Appointed Director in November 2010

Special responsibilities:

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

M Mulheron

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

Special responsibilities:

None.

T J Mulroy

BA Dip Ed (NSW), MAICD
Non-executive Director
Appointed Director in November 2012

Special responsibilities:

Member of the Audit and Finance Committee and member of the Strategy Committee.

S Roberts

B Ec (Macq), FIAA, Adjunct Professor in Finance at USYD
Non-executive Director
Appointed Director in October 2017

Special responsibilities:

Chairperson of the Audit and Finance Committee.

M Rosicky

BA Visual Arts, Dip Ed
Non-executive Director
Appointed Director in November 2013

Special responsibilities:

Member of the Risk and Governance Committee

N S Smith

B.Fin.Admin. (UNE), C.A., GAICD
Non-executive Director
Appointed Director in September 2010 and resigned 22 September 2017

Special responsibilities:

Former 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
Non-executive Director
Appointed Director in June 2001

Special responsibilities:

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

Company secretaries

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

B S Joyce

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

D N Lethbridge

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

Fund objectives

Teachers Health's long-term objectives are:

> to maintain the commercial sustainability of the business through a combination of initiatives designed to grow revenue, manage benefits and deliver business efficiencies;

> to continue to ensure that Teachers Health delivers the value propositions designed to attract and retain members by providing them with competitively priced products and services that meet their needs, and through a level of service that our members recognise as superior;

> to operate an efficient business which focuses on ongoing business improvement, transformation and innovation and undertake activities that are designed to increase organisational capabilities through the retention, development and engagement of staff.

In the short-term, Teachers Health's objectives are to continue to execute the current Strategic Plan and seek ways to improve and increase growth and retention (both in terms of revenue and members) and lift the capability of the business to support this growth.

Fund strategy

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

> membership growth – to increase our organic membership 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 members; and

> capability – to enhance the efficiency and effectiveness of the business.

Principal activities

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

> the operation of its restricted access private health insurance business;

> the operation of Nurses & Midwives Health;

> the operation of Teachers Health Centres eyecare, dental, physiotherapy, chiropractic and remedial message businesses; and

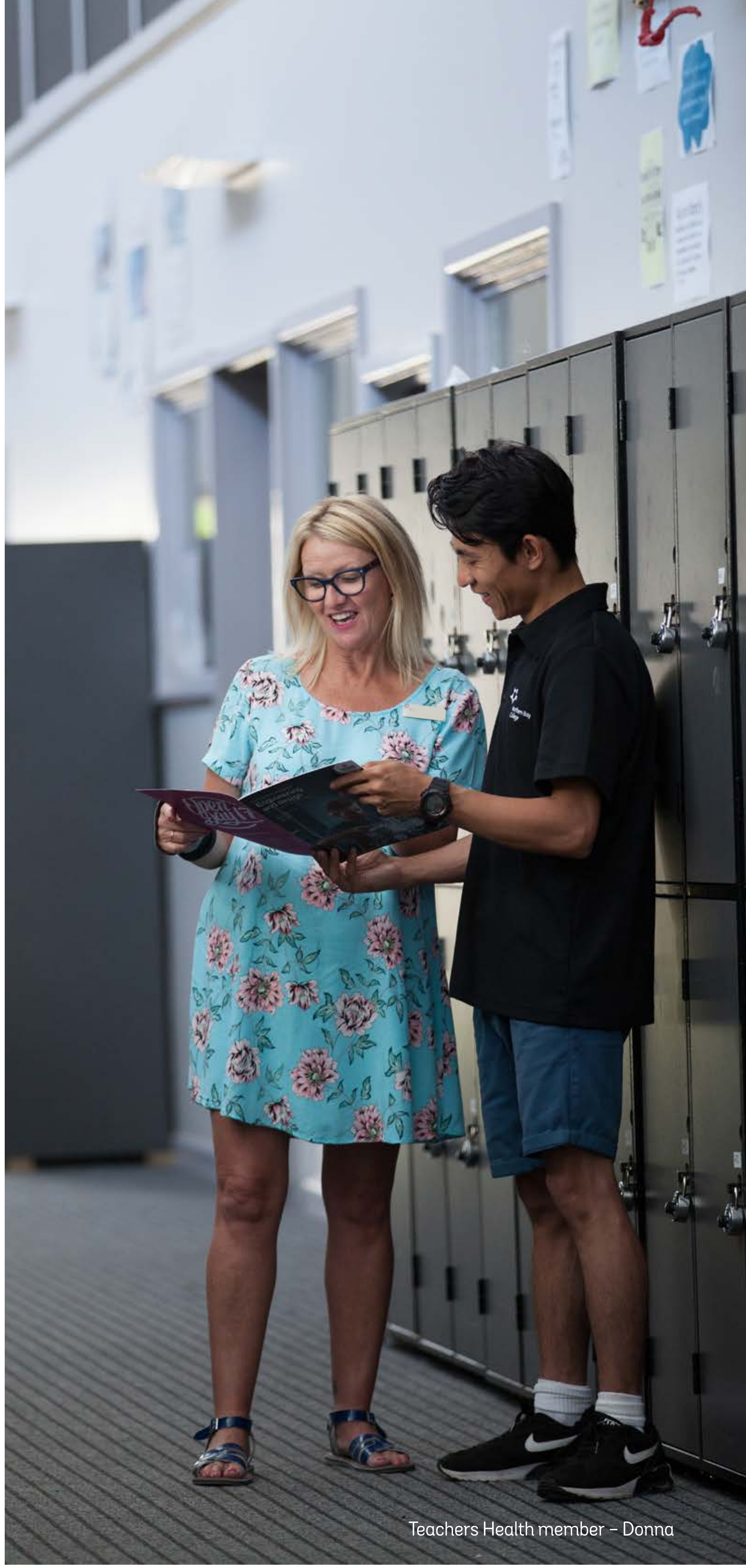
> the operation of Teachers Healthcare Services care coordination for chronic disease management and hospital substitute programs.

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

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

Measuring performance

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



Teachers Health member – Donna

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:

	Committee meetings									
	Board 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	9	8	4	4					6	6
J M Dixon	9	7					1	1	6	4
M C Fogarty	9	9			4	4			6	6
H M MacGregor	9	9	4	4	4	4	1	1	6	6
M Mulheron	9	6								
T Mulroy	9	9			4	4	1	1		
S Roberts	6	6			3	3				
M Rosicky	9	7	4	4						
N S Smith	2	2			1	1				
D Wynne	9	7					1	1	6	5

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

Company Members' guarantee

The Fund is limited by guarantee and hence has no contributed equity. If the Fund is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the Fund) that remains after payment of all of the debts and liabilities of the Fund shall be paid to an entity or organisation selected by the Directors, or in default by the court, which prohibits the distribution of its assets and income to its members. If the Fund is wound up and cannot meet its debts, the Constitution states that each Company Member of the Fund is required to contribute a maximum of ten dollars ($10) towards meeting any outstanding obligations of the Fund. The total amount that Company Members of the Fund were liable to contribute at 30 June 2018 if the Fund was wound up was one hundred and eighty dollars ($180).

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13 and forms part of this Directors' report.

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

H M MacGregor
CHAIRPERSON

Helen MacGregor

Dated this 25th day of September 2018
Sydney, NSW

Auditor's independence declaration

GrantThornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Teachers Federation Health Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Teachers Federation Health Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

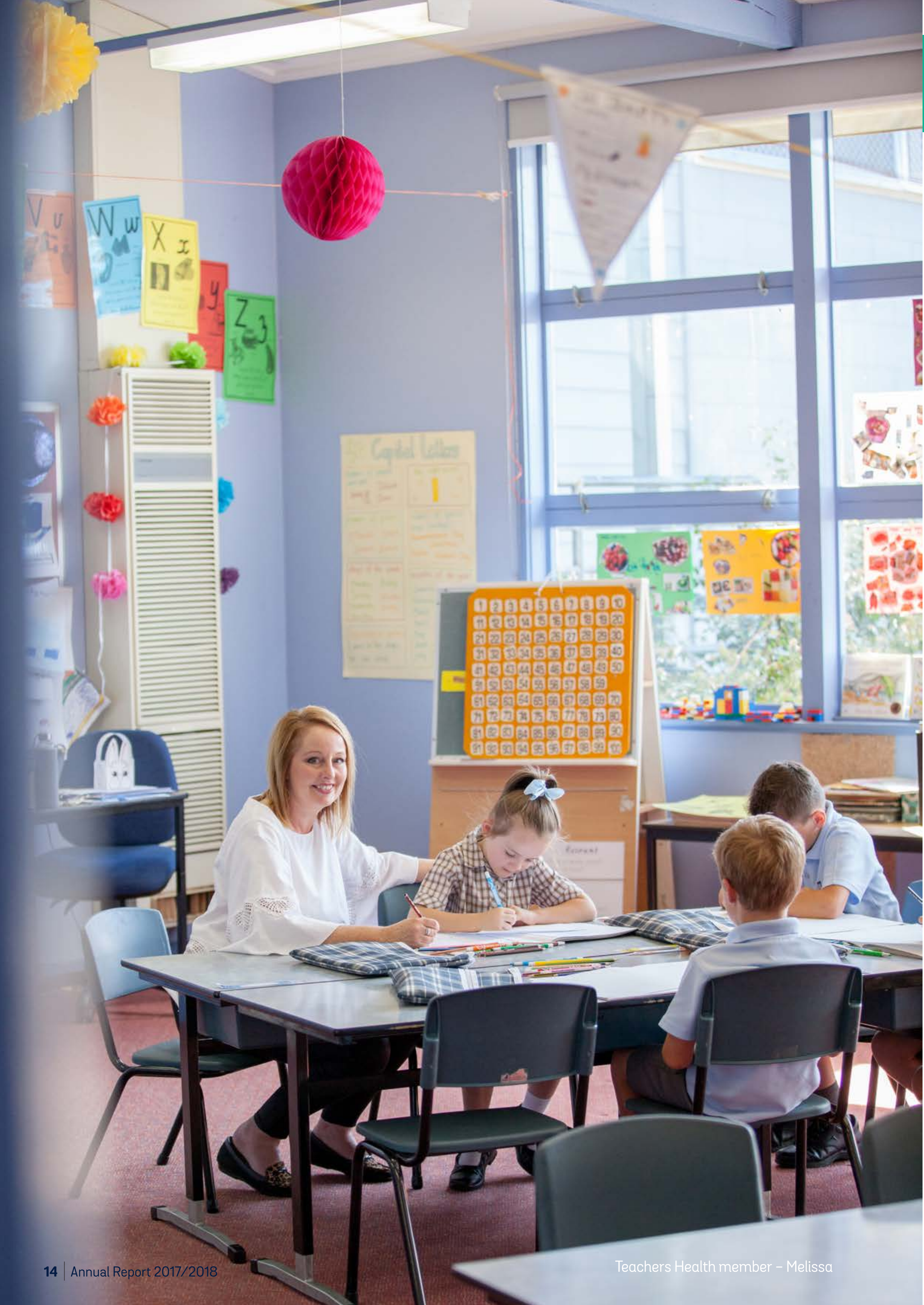
b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 25 September 2018



Teachers Health member – Melissa

Corporate governance statement

Governance at Teachers Health

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

As at 30 June 2018, the Board's corporate governance practices are broadly based on the corporate governance principles issued by the ASX Corporate Governance Council's Principles and Recommendations third edition (ASX Guidelines) as far as they are relevant and applicable to an unlisted, not-for-profit company limited by guarantee, and reflect the ongoing focus of the Board in discharging its responsibilities at an appropriate level to meet the full expectations of Company Members, members, regulatory authorities and the general community.

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

The Fund is regulated by Australian Prudential Regulatory Authority (APRA). APRA has determined prudential standards pertaining to governance and the Fund provides regular reports to APRA. Corporate governance practices developed at Teachers Health also include APRA requirements.

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

Board of Directors

Roles and responsibilities

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

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

> strategy including charting the direction, strategies and performance objectives for Teachers Health and monitoring the implementation of those strategic and business plans and performance objectives;

> oversight of management including the regular monitoring and assessment of senior executives' performance including the Chief Executive Officer (CEO) in achieving Board approved strategies and budgets against key performance indicators set by the Board and approving CEO remuneration policies and practices;

> ethics guidance including actively promoting ethical and responsible decision-making and establishing and maintaining a code of conduct to guide its Directors, senior executives and all employees in the practices necessary to maintain confidence in Teachers Health's integrity;

> oversight of financial and capital management including establishing and overseeing Teachers Health's accounting and financial management systems, monitoring Teachers Health's financial results on an ongoing basis, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of Teachers Health; and

> compliance and risk management including establishing, overseeing and regularly reviewing systems of internal compliance, risk management and control, and systems of legal compliance (including but not limited to privacy, work, health and safety) that govern the operations of Teachers Health, and ensuring they are operating effectively.

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

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

Board composition

At the date of this report, the Board comprises nine Directors, each of whom is a non-executive Director. As set out in the Fund's Constitution, the Board is made up of the following classes of Directors:

> two ex officio Directors, being the Branch President and the Branch Secretary of the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch;

> up to five elected Directors;

> two specialist Directors;

> a specialist Chair; and

> unless the Board otherwise determines, one employee Director. The Board has resolved not to fill the vacancy for the employee Director position.

The Board Charter requires that Directors must at all times bring an independent judgement to bear on all Board decisions. Details of each Director's qualifications, special responsibilities and attendance at meetings are set out in the Directors' report.

The Chairperson is a 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.

Corporate governance statement

Appointment and election of Directors

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

> understand and manage the risks to the organisation;

> understand and ensure compliance with the organisation's legal prudential obligations;

> effectively oversee the management of the organisation; and

> effectively contribute to the Board's deliberations and processes.

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

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

> the immediate collective capacity of the Board in terms of the mix of skills, experiences, functional orientation and personal qualities;

> the Board's renewal policy, succession plans and business development intentions; and

> diversity, but only as a secondary dimension to skills, experience and personal qualities.

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

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

Director induction and education

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

Board meetings

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

Conflicts of interest

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

Fit and proper

Teachers Health has developed and implemented a Fit and Proper Policy to assist in assessing the fitness and propriety of Teachers Health Directors. Directors 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. The assessment consists of an attestation by the individual and the Fund undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. The policy includes a process for dealing with and reporting breaches of the policy.

Access to Group information and independent professional advice

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

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

Remuneration of Directors and executive management

In accordance with clause 15.9 of the Teachers Federation Health Constitution, Directors may be paid, in the aggregate up to the remuneration determined by resolution at a meeting of the Company Members. In November 2016, the Company Members determined that Directors as a whole may be paid an aggregate amount of up to $120,000 and divided among the Directors in accordance with the Director Remuneration Policy. For the twelve months ended 30 June 2018, total remuneration paid and divided among the Directors relating to the 2017–2018 year was $78,598.

Teachers Health has a Directors' Remuneration Policy that guides and regulates the manner in which payments are made to Board members. Director remuneration is based on average standard hours for preparation for and attendance at Board and committee meetings with payments reflecting fair acknowledgment 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 and Directors receive in-house health insurance on a pro-rata monthly basis at the rate of $1,333 pa (cumulative).

Directors are reimbursed for expenses to cover costs incurred when attending meetings, conferences, courses etc. and for professional registration fees; for example, membership of Australian Institute of Company Directors. Directors and Officers Insurance is provided by the Group. Reimbursement is also made to Directors for loss of salary or leave entitlement resulting from their attendance at Board and Committee meetings upon presentation to the CEO of appropriate documentation to validate the claim. Directors receive access to Directors training through Board seminars, endorsed conferences and seminars and industry based training for Company Directors.

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

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

There is no surplus share, performance payment or long-term incentive payments (such as share options) made to any Director, the CEO or executive manager of the Group.

Board performance

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

Directors' and officers' insurance

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

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Each committee has its own written charter setting out its responsibilities, composition, structure and the manner in which the committee is to operate. The charter of each committee is reviewed from time to time. Board committees have delegated authority within their charter of responsibilities and make recommendations to the Board. Activities of each committee are reported to the Board at the next full Board meeting. Where there are matters of relevance to more than one committee, a joint meeting of those committees may be held to discuss the matter, or the matter may be dealt with by one committee before being referred to the other committee.

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

Audit and Finance Committee

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

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

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

The Committee's responsibilities also include:

> an objective non-executive review of the effectiveness of the financial reporting framework to ensure the balance, transparency and integrity of published financial information;

> the appointment, role and performance of the appointed actuary;

Corporate governance statement

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

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

The Committee Charter provides that the Committee meet not less than three (3) times per year. The Committee met four (4) 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 Board composition, renewal and performance, human resource matters and compliance with employment laws and regulations. The Committee is comprised of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board The principal responsibilities of the Committee are to:

- make recommendations to the Board on the necessary and desirable competencies of the Board, Board succession plans, the process of evaluation of the performance of the Board, its committees and Directors;
- make recommendations to the Board on the appointment of new Board member candidates, having regard to their skills, experience and expertise;
- develop and review induction procedures, continuing development and education programs for Board Directors;
- establish and conduct the annual performance evaluation of the CEO and report to the Board the outcomes of this review;
- review with the CEO the outcomes of the annual performance evaluation of direct reports to the CEO and other key staff as identified by the Committee from time to time;
- review the conditions of employment and annual remuneration of the CEO and report the outcomes of this review to the Board;
- review and approve the recommendations of the CEO relating to the conditions of employment and annual remuneration of the executive management;
- periodically review with the CEO, the Teachers Health organisational capability and succession plan for employees, managers and executives; and
- review people-related issues and policies generally.

The Committee met six (6) times during the reporting year.

Risk and Governance Committee

The Risk and Governance Committee has been established to assist the Board to fulfil its statutory and fiduciary responsibilities by providing objective, non-executive oversight and review of the effectiveness of the implementation and operation of Teachers Health's risk and compliance management framework.

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

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

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

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

Strategy Committee

The Strategy Committee has been established to assist the Board in fulfilling its responsibilities relating to the development and implementation of corporate strategy for Teachers Health. The Committee is comprised of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board.

The principal responsibilities of the Committee are to:

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

Teachers Health member – Andrew

Corporate governance statement

- assist management with recommendations regarding specific strategies such as new products or new markets.

The Committee met one (1) time during the reporting year.

Accountability and audit

External audit

The Group has retained Grant Thornton ("External Auditor") to audit its records and financial statements of the Group for the 2018 financial year and also to perform various regulatory and compliance audits.

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

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

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

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

Internal controls

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

Internal audit

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

Risk management

Teachers Health recognises effective risk management is good management practice, supports achieving organisational objectives and is an integral part of sound corporate governance. A detailed Risk Management Strategy and Framework based on ISO 31000:2009 has been developed and implemented by management and endorsed by the Board. This risk management framework is critical to the safety, reputation and sustainability of the operations of the business and to the ongoing viability of the health benefits fund operated by Teachers Health. The various risk management practices are undertaken to provide reasonable assurance to the Board of the effectiveness of the risk management framework within the overriding principle that business risk is a basic line management responsibility – all managers, not just the CEO, share that responsibility.

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

Ethical standards

Code of Conduct

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

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

Industry Code of Conduct

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

Teachers Health has regularly submitted annual self-audits and has been assessed by the PHI Code of Conduct – Compliance Committee as being a compliant fund. Teachers Health is required to submit a certification yearly that states it is compliant with the code via a self-audit. Every three years, Teachers Health completes and submits a full self-audit. A full self-audit was completed during the 2017/2018 financial year.

Diversity and inclusion

Teachers Health seeks to maintain an appropriate mix of skills, expertise, experience and diversity on the Board to ensure an understanding of and competence to deal with current and emerging issues relating to Teachers Health business and enhance its performance. The Board has determined to set a voluntary target for women on the Board at or above 40%.

The Company is an Employer of Choice for Gender Equality, recognised as such by Workplace Gender Equality Agency (WGEA) and its predecessor since 2011. Teachers Health has publicly reaffirmed its commitment to gender equality and inclusion within the organisation on its website. Continuous improvement, including that of diversity, inclusion and gender equality, remain an ongoing objective for Teachers Health. The number of women across the organisation as at 31 March 2018 is shown in the below table.

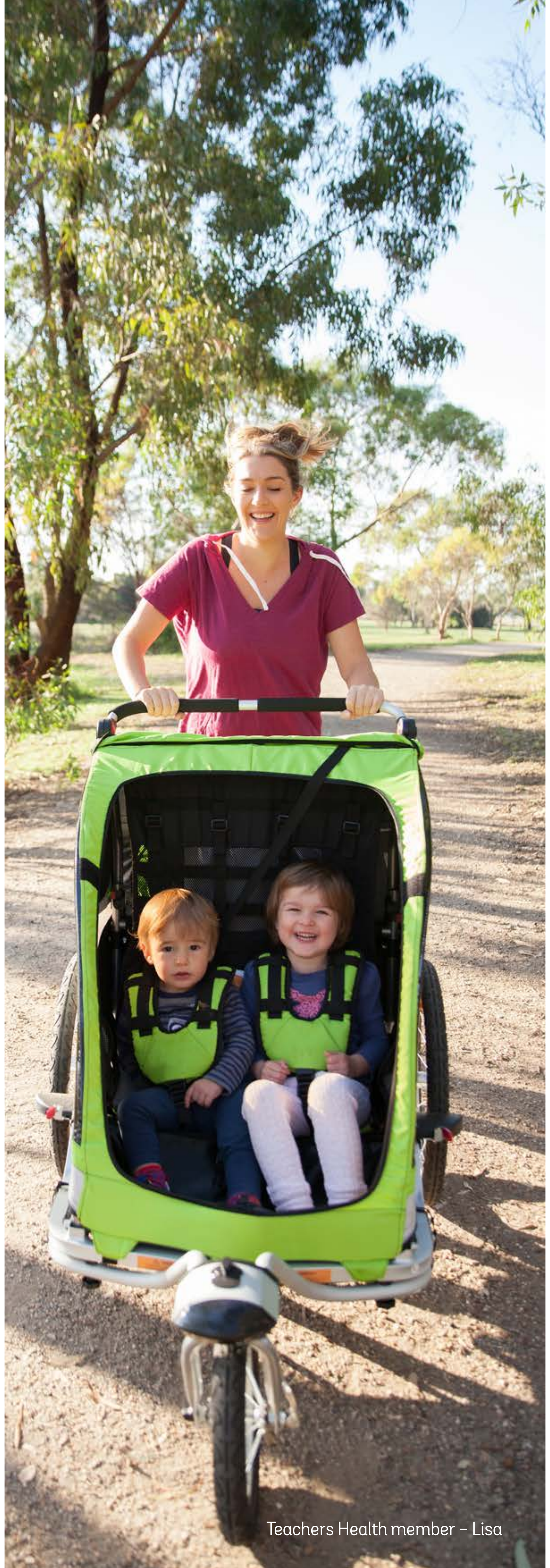
In accordance with the requirements of the Workplace Gender Equality Act 2012, on 31 May 2018, Teachers Health lodged its annual public report with the WGEA. Access a copy of the report at teachershealth.com.au or at wgea.gov.au.

Category	Number	Percentage of category
Women on the Board	4	44%
Women in senior executive positions	3	30%
Women in management positions	18	50%
Women employees in whole organisation	227	69%

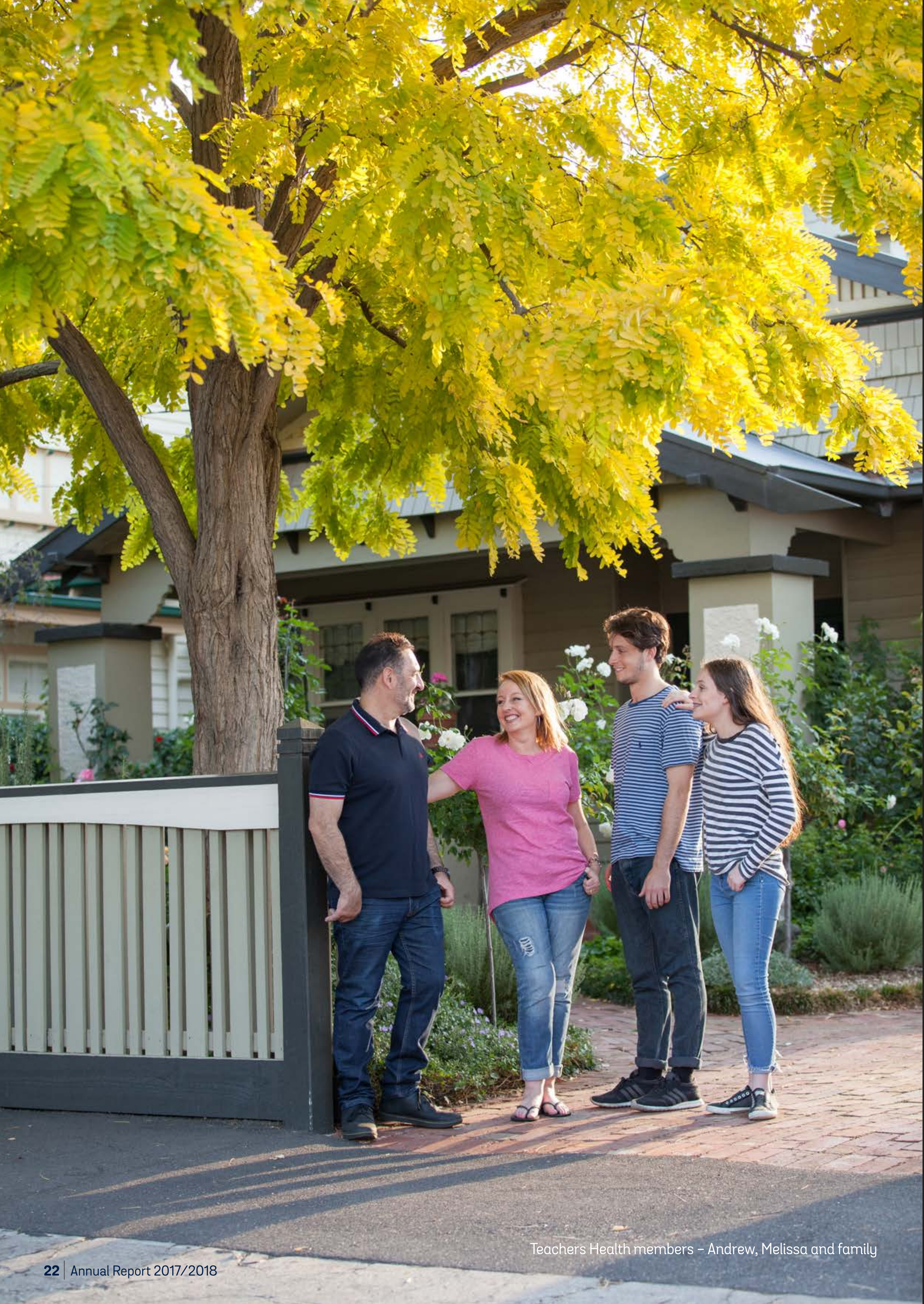
Whistleblower Policy

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

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

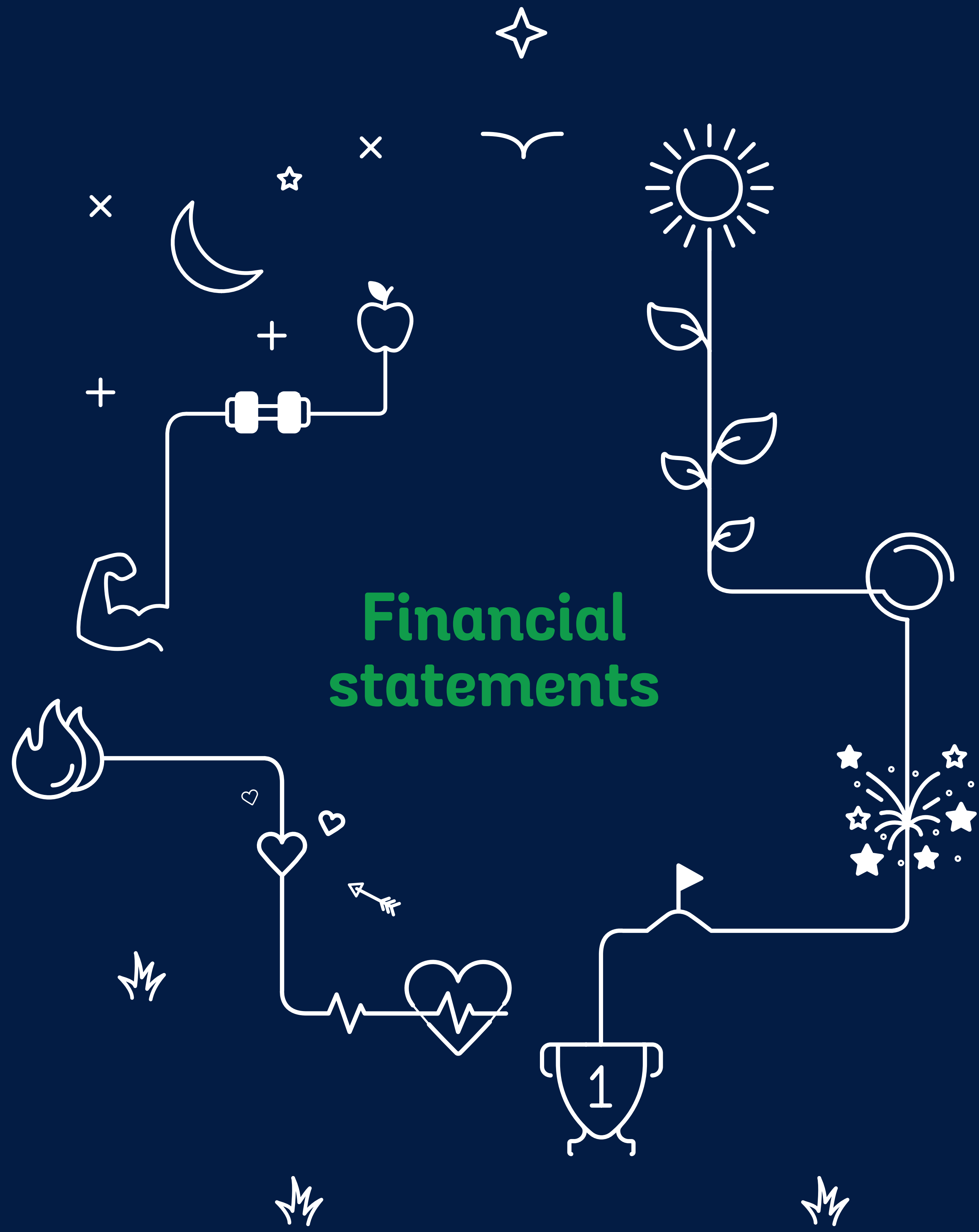


Teachers Health member – Lisa



Teachers Health members – Andrew, Melissa and family

Financial statements



Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Note	2018	2017
		$	$
Premium revenue	3	656,798,565	597,958,883
Claims expense		(578,602,683)	(504,627,871)
Risk equalisation trust fund expense		(10,333,933)	(17,410,935)
State levies		(12,682,931)	(11,905,631)
Net claims incurred		**(601,619,547)**	**(533,944,437)**
Unexpired risk liability (increase)/decrease		(336,358)	(300,000)
Claims handling expenses	4	(23,360,134)	(19,740,031)
Other underwriting expenses	4	(23,770,784)	(21,540,737)
Underwriting expenses		**(47,467,276)**	**(41,580,768)**
Underwriting result		**7,711,742**	**22,433,678**
Investment revenue	3	12,582,981	13,788,660
Other revenues	3	11,793,688	11,649,880
Cost of goods sold	4	(2,626,438)	(2,426,920)
Other expenses	4	(9,560,005)	(8,551,320)
Finance costs	4	(511,911)	(460,180)
Surplus before income tax		19,390,057	36,433,798
Income tax expense	1c	–	–
Surplus for the year after income tax		**19,390,057**	**36,433,798**
Other comprehensive income			
Property revaluation that will not be reclassified subsequently to profit or loss		–	3,667,742
Other comprehensive income net of tax		–	–
Total comprehensive income for the year		**19,390,057**	**40,101,540**

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

Consolidated statement of financial position

For the year ended 30 June 2018

	Note	2018	2017
		$	$
Current assets			
Cash and cash equivalents	7	90,273,012	65,723,477
Trade and other receivables	8	27,592,618	26,073,095
Inventories	9	514,262	423,555
Financial assets	10	205,000,000	191,900,000
Other current assets	11	2,192,000	2,186,624
Total current assets		**325,571,892**	**286,306,751**
Non-current assets			
Financial assets	10	158,724,620	161,474,968
Property, plant and equipment	12	15,638,190	14,590,625
Intangible assets	13	1,241,586	1,161,374
Total non-current assets		**175,604,396**	**177,226,967**
Total assets		**501,176,288**	**463,533,718**
Current liabilities			
Trade and other payables	14	24,501,143	23,775,174
Other current liabilities	15	65,153,742	61,715,683
Provisions	16	69,333,823	55,519,615
Total current liabilities		**158,988,708**	**141,010,472**
Non-current liabilities			
Provisions	16	2,285,045	2,010,768
Total non-current liabilities		**2,285,045**	**2,010,768**
Total liabilities		**161,273,753**	**143,021,240**
Net assets		**339,902,535**	**320,512,478**
Equity			
Reserves	17	6,948,801	6,948,801
Retained earnings		332,953,734	313,563,677
Total equity		**339,902,535**	**320,512,478**

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

Consolidated statement of changes in equity

For the year ended 30 June 2018

	Asset Revaluation Reserve	Retained Earnings	Total
	$	$	$
Balance at 30 June 2016	**3,281,059**	**277,129,879**	**280,410,938**
Revaluation surplus	3,667,742	–	3,667,742
Profit for the year	–	36,433,798	36,433,798
Other comprehensive income	–	–	–
Total comprehensive income for the year	3,667,742	36,433,798	40,101,540
Balance at 30 June 2017	**6,948,801**	**313,563,677**	**320,512,478**
Profit for the year	–	19,390,057	19,390,057
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	19,390,057	19,390,057
Balance at 30 June 2018	**6,948,801**	**332,953,734**	**339,902,535**

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

Consolidated statement of cash flows

For the year ended 30 June 2018

	Note	2018	2017
		$	$
Cash flows from operating activities			
Receipts from members' premiums		658,912,413	605,197,899
Benefits paid to members		(589,826,577)	(525,883,113)
Receipts from customers		13,058,196	12,862,593
Payments to suppliers and employees		(55,081,727)	(52,813,207)
Interest received		10,349,045	10,750,571
Finance costs		(511,911)	(460,180)
Net cash provided by/(used in) operating activities	20a	**36,899,439**	**49,654,563**
Cash flows from investing activities			
Proceeds from sale of investments		11,603,834	22,777,026
Purchase of intangibles		(872,956)	(544,403)
Purchase of property, plant and equipment		(3,080,782)	(1,497,519)
Purchase of investments		(20,000,000)	(50,000,000)
Net cash provided by/(used in) investing activities		**(12,349,904)**	**(29,264,896)**
Net cash provided by/(used in) financing activities		**–**	**–**
Net change in cash and cash equivalents held		24,549,535	20,389,667
Cash and cash equivalents at beginning of financial year		65,723,477	45,333,810
Cash and cash equivalents at end of financial year	7	**90,273,012**	**65,723,477**

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

Notes to the financial statements

For the year ended 30 June 2018

1.Statement of significant accounting policies

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

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

Statement of compliance

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

The financial statements were authorised for issue by the Directors on 25th September 2018.

Basis of preparation

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

Significant accounting policies

a. Principles of consolidation:

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

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

Nurses and Midwives Health Pty Ltd is a wholly owned subsidiary of the parent Teachers Federation Health Limited. It operates a separate registered health benefits fund under its own Private Health Insurance (PHI) license. As such the subsidiary must separately comply with all relevant PHI legislation as well as APRA rules, Prudential Standards and Practice Guides.

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

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

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

c. Income tax

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

b. Parent entity information

Information relating to Teachers Federation Health Limited

	2018	2017
	$	$
Statement of financial position		
Current assets	306,070,364	276,482,623
Total assets	501,672,079	463,709,591
Current liabilities	155,975,351	139,951,796
Total liabilities	158,228,858	141,955,881
Reserves	6,948,801	6,948,801
Retained earnings	336,494,421	314,804,909
Total equity	343,443,221	321,753,709
Statement of profit or loss or other comprehensive income		
Profit for the year	21,689,512	37,578,768
Other comprehensive income	-	-
Revaluation of property	-	3,667,742
Total comprehensive income	**21,689,512**	**41,246,510**

d. Property, plant and equipment

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

Property

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

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

e. Leases

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

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

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

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

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

f. Financial instruments

Initial recognition and measurement

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

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

Effective interest rate method

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

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

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

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

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

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

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial guarantees

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

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

> the likelihood of the guaranteed party defaulting in a 12-month period;

> the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and

> the maximum loss exposed if the guarateed party were to default.

Derecognition

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

g. Impairment of non-financial assets

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

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

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

h. Intangibles

Computer software

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

Licences

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

Amortisation

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

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

i.Employee benefits

Short-term employee benefits

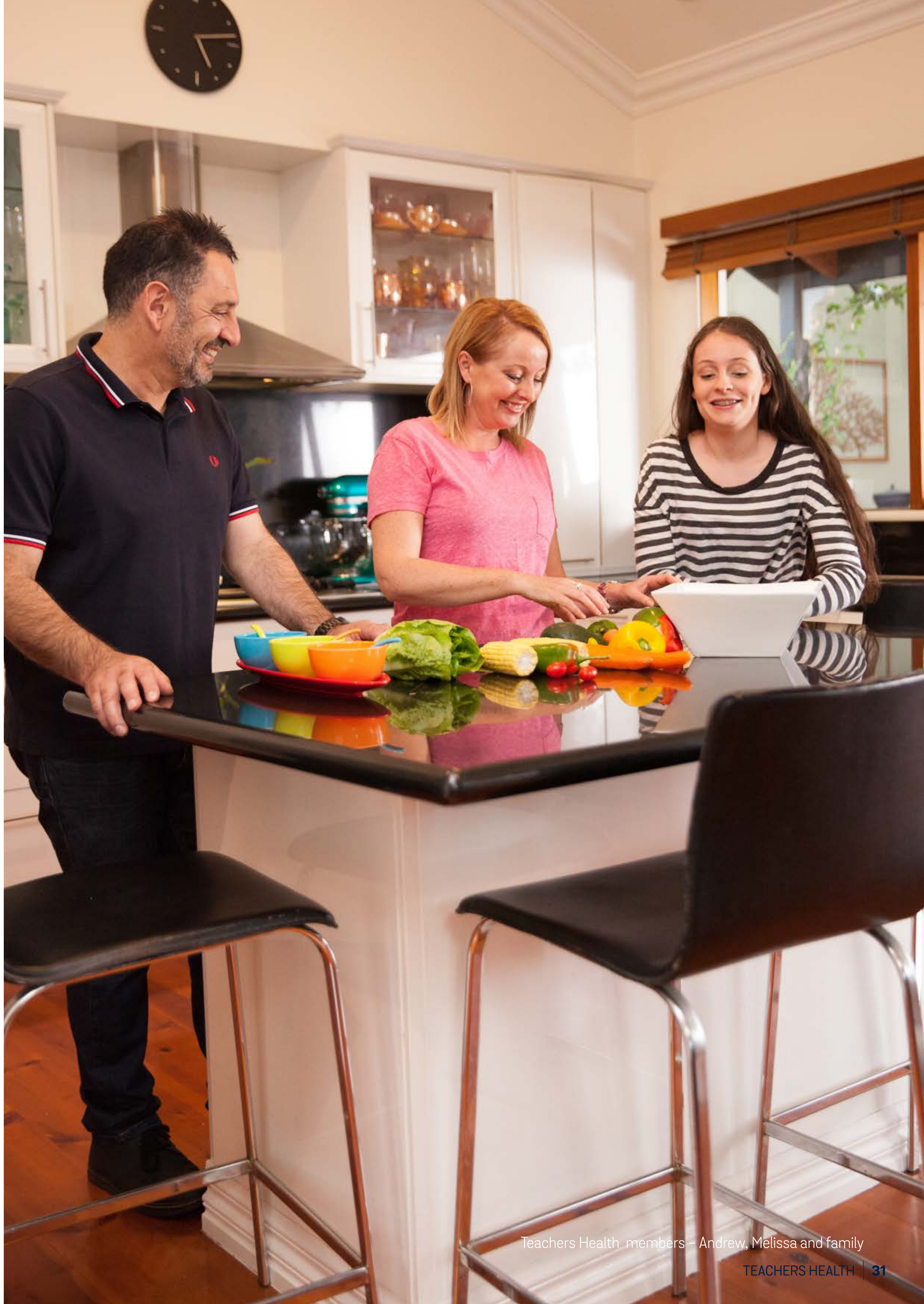
Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating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

Other long-term employee benefits

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

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

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.



Teachers Health members – Andrew, Melissa and family

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

Post-employment benefits plans

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

Defined contribution plans

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

j. Provisions

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

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

k. Cash and cash equivalents

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

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

l. Revenue

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

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

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

m. Claims

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

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.

n. Risk equalisation

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

o. Inventories – eyecare

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

p. Goods and Services Tax (GST)

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

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

q. Outstanding claims liability

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

r. Unexpired risk liability

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

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

s. Financial liabilities

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

Fair value

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

Impairment

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

t. Accounting for joint ventures

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

u. Assets backing private health insurance liabilities

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

v. Comparative figures

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

w. Critical accounting estimates and judgments

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

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

Fair value of directly-held properties

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

Outstanding claims provision

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

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

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

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

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

Unexpired risk liability

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

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

x. Adoption of new and revised accounting standards

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

AASB 2016-2 Amendments to Australian Accounting Standards– Disclosure Initiative: Amendments to AASB 107

The Standard makes amendments to AASB 107 Statement of Cash Flows.

The amendments require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2016-7 Amendments to Australian Accounting Standards– Deferral of AASB 15 for Not-for-Profit Entities

The Standard amends the mandatory effective date (application date) of AASB 15 Revenue from Contracts with Customers for not-for-profit entities so that AASB 15 is required to be applied by such entities for annual reporting periods beginning on or after 01 January 2010 instead of 01 January 2018.

AASB 2017-2 Amendments to Australian Accounting Standards– Further Annual Improvements 2014-2016 Cycle

The Standard makes amendments to AASB 12 Disclosure of Interests in Other Entities. This standard clarifies the scope of AASB 12 by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as o wners or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

There is no impact on the Group's financial statements when the amendment took effect on 1 January 2017.

y. New accounting standards for application in future periods

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

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

Standard	Impact
AASB 9 Financial Instruments (applicable for reporting periods beginning on or after 1 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 Group has yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.
AASB 15 Revenue from Contracts with Customers (applicable for reporting periods beginning on or after 1 January 2018)	AASB15 replaces AASB118 Revenue, AASB 111 Construction Contracts and some revenue-related interpretations: • establishes a new revenue recognition model • changes the basis for deciding whether revenue is to be recognised over time or at a point in time • expands and improves disclosures about revenue. The Group has yet to undertake a detailed assessment of the impact of AASB15. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.
AASB 16 Leases (applicable for reporting periods beginning on or after 1 January 2019)	AASB 16 replaces AASB 117 Leases and some lease-related interpretations: • requires all leases to be accounted for "on-balance sheet" by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases. Based on the Group's preliminary assessment, the Standard will result in the inclusion of a lease liability and a right of use asset on the balance sheet for the Group's operating leases. It is expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.
AASB 17 Insurance Contracts (applicable reporting periods commencing on or after 1 January 2021)	On 19 July 2017, Australian Accounting Standard Board issued AASB 17 Insurance Contracts, incorporating the recently issued IFRS 17 Insurance Contracts. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. IFRS 17 will change the accounting for insurance contracts by the Group. The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long-term contracts, the Premium Allocation Approach for short-term contracts and a Variable Fee Approach for direct participating products. The Group has yet to undertake a detailed assessment of the impacts of AASB 17.

2. Actuarial assumptions and methods

Actuarial methods

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

For Teachers Health, the outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2017: actual claims as at the balance date).

The outstanding claims provision for Nurses & Midwives Health has been estimated based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims and membership as at the balance date (2017: actual claims as at the balance date).

Actuarial assumptions

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

Variables – Teachers Health	2018 Hospital	2018 Medical	2018 General Treatment	2017 Hospital	2017 Medical	2017 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	87	92	96	89	91	96
Expense rate	0.97	0.97	0.97	1.17	1.17	1.17
Discount rate	–	–	–	–	–	–
Risk equalisation rate	2.79	2.79	–	4.57	4.57	–
Risk margin	9.00	9.00	9.00	7.00	7.00	7.00

Variables – Nurses & Midwives Health	2018 Hospital	2018 Medical	2018 General Treatment	2017 Hospital	2017 Medical	2017 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	84	84	96	48	48	88
Expense rate	0.94	0.94	0.94	1.08	1.08	1.08
Discount rate	–	–	–	–	–	–
Risk equalisation rate	4.69	4.69	–	6.94	6.94	–
Risk margin	12.5	12.5	12.5	12.5	12.5	12.5

The risk margin for Teachers Health in 2018 is 9.0% reflecting the use of no hindsight in the calculation of the provision (2017: 7.0% margin using no hindsight). Nurses & Midwives Health has a higher risk margin, given the size of the business, and is 12.5% utilising no hindsight (2017: 12.5% using no hindsight).

Process used to determine assumptions

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

i. Assumed proportion paid to date

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

Manual adjustments are then made for reasonableness (where necessary) to the current month and previous month. These adjustments are made by calculating the average incurred benefit per Single Equivalent Unit (SEU) per working day for each month and graphing the results for the past four years. The seasonality exhibited by the service type is reasonably consistent from year to year, with each year's service type showing an increase in incurred benefits from the previous year. Based on these graphs, knowledge of the industry, and details of recent Teachers Health experience, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits and hence the outstanding claims provision.

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

ii. Discount rate

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

iii. Expense rate

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

iv. Risk equalisation allowance

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

v. Risk margin

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

Sensitivity analysis – insurance contracts

Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group.

Impact on key variables:

Variables	Movement in variable	Adjustments on surplus	Adjusted amount included in Statement of profit or loss and other comprehensive income	Adjustments on equity	Adjusted amount included in Statement of financial position
		$'000	$'000	$'000	$'000
		$'000	$'000	$'000	$'000
Assumed portion paid to date	+10%	(363,270)	369,471	(363,270)	414,032
	-10%	254,143	(247,942)	254,143	(203,381)
Expense rate	+10%	(550)	6,751	(550)	51,312
	-10%	545	5,655	545	50,216
Discount rate	–	–	–	N/A	N/A
	–	–	–	N/A	N/A
Risk equalisation rate	+10%	(3,498)	9,699	(3,498)	54,260
	-10%	1,012	5,189	1,012	49,750
Risk margin	+10%	(7,192)	13,392	(7,192)	57,953
	-10%	6,538	(337)	6,538	44,224

3. Revenue

	2018	2017
	$	$
Premium revenue	656,798,565	597,958,883
Investment revenue	12,582,981	13,788,660
Other revenue		
Eyecare centres	6,366,426	6,154,352
Dental centres	2,972,223	2,873,068
Travel insurance	730,394	767,488
Healthcare services	655,213	821,334
Other revenue	1,069,432	1,033,638
Total other income	11,793,688	11,649,880

4. Expenses

Expenses by function

	2018	2017
	$	$
Claims handling expenses	(23,360,134)	(19,740,031)
Other underwriting expenses	(23,770,784)	(21,540,737)
Cost of goods sold – eyecare centres	(2,171,519)	(2,007,169)
Cost of goods sold – dental centres	(454,919)	(419,751)
Finance costs	(511,911)	(460,180)
Other operating expenses		
Eyecare centres	(4,858,749)	(4,150,090)
Dental centres	(2,860,973)	(2,501,608)
Travel insurance	(428,983)	(413,419)
Healthcare services	(736,027)	(847,932)
Other	(675,273)	(638,271)
Total expenses (excluding direct claims expenses)	(59,829,272)	(52,719,188)

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

Expenses by nature

	2018	2017
	$	$
Employee benefits	(29,236,651)	(25,147,910)
Depreciation and amortisation	(2,778,187)	(3,347,705)
Finance costs	(511,911)	(460,180)
Changes in inventories – eyecare centres	(2,171,519)	(2,007,169)
Changes in inventories – dental centres	(454,919)	(419,751)
Commission	(3,647,365)	(2,455,511)
Electronic claims processing fee	(1,269,910)	(1,155,605)
Software and licences	(3,655,254)	(2,730,543)
Marketing and publicity	(4,958,315)	(4,384,388)
Consulting	(2,265,851)	(2,898,425)
Printing and stationery	(277,228)	(384,014)
Postages	(163,680)	(538,063)
Rental and outgoings	(3,349,878)	(2,768,882)
Insurance	(268,131)	(235,069)
Motor vehicle and travel	(679,985)	(482,707)
Telephones	(354,810)	(382,586)
Investment expense	(655,552)	(576,895)
Other	(3,130,126)	(2,343,785)
Total expenses (excluding direct claims expenses)	(59,829,272)	(52,719,188)

5. Key management personnel compensation

The key management personnel compensation included within employee expenses is:

	2018	2017
	$	$
Short-term employee benefits		
Salary and fees	3,611,259	2,672,628
Other benefits	175,837	90,000
	3,787,096	2,762,628
Post-employment benefits		
Superannuation	229,520	182,971
Total key management personnel compensation	4,016,616	2,945,599

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

6. Auditors' remuneration

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

	2018	2017
	$	$
Grant Thornton audit services:		
Audit of the financial reports	182,500	160,750
Audit of APRA HRF 602.0 returns	13,500	12,000
Audit of APRA HRF 601.0 returns	27,000	20,000
Audit of Medicare premium reduction scheme	13,500	12,000
	236,500	204,750
Grant Thornton non-audit services:		
Tax compliance and advisory services	3,500	30,791
	3,500	30,791
Total auditor's remuneration	240,000	235,541

7. Cash and cash equivalents

	2018	2017
	$	$
Cash on hand	6,050	5,350
Cash at bank	90,266,962	65,718,127
Total cash and cash equivalents	90,273,012	65,723,477

8. Trade and other receivables

	2018	2017
	$	$
Current		
Trade receivables	184,450	351,345
Allowance for impairment of receivables	–	–
	181,450	351,345
Premiums in arrears	3,386,554	2,740,131
Medicare rebate	18,618,994	17,941,205
Investment income receivable	2,611,245	2,330,796
Other receivables	2,791,375	2,709,618
Total current trade and other receivables	27,592,618	26,073,095

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

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		
2018						
Trade receivables	184,450	–	–	–	–	184,450
Premiums in arrears	3,070,779	212,367	38,102	65,306	–	3,386,554
Medicare rebate	18,618,994	–	–	–	–	18,618,994
Investment income receivable	2,611,245	–	–	–	–	2,611,245
Other receivables	2,791,375	–	–	–	–	2,791,375
	27,276,843	**212,367**	**38,102**	**65,306**	**–**	**27,592,618**

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

9. Inventories

	2018	2017
	$	$
Finished goods – eyecare centres, at cost	514,262	423,555

10. Financial assets

	2018	2017
	$	$
Current		
Fixed interest rate securities, at fair value	205,000,000	191,900,000
Bills of exchange and promissory notes, at fair value	–	–
	205,000,000	**191,900,000**
Non-Current		
Fixed interest rate securities, at fair value	–	–
Equity trusts, at fair value	29,685,858	28,387,924
Debt trusts, at fair value	129,038,762	133,087,044
Other	–	–
	158,724,620	**161,474,968**

11. Other assets

	2018	2017
	$	$
Prepayments	34,763	29,386
Bond	2,157,237	2,157,238
	2,192,000	**2,186,624**

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

12. Property, plant and equipment

		2018	2017
		$	$
Property in use	(a)		
At fair value		11,800,000	11,800,000
Accumulated depreciation		(255,667)	(19,667)
Total property in use		11,544,333	11,780,333
Computer equipment			
At cost		2,387,014	1,785,479
Accumulated depreciation		(1,677,671)	(1,386,202)
Total computer equipment		709,343.33	399,277
Motor vehicles			
At cost		643,984	645,626
Accumulated depreciation		(225,841)	(328,153)
Total motor vehicles		418,143	317,473
Office furniture and equipment			
At cost		15,398,114	13,515,538
Accumulated depreciation		(12,431,743)	(11,421,997)
Total office furniture and equipment		2,966,371	2,093,542
Total property, plant and equipment		15,638,190	14,590,625

(a) The fair value of the property were estimated using observable data on recent transactions and rental yields for similar properties. The last valuations done by an independant valuer was done May 2017. No independant valuation was done this financial year.

12. Property, plant and equipment (cont.)

Movements in carrying amounts

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

	Property in use	Computer equipment	Motor vehicles	Office furniture and equipment	Total
	$	$	$	$	$
Balance at 30 June 2016	8,466,296	473,363	277,306	4,436,973	13,653,938
Additions	–	366,937	64,144	1,066,437	1,497,518
Disposals	–			(2,995)	(2,995)
Depreciation expense	(179,423)	(250,082)	(105,239)	(2,118,950)	(2,653,694)
Accumulated depreciation written back on disposal	–	–	–	2995	2995
Accumulated depreciation written back on revaluation	581,758	–	–	–	581,758
Revaluation surplus	3,085,983	–	–	–	3,085,983
Balance at 30 June 2017	11,780,333	399,277	317,473	2,093,542	14,590,625
Additions	–	625,382	246,955	2,208,444	3,080,781
Disposals	(23,847)		(217,975)	(325,869)	(567,691)
Depreciation expense	(236,000)	(315,316)	(104,055)	(1,325,774)	(1,981,145)
Accumulated depreciation written back on disposal	23,847	–	175,745	316,028	515,620
Carrying amount at 30 June 2018	11,544,333	709,343	418,143	2,966,371	15,638,190

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

13. Intangible assets

	2018	2017
	$	$
Computer software		
Cost	2,012,755	1,139,800
Accumulated amortisation	(881,700)	(531,081)
Net carrying value	1,131,055	608,718
Licences		
Cost	1,867,584	1,867,584
Accumulated amortisation	(1,757,053)	(1,314,928)
Net carrying value	110,531	552,656
Total intangible assets	1,241,586	1,161,374

Movements in carrying amounts

	Computer software	Licences	Total
Balance at 1 July 2016	316,200	1,003,781	1,319,981
Additions	544,403	–	544,403
Amortisation charge	(251,885)	(451,125)	(703,010)
Balance at 30 June 2017	608,718	552,656	1,161,374
Additions	872,956	–	872,956
Amortisation charge	(350,619)	(442,125)	(792,744)
Carrying amount at 30 June 2018	1,131,055	110,531	1,241,586

14. Trade and other payables

	2018	2017
	$	$
Trade creditors	1,489,093	984,281
Sundry payables and accrued expenses	17,727,050	16,025,893
Health Benefit Reinsurance Trust Fund payable	5,285,000	6,765,000
	24,501,143	23,775,174

15. Other current liabilities

	2018	2017
	$	$
Contributions in advance (earned unclosed business)	63,325,826	60,217,185
Unearned unclosed business	1,743,215	1,498,498
Lease Liability	84,701	
	65,153,742	61,715,683

16. Provisions

	Note	2018	2017
		$	$
Current			
Employee benefits	(a)	5,165,125	4,960,245
Outstanding claims	(b)	63,532,340	50,259,370
Unexpired risk liability	(c)	636,358	300,000
		69,333,823	55,519,615
Non-current			
Employee benefits	(a)	1,485,045	1,210,768
Make good-Levels 3 and 4 260 Elizabeth St		800,000	800,000
		2,285,045	2,010,768

	Employee benefits	Outstanding claims	Unexpired risk liability	Make good	Total
	$	$		$	$
Balance at 1 July 2016	5,675,290	44,463,046	–	–	50,138,336
Net amounts recognised/ (used) during the year	495,723	5,796,324	300,000	800,000	7,392,047
Amounts reversed during the period	–	–	–	–	–
Balance at 30 June 2017	6,171,013	50,259,370	300,000	800,000	57,530,383
Net amounts recognised/ (used) during the year	479,157	13,272,970	336,358	–	14,088,485
Amounts reversed during the period	–	–	–	–	–
Balance at 30 June 2018	6,650,170	63,532,340	636,358	800,000	71,618,868

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

(b) Provision for outstanding claims

	2018	2017
	$	$
Outstanding claims – central estimate of the expected future payment for claims incurred	56,298,848	44,677,171
Claims handling expense	562,064	544,276
Gross outstanding claims liability	**56,860,912**	**45,221,447**
Outstanding claims – expected payments to the RETF in relation to the central estimate	1,408,500	1,745,446
Risk margin	5,262,928	3,292,477
Net outstanding claims liability	**63,532,340**	**50,259,370**

(i) Risk margin

Teachers Health:

(i) The risk margin of 9.0% (2017: 7.0%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2017: 75%). This risk margin has increased due to increased volatility in the underlying claims and processing patterns.

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

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

The outstanding claims estimate is derived based on three valuation classes: 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 the balance date (2017: actual claims as at the 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 balances. Changes in the gross outstanding claims can be analysed as follows:

Nurses & Midwives Health:

(i) The risk margin of 12.5% (2017: 12.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2017: 75%).

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

The risk margin has been based on industry benchmarking.

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

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

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

	2018	2017
	$	$
Gross outstanding claims at beginning of period	45,221,447	40,276,463
Administration component	(544,276)	(472,510)
Central estimate at beginning of period	**44,677,171**	**39,803,953**
Change in claims incurred for the prior year	7,441,865	(880,665)
Claims paid in respect of the prior year	(51,783,463)	(40,162,136)
Claims incurred during the year (expected)	569,410,051	504,966,289
Claims paid during the year (expected)	(513,446,775)	(459,050,271)
Central estimate at end of period	**56,298,848**	**44,677,171**
Administration component	562,064	544,276
Gross outstanding claims at end of period	**56,860,912**	**45,221,447**

(c) Provision for unexpired risk liability

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2017	$	$	$	$
Hospital and General Treatment combined premium	**63,325,826**	**1,743,215**	**459,718,193**	**524,787,234**
Outflows				
Central estimate of future benefits	56,976,017	1,552,532	418,925,249	**477,453,798**
Central estimate of future management expenses	2,719,362	73,846	19,898,433	**22,691,641**
Risk margin	1,827,147	49,173	13,527,197	**15,403,517**
Total outflows	**61,522,526**	**1,675,551**	**452,350,879**	**515,548,956**
Total deficiency	**(1,803,300)**	**(67,664)**	**(7,367,314)**	**(9,238,278)**
Total unexpired risk liability	**50,524**	**489**	**585,345**	**636,358**

Whilst no deficiency is present at the group level, when considered as a standalone entity Nurses & Midwives Health showed a deficiency requiring a reserve of $636k as shown.

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

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

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

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

The risk margins have been estimated in respect of each private health insurer to equate to a probability of adequacy of 75% (2017: 75%). For Teachers Health the risk margin is 3.0% (2017: 3.0%), and for Nurses & Midwives Health 7.5% (2017:7.5%). These margins are applied to the respective benefits, risk equalisation, state levies and claims related expenses forecasts when determining the unexpired risk liability.

17. Reserves

Asset revaluation reserve

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

	Asset revaluation reserve movement
	$
Balance at 1 June 2016	3,281,059
-Revaluation	3,667,742
Balance at 30 June 2017	6,948,801
-Revaluation	-
Balance at 30 June 2018	6,948,801

18. Capital and leasing commitments

(a) Operating lease commitments

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

	2018	2017
	$	$
Payable — minimum lease payments		
- not later than 12 months	1,596,626	1,509,769
- between 12 months and five years	1,805,717	4,237,475
- greater than five years		-
	3,402,343	5,747,244

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

19. Segment reporting

The Group operates predominantly in one operating segment.

20. Cash flow information

	2018	2017
	$	$
(a) Reconciliation of cash flow from operations with surplus after income tax		
Surplus after income tax	19,390,057	36,433,798
Non-cash flows in surplus:		
- Depreciation	1,981,145	2,653,695
- Amortisation	792,745	703,010
- Net loss on disposal of property, plant and equipment	52,072	9,000
- Fair value losses/(gain) on investment trusts	(1,953,486)	(2,708,316)
Changes in assets and liabilities		
- Decrease/(increase) in trade and term debtors	(1,519,523)	(1,574,871)
- Decrease/(increase) in inventories – eyecare centres	(90,707)	(72,995)
- Decrease/(increase) in other assets	(5,377)	(344,315)
- Decrease/(increase) in non-current trade receivables		
- Increase/(decrease) in payables	725,969	(1,359,329)
- Increase/(decrease) in other liabilities	3,438,060	8,531,838
- Increase/(decrease) in provisions	14,088,485	7,392,048
Cash flow from operations	36,899,438	49,654,563

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

21. Events after the balance sheet date

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

22 Related party transactions

The following table details transactions with related parties.

	Note	2018	2017
		$	$
Teachers dental	(a)	1,306,698	1,259,951

(a) The Group receives rental income for the sub-letting of premises in Surry Hills. And the Group charges Teachers Dental for staff service provided.

23. Financial instruments

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.
The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2018	2017
Financial assets	$	$
Cash and cash equivalents	90,273,012	65,723,477
Financial assets at fair value through profit or loss		
- Equity trusts	29,685,858	28,387,924
- Debt trusts	129,038,762	133,087,044
- Fixed interest rate securities	205,000,000	191,900,000
- Bills of exchange and promissory notes		
Loans and receivables	27,592,618	26,073,095
	481,590,250	445,171,540

	2018	2017
Financial liabilities	$	$
Financial liabilities at amortised cost		
- Trade and other payables	24,501,143	23,775,174
- Other liabilities	65,153,742	61,715,683
	89,654,885	85,490,856

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

The Group holds land and buildings at fair value of $11.5m classified as Level 2. The Level 2 fair value of land and buildings has been derived using the market value approach. The key inputs under this approach are the current observable prices in an active market for similar properties in the same location and condition, and the net market rental income as at valuation date, capitalised at an appropriate market yield.

The Group does not have any derivative instruments at 30 June 2018 (2017: 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 Group. An investment policy has been developed in order to comply with APRA's requirements.

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

Market risks

Interest rate risk

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

	Weighted average effective interest rate	Within 1 year	Fixed interest rate maturing 1 to 5 years	Greater than 5 years	Total
	%	$	$	$	$
2018					
Financial assets					
Cash and cash equivalents	1.42%	90,273,012	-	-	90,273,012
Fixed interest rate securities	2.55%	205,000,000	-	-	205,000,000
Debt trusts	1.80%	-	129,038,762	-	129,038,762
Bills of exchange and promissory notes	-	-	-	-	-
Total interest bearing financial assets		295,273,012	129,038,762	-	424,311,774
2017					
Financial assets					
Cash and cash equivalents	1.35%	65,723,477	-	-	65,723,477
Fixed interest rate securities	2.80%	191,900,000	-	-	191,900,000
Debt trusts	2.20%	-	133,087,044	-	133,087,044
Bills of exchange and promissory notes	-	-	-	-	-
Total interest bearing financial assets		257,623,477	133,087,044	-	390,710,521

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

	2018		2017	
	$	$	$	$
Interest rate movement	+2.00%	-2.00%	+2.00%	-2.00%
Impact on net result for the year	8,486,235	(8,486,235)	7,814,210	(7,814,210)
Impact on equity	8,486,235	(8,486,235)	7,814,210	(7,814,210)

For the year ended 30 June 2018 (cont.)

Equity price risk

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

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

	2018		2017	
	$	$	$	$
Equity price movement	+5.00%	-5.00%	+5.00%	-5.00%
Impact on net result for the year	1,484,293	(1,484,293)	1,919,396	(1,919,396)
Impact on equity	1,484,293	(1,484,293)	1,919,396	(1,919,396)

Foreign currency risk

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

Commodity price risk

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

Liquidity risk

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

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

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

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

23. Financial instruments (cont.)

Financial liability and financial asset maturity analysis

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2018	$	$	$	$
Financial liabilities due for payment				
Trade and other payables	24,501,143	–	–	24,501,143
Other liabilities	65,153,742	–	–	65,153,742
Total contractual outflows	89,654,885	–	–	89,654,885
Total expected outflows	89,654,885	–	–	89,654,885
Financial assets — cash flows realisable				
Cash and cash equivalents	90,273,012	–	–	90,273,012
Loans and receivables	27,592,618	–	–	27,592,618
Fixed interest rate securities	205,000,000	–	–	205,000,000
Equity trusts	–	–	29,685,858	29,685,858
Debt trusts	–	129,038,762	–	129,038,762
Total anticipated inflows	322,865,630	129,038,762	29,685,858	481,590,250
Net inflow on financial instruments	233,210,745	129,038,762	29,685,858	391,935,365

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

Notes to the financial statements

For the year ended 30 June 2018 (cont.)

23. Financial instruments (cont.)

Credit risk

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

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

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

Analysis of Standard & Poor's Ratings:

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

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

	APRA grading					
	1	2	3	4	Unrated	Total
2018						
Cash and cash equivalents	90,266,962	-	-	-	6,050	90,273,012
Loans and receivables	-	-	-	-	27,592,618	27,592,618
Fixed interest rate securities	160,000,000	45,000,000	-	-	-	205,000,000
Equity trusts	-	-	-	-	29,685,858	29,685,858
Debt trusts	78,642,258	49,448,509	739,054	-	208,941	129,038,762
Bills of exchange and promissory notes	-	-	-	-	-	-
Total	328,909,220	94,448,509	739,054	-	57,493,467	481,590,250
% of total	73.88%	21.22%	0.17%	0.0%	12.91%	
Maximum allowable per investment policy	100%	50%	2%	2%	20%	

	APRA grading					
	1	2	3	4	Unrated	Total
2017						
Cash and cash equivalents	65,718,127	-	-	-	5,350	65,723,477
Loans and receivables	-	-	-	-	26,073,095	26,073,095
Fixed interest rate securities	132,000,000	59,900,000	-	-	-	191,900,000
Equity trusts	-	-	-	-	28,387,924	28,387,924
Debt trusts	75,131,444	56,654,234	805,228	-	496,138	133,087,044
Bills of exchange and promissory notes	-	-	-	-	-	-
Total	272,849,571	116,554,234	805,228	-	54,962,507	445,171,540
% of total	61.29%	26.18%	0.18%	0.0%	12.35%	
Maximum allowable per investment policy	100%	50%	2%	2%	20%	

24. Interest in subsidiaries and other entities

Name of entity	Note	Country of incorporation and principal place of business	Principal activity	Group's proportionate of ownership	
				2018	2017
Nurses & Midwives Health Pty Ltd	1a	Australia	Providing private health insurance	100%	100%
Teachers Healthcare Services Pty Ltd	1a	Australia	Broader health cover services of care coordination	100%	100%
Teachers Federation Health Foundation Pty Ltd*	1a	Australia	Trustee for foundation, funding or promoting medical research	100%	100%
Teachers Dental (Surry Hills) **	1t	Australia	Dental services	51%	51%

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

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

25. Group details

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

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

Directors' declaration

The Directors of Teachers Federation Health Limited declare that:

1. The consolidated financial statements and notes, as set out on pages 24 to 55, are in accordance with the Corporations Act 2001 and:

    i. comply with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

    ii. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the Group.

2. In the Directors' opinion there are reasonable grounds to believe that Teachers Federation Health Limited will be able to pay its debts as and when they become due and payable.

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

H M MacGregor
Director

Helen MacGregor

Dated this 25th day of September 2018
Sydney, NSW

Independent auditor's report

GrantThornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Report

To the Members of Teachers Federation Health Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Teachers Federation Health Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Independent auditor's report

Grant Thornton

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

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

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

Responsibilities of the directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 25 September 2018

PUTTING
MEMBERS
AT THE
OF
EVERYTHING
WE DO

We’re for teachers

TEACHERS HEALTH

Phone: 1300 727 538
Email: info@teachershealth.com.au
teachershealth.com.au

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

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