2015/16

# Annual Report

Improving the health of our community

GMHBA Limited

**Our Mission**

Supporting the health of our communities for generations.

**Our Vision**

Australia's leading regionally based health fund **most recommended by our communities for the contribution that we make to their health and wellbeing.**

## Contents



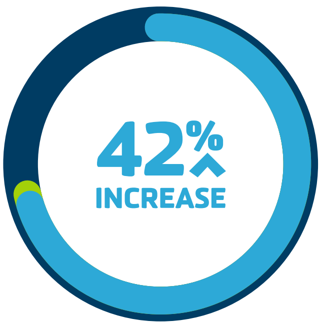
# We have a strong financial position for our future


Contribution Income ($'000)

16/ **$524,475**
15/ **$376,534**
14/ **$341,097**


Benefits Paid ($'000)

16/ **$459,246**
15/ **$325,801**
14/ **$296,785**




Memberships

16/ **180,770**
15/ **127,617**
14/ **121,697**


Total Assets ($'000)

16/ **$338,807**
15/ **$286,557**
14/ **$255,884**

**$459.2m**
annual benefits paid

**$133.4m**
increase in benefits paid

For every dollar received in premiums,
**88 cents was paid to members in benefits**

Figures include all GMHBA Limited health insurance brands and health.com.au

# Key Highlights

## Fund Members

**377,942**
Australians covered

**180,770**
Memberships

**52,526**
Increase in membership in FY16

## Medical Highlights

**98,830**
Hospital admissions

**2,779**
Newborns welcomed into the world

**$297,000**
Paid out for a coronary artery bypass, the highest claim of FY16

## Operational Highlights

**396,084**
phone calls received

**53,597**
Web chats

**132,083**
emails received

Figures include all GMHBA Limited health insurance brands and health.com.au

# More than just a health insurer

## 900+ people
attended our free health seminars

## 397 hours
via staff volunteering

Janine Richardson celebrated her
## 35th anniversary
at GMHBA Warrnambool branch

Employees contributed
## $35,574
to Give Where You Live via workplace giving

## $536,463
Contributed to the community including:

Healthy Community Grants
Community Harvest
Health Seminars
Give Where You Live partnership
Barwon Health Foundation partnership
Barwon Infant Study partnership
Employee volunteering
Employees contributed

## GMHBA Healthy Community Grants
Ardoch Youth Foundation
Colac Area Health
Diversitat
Upstart Entrepreneurial Challenge

*Community contributions verified by London Benchmarking Group

2016 VERIFIED LBG AU & NZ

GMHBA Limited is a participating fund of Members Own Health Funds

MEMBERS OWN HEALTH FUND

**Major Sponsorships**

Run Geelong and Run Ballarat

Cadel Evans Great Ocean Road Race

GMHBA Lorne Pier to Pub & Mountain to Surf

GMHBA Great Ocean Road Marathon

GMHBA Ballarat Miners


**Our Brands**

GMHBA Health Insurance | GMHBA Eye Care | GMHBA Dental Care | Budget Direct health insurance | Frank Health Insurance | health.com.au

*Budget Direct Health Insurance is a partner brand of GMHBA Limited.

# Chairman's Report

On behalf of the board, it is with great pleasure that I present the 2016 annual report for GMHBA Limited.

It has been another good year with total group contributions of $524m which is up 39% on the previous year, total benefits of $459m paid to members which is up 41% on the previous year, a strong surplus of $16.2m, and net assets reaching a record $200m. A significant part of this growth is due to our acquisition of health.com.au which we are confident will be a great asset in the future. Frank Health Insurance and our white label brands have also performed well with Frank in particular growing very strongly.

The increased rate of benefit payments over receipts growth reflects a decision made during the year to improve our value to members by moving to a higher payment scale for benefits.

I would also like to take this opportunity to remind members that the funds' assets including this years $16.2m surplus is yours. GMHBA Limited does not pay dividends to shareholders; every cent will be used to improve long term member benefit.

These excellent results have been achieved at a time of difficult industry trading conditions resulting from the lowering general affordability of private health insurance due to the disparity of well above CPI increases in health costs and increased utilisation while average wages growth has been generally at or below CPI. This has been exasperated by continued lower government rebate levels. This cost pressure has helped generate high rates of switching in the industry which has impacted all health insurers.

These results have been achieved at a time when GMHBA Limited has been very active in actioning its 10 Year Strategy. The strategy aims to both improve the financial performance of the fund while focusing on its vision of improving value to members while helping members live longer and healthier lives.

This year has also seen the establishment of a diversified health services business including optical, dental and a care coordination service. We have strengthened our already close ties to the Geelong community through major sponsorship associations with organisations with similar values to GMHBA Limited. These activities have all required significant investments in time, money and have required enormous efforts by staff. As a result, we now have an even stronger foundation for the future development of the fund even if the full value of these developments will take a number of years to appear.

GMHBA has continued to play an active role in the shaping and influencing of the national PHI reform agenda this year. We have ensured a strong voice for the fund and our members in the reform debate through our roles with both the peak industry body Private Healthcare Australia and as a lead fund under the Not for Profit Alliance. We particularly look forward to continuing our leadership on rural and regional community health issues and the role GMHBA can play in delivering better health outcomes for our regional members and their communities.

GMHBA Limited continues to have an experienced and skilled Board that has provided excellent leadership to the organisation. The performance of the management team led by our Chief Executive Mark Valena, has continued at an exemplary level and we have expanded both the quality and capability of Mark's team with a number of new appointments including a significant reorganisation with the arrival of Mr Tony Hall and Dr Sarah Leach joining the executive group as General Managers.

GMHBA's continued aim to be one of the most successful health funds, while maintaining great service and value for members, was again clearly achieved this year and I would especially like to pass on my thanks to our dedicated staff who have done a magnificent job to ensure that we continue to meet our aims in demanding times. Given our sales growth, it is not unexpected that we have grown significantly as an organisation over the year with staff levels in the total group now numbering over 300.

As my term as a Director ends this year as required under the GMHBA Limited board renewal policy, I would like to pass on my great personal appreciation for all the support and advice I have received from both the current and past directors and staff during my twelve-year journey as a director and later chairman of GMHBA Limited. It has been a wonderful experience to see the fund develop during this period from a small rural fund to a fund that has grown at a rate nearly unmatched in the rest of the industry; that has become progressively financially stronger; that now has a clear and strong strategic direction for the future and that is an acknowledged industry innovator. I feel satisfied that I am leaving GMHBA Limited with a strong base from which it can continue to develop into one of Australia's major private health insurers.

**Kenneth Jarvis**
**Chairman**
GMHBA Limited

# Chief Executive Officer's Report

The 2016 financial year has been one of challenges for the private health insurance sector and achievement for GMHBA Limited and for the Group and on which I am pleased to provide my report to members.

The Chairman has noted our continued strong financial results. The key to achieving these results and especially in an environment where investment returns were subdued as compared to 2015 is focusing on being a well-run health insurer with products and services that new and existing members continue to value. We have once again achieved above industry growth rates in new members and at a time where growth across the entire private health insurance sector is slowing.

Also as noted by the Chairman, in 2016 we were pleased to have begun to directly return some of our capital strength to GMHBA Limited members through improving the medical benefits paid to specialists and thereby also on average reducing member out of pockets. This change made in April 2016 to move to the AHSA medical gap scheme for all of GMHBA branded products is estimated to give rise to an ongoing increased benefit payment on behalf of members of not less than $10m per annum.

This change to benefits was part of our 2016 focus on ensuring that our health insurance products and services continued to be valued and competitive. As an example in February 2016 we also successfully launched our new package products.

**Frank Brand**

Frank (our brand for those members that like online, simple straight talking health insurance) continues to grow very strongly. Of particular note for 2016 has been the successful growth of the Frank Overseas Visitor Cover product. Plans for the 2017 financial year will see us further invest in the growth of this product with the strong surpluses providing a good contribution to member capital.

**Budget Direct Brand**

We are delighted in our partnership with Budget Direct to bring to their customers a highly competitive product range under the brand Budget Direct Health Insurance. We are very pleased with the growth achieved in the 2016 financial year and with the launch of a new product range in April 2016 we are confident that this growth will continue into the future.

**health.com.au**

This separately registered health insurer was a strategic acquisition by GMHBA Limited in July 2015 with the intention of expanding our health insurance offering and gaining scale in the national market. The focus of health.com.au is on providing a friendly, progressive and personalised health insurance experience that is engaging for its customers. We are very pleased with the transition of this fund to GMHBA and especially thank the staff of health.com.au for their assistance and continued focus on their customers. We have exciting plans for continued investment in, and differentiation of our digital health insurance brands of health.com.au and Frank.

### Health Services

The 2016 financial year has also seen us continue our strategy to bring improved health services to our members.

Highlights include:

- The launch of our Care Coordination Service; a nurse lead service that assists our members in need to better coordinate the various and often fragmented health services that they require to manage their conditions and to be better able to access services that allow them to manage well at home.
- The acquisition of a dental practice in Portland assisting our Portland members and the community to have continued access to quality dental care and furthering our regional expansion into direct care delivery following on from the acquisition of four eye care practices in Geelong in the 2015 financial year.
- The planning for our first colocation of an insurance branch with an eye care practice launched in Ballarat in August 2016.
- The continuation of our very well attended health education seminars and importantly increasing access to these sessions to all members via the web.

### Community and Sponsorships

GMHBA Limited continues to focus on making a difference to the communities in which we live and work. Our sponsorships and community grants are focused on encouraging organisations and individuals that are in pursuit of better health. For example in 2016 through our community grants program we supported the great work of the Upstart Entrepreneurial Challenge *Community Health Youth Open Innovation* program. This program brought together students from across the region in a series of day-long sessions to develop an understanding of local health issues and to come up with innovative solutions.

I am particularly proud of the contribution our employees make in fund raising and volunteering with the level of both exceeding well established public benchmarks.

Last but certainly not least I wish to thank all of our directors and executives for the leadership they have shown to shape our ten year strategy and to commit to the challenges of its implementation. I thank our staff, no matter which of our brands they work within, for their relentless focus on improving our organisation and delivering exceptional service to our members and customers.

Lastly, I note that our current Chairman, Ken Jarvis, will be concluding in September this year his twelve year contribution as a director of GMHBA Limited (the last 6 years as Chairman). Ken has lead the organisation through the head winds of a challenging political and economic environment with a keen focus on ensuring we are a financially sound and member focused business. I would like to thank Ken personally for the leadership and guidance that he has provided to me.

MValena

**Mark Valena**
**Chief Executive Officer**
GMHBA Limited

GMHBA Limited
ABN 98 004 417 092

# **Annual Financial Report** for the year ended 30 June 2016

# Contents

# Corporate information

## The directors of the Company at any time during or since the end of the financial year were:

### Kenneth Jarvis

OAM, KSJ, B App. Sc (Hons), Dip OR.

**Director since September 2004**

Chairman

Chairman Remuneration & Capability Committee

Member Audit & Compliance Committee

Member Strategy & Risk Committee

Member Investment Committee

Chairman – Armstrong Creek Residual Land Co Pty Ltd (Director until May 2016)

Director – GMHBA Land Co Pty Ltd

Director – GMHBA Services Pty Ltd

Chairman – health.com.au Pty Ltd

Director – GMHBA Health Pty Ltd

Executive Chairman – Aerolite Quarries Pty Ltd

Director – Aviation Development Australia Ltd

### James Walsh

B.Com, MBA, FCA, MAICD.

**Director since August 2005**

Deputy Chairman

Chairman Strategy & Risk Committee

Member Remuneration & Capability Committee

Director – Armstrong Creek Residual Land Co Pty Ltd (Director until May 2016)

Director – GMHBA Land Co Pty Ltd

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – GMHBA Health Pty Ltd

Director – AG Coombs Group Pty Ltd

Chartered Accountant

### Gerald Miller

BA, LLB. GAICD.

**Director since September 2007**

Chairman Audit & Compliance Committee

Member Health Services Committee

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Deputy Chair – The Geelong College Ltd

Director – ICT Geelong Ltd

Chair – AICD Director Nexus, Geelong

Lawyer and General Counsel, formerly registered psychologist

### Sue Renkin

RN, MBA, FCDA, GradDip Corp Gov, MAICD.

**Director since July 2009**

Chairman Health Services Committee

Member Remuneration & Capability Committee

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Managing Director – Intuitively Focussed Pty Ltd

Chairman – Monash Bio Medical Imaging Laboratories

Chairman – Southern Metropolitan Cemeteries Trust

Chairman – Victorian Centre for Sustainable Chemical Manufacturing

Director – Victorian Rugby Union (from June 2015)

Member – Global Leadership Board International Women's Forum

## Brian Benger

B.Ec (Hons), AdvDip Fin Services (Superannuation), FAICD.

**Director since February 2011**

Chairman Investment Committee

Member Strategy & Risk Committee

Director – Armstrong Creek Residual Land Co Pty Ltd (Director until November 2015)

Director – GMHBA Land Co Pty Ltd

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – Victorian Managed Insurance Authority (until June 2015)

Chairman of Mercer Financial Advice (Australia) Pty Ltd

Director of Mercer Superannuation (Australia) Ltd

Director of Mercer Investments (Australia) Ltd

Director of Enginsure Pty Ltd (appointed July 2016)

## Vicky Papachristos

BE, MBA, MAICD

**Director since November 2011**

Member Investment Committee

Member Strategy & Risk Committee

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – Currant Marketing Pty Ltd

Director – Coventry Group Limited

## Marie Bismark

MD, LLB, MBHL, MPH, FAFPHM, FAICD

**Director since March 2013**

Member Health Services Committee

Member Audit & Compliance Committee

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director - The Young and Well CRC

Director - Family Planning (until July 2015)

Director – Summerset Group Holdings Limited

**Chief Executive:**
Mark Valena,
BBus (Acc), CA, GAICD.

**Company Secretary:**
Dianne Salvo,
BCom, GAICD, GIA (cert).

**Auditors:**
KPMG
147 Collins Street
Melbourne Victoria 3000

**Bankers:**
National Australia
Bank Limited

**Appointed Actuary:**
Stuart Rodger
FIAA, Deloitte Actuaries
& Consultants Limited
(until May 2016)

David Torrance
FIAA, Director, dbn
actuaries Pty Ltd
(from May 2016)

# Corporate governance statement for the year ended 30 June 2016

The Board of GMHBA Limited has a governance framework to enable the Board to comply with the relevant requirements of the Corporations Act 2001, the Company's Constitution, the Private Health Insurance Act 2007 and Associated Rules and which embodies relevant corporate governance leading practice.

The Company is committed to achieving the highest practicable standards of corporate governance. This statement provides an overview of the main corporate governance practices that were in place throughout the financial year.

### Code of conduct

The Board Governance Framework contains GMHBA's code of conduct and has been established as the basis for ethical and professional conduct necessary to meet the expectations of Fund members and other stakeholders. As these expectations will change over time, the code is subject to regular review.

The main purpose of a code of conduct is to provide a common understanding of the Company's expectations in regard to ethical and professional conduct and to assist Directors in discharging their obligations. Achieving this objective will also deliver other benefits to the Company.

### Conflict of interest

Subject to the provisions of the Corporations Act and the Company's Constitution, the Board is empowered to regulate its meetings and proceedings, including the processes it will apply in instances of a declared, actual or perceived conflict of interest.

### Board performance evaluation

The Chairman regularly conducts a Board Evaluation with Directors. From time to time, the GMHBA Board engages an independent external consultant to review the effectiveness and operation of the Board. Such a review has been planned for the year ending 30 June 2017.

### Board Committees

The Board Committees in operation throughout the year were:

#### Audit & Compliance Committee

The role of the Committee is to oversee the establishment and maintenance of a framework of internal control, to monitor the audit and actuarial function ensuring regulatory compliance and advise on appropriate ethical standards for the management of the Company. This enables the Committee to give the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial reports.

#### Remuneration & Capability Committee

The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities for determining and reviewing compensation arrangements for Directors and senior management, succession planning, reviewing workplace capability and performance and the appointment and removal of Directors and the Chief Executive Officer.

#### Investment Committee

The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities by advising on the Company's total investment portfolio and overseeing the implementation of the investment management strategy.

#### Strategy & Risk Committee

The role of the Committee is to assist the Board of Directors in identifying and establishing GMHBA's future strategic direction in line with the Company's mission and vision statements, whilst maintaining a focus on risk.

#### Health Services Committee

The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities in relation to leading, developing and overseeing the key health services initiative components of GMHBA's mission, vision, strategic intents and financial plans.

# **Corporate governance statement**
for the year ended 30 June 2016 (continued).

### Compliance

GMHBA has a strong commitment to compliance at all levels within the organisation. The Company ensures that its compliance activities are undertaken in a manner which maximises 'letter of the law' compliance with legislation, as well as taking a proactive approach in helping to achieve the objectives of the legislation.

The Company is committed to the prevention, and where necessary, the identification and timely response to breaches of laws, regulations, codes or standards relevant to the Company.

### Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under four headings:

- Effectiveness and efficiency of operations
- Reliability of reporting
- Compliance with applicable laws & regulations
- Code of conduct

### Internal audit function

The internal audit function assists the Board in ensuring compliance with the internal control framework. The Audit & Compliance Committee is responsible for approving the program of internal audits to be conducted each financial year and for the scope of the work to be performed. The internal audit function, while operationally reporting to the Chief Executive, also reports to the Audit & Compliance Committee. The Committee meets with the internal auditor on a regular basis.

### Business risk management

The Audit & Compliance Committee and the Strategy & Risk Committee provide advice to the Board and report on the status of business risks to the Company through an integrated risk management plan aimed at ensuring risks are identified, assessed and appropriately managed.

The risk management process involves ensuring:

- Strategic, operational and financial risks are identified
- Systems are in place to monitor and manage the risks
- Reporting systems are in place
- Risk management systems are operating effectively
- Compliance with relevant legislation
- Compliance with the code of ethical conduct

A comprehensive insurance program provides protection against residual risk exposures.

### Capital management plan

GMHBA's capital underpins our ability to conduct our business. At a minimum, capital provides the necessary reserves to ensure that we can now, and for the foreseeable future, meet our obligations to our members and to other creditors under all but the most rare and catastrophic circumstances.

# Directors' report

The directors present their report together with the consolidated financial statements of the Group comprising GMHBA Limited (the Company) and its subsidiaries (the Group) for the financial year ended 30 June 2016 and the auditor's report thereon.

### Directors

The directors of the Company at any time during or since the end of the financial year are:

- Kenneth Jarvis
- James Walsh
- Gerald Miller
- Sue Renkin
- Brian Benger
- Vicky Papachristos
- Marie Bismark

The qualifications, expertise and special responsibilities of Directors are set out on page 12 and 13 of the Annual Report.

### Company members

The Members of the Company at the date of this report are the same as the Directors of the Company, as listed above.

### Principal activities

The principal activities of the Group during the course of the financial year were the provision of benefits against claims by Fund members relating to hospital, medical and ancillary services.

The Company, being not for profit, does not earn taxable income and is therefore not subject to income taxation, however certain subsidiaries within the Group are taxable entities (Refer Note 2.9). Total comprehensive income for the year was $16.221 million (2015: $23.137 million).

### Review of operations

A review of the operations and results of the Group during the financial year are set out in the Chairman's report on page 6.

### Significant changes in the state of affairs

On 31 July 2015, the Group acquired 100% of the shares in health.com.au Pty Ltd (ACN 152 479 975) for total cash consideration of $46m. The Board of GMHBA Limited approved this acquisition via resolution at a meeting held 17 June 2015. This is an exciting opportunity for GMHBA to continue to grow and diversify our business. The decision to purchase Health.com.au Pty Ltd is strategic and consistent with the implementation of our 10 Year Strategy. The acquisition is also expected to provide the Group with an increased share of the private health insurance market through online distribution channels whilst offering operational synergies with our existing health insurance businesses.

### Matters subsequent to the end of the financial year

There have been no events subsequent to balance date which would have a material effect on the Group's financial report as at 30 June 2016.

### Environmental regulations

The Group is not subject to any significant environmental regulation.

### Information on Directors

All Directors are members of the Company. No Director has received any benefit since the end of the previous financial year, by reason of any contract with the Company or with a firm of which he or she is a member or with a company in which the Director has a substantial interest, with the exception of the Director benefits that may be deemed to have arisen in relation to their position as Fund members of the health fund conducted by the Company.

### Likely developments

Other than those matters raised in the Chairman and CEO reports, further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

# Directors' report
(continued).

### Meetings of Directors

The following table sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the year ended 30 June 2016 and the number of meetings attended by each Director. It should be noted that not all Directors are members of all Committees.

| Directors | Number of meetings of Directors held | Number of meetings of Directors attended | Number of relevant Committee meetings held | Number of relevant Committee meetings attended |
|---|---|---|---|---|
| Ken Jarvis | 12 | 10 | 16 | 15 |
| Jim Walsh | 12 | 12 | 8 | 8 |
| Gerald Miller | 12 | 11 | 7 | 6 |
| Sue Renkin | 12 | 12 | 8 | 8 |
| Brian Benger | 12 | 12 | 7 | 7 |
| Vicky Papachristos | 12 | 11 | 7 | 5 |
| Marie Bismark | 12 | 11 | 7 | 7 |

### Insurance of Officers

During the financial year, the Company paid to insure the Directors and Officers of the Company for any liability that may be brought against them while acting in their respective capacities for the Company.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance contract, as such disclosure is prohibited under the terms of the contract.

### Rounding of amounts

The Company is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and amounts have been rounded off in accordance with that Instrument. All amounts shown in the financial statements are expressed to the nearest thousand dollars, unless otherwise stated.

### Auditor's Independence Declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

For and on behalf of the Board of Directors,

**Kenneth Jarvis**
**Chairman**
Geelong, 30 August 2016

**Gerald Miller**
**Director**
Geelong, 30 August 2016

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of GMHBA Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**KPMG**

**Darren Scammell**
**Partner**
Melbourne, 30 August 2016

# Consolidated statement of profit or loss and other comprehensive income

## For the year ended 30 June 2016

| | Note | 2016 ($'000) | 2015 ($'000) |
|---|---|---|---|
| **Revenue** | | | |
| Premium revenue | | 524,475 | 376,534 |
| **Total revenue from operating activities** | | **524,475** | **376,534** |
| **Expenses** | | | |
| Benefits paid to fund members | 2.6 | (430,398) | (298,868) |
| Payments to Risk Equalisation Special Account | | (28,848) | (26,933) |
| **Total cost of fund benefits** | | **(459,246)** | **(325,801)** |
| **Gross underwriting result** | | **65,229** | **50,733** |
| **Management expenses** | | | |
| Employee benefits expenses | | (25,980) | (18,769) |
| Marketing | | (7,910) | (6,966) |
| Commission | | (7,322) | (3,688) |
| Depreciation and amortisation | | (2,344) | (795) |
| IT and communications | | (4,365) | (2,900) |
| Professional fees | | (4,748) | (2,475) |
| Other management expenses | | (6,287) | (4,454) |
| **Total management expenses** | | **(58,956)** | **(40,047)** |
| **Net underwriting result** | | **6,273** | **10,686** |
| Investment expenses | | (489) | (455) |
| Interest income | | 6,778 | 7,989 |
| Dividends | | 614 | 617 |
| Unrealised investment (loss)/gain | | (2,604) | 2,056 |
| Realised investment gains | | 2,264 | 1,404 |
| Sundry income | | 2,408 | 942 |
| Share of net loss of equity accounted investee | | - | (102) |
| | | **8,971** | **12,451** |
| **Profit before tax for the year** | | **15,244** | **23,137** |
| Income tax benefit | 2.9 | 977 | - |
| **Net profit after tax** | | **16,221** | **23,137** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **16,221** | **23,137** |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated statement of financial position

## As at 30 June 2016

| | Note | 2016 ($'000) | 2015 ($'000) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 3.1 | 40,746 | 62,878 |
| Trade and other receivables | 2.1 | 17,131 | 18,552 |
| Financial assets | 2.2 | 114,366 | 115,065 |
| Other assets | 2.3 | 10,048 | 3,804 |
| **Total current assets** | | **182,291** | **200,299** |
| **Non-current assets** | | | |
| Financial assets | 2.2 | 97,788 | 70,889 |
| Property, plant and equipment | 2.4 | 11,779 | 11,267 |
| Intangible assets and goodwill | 2.4 | 38,634 | 3,134 |
| Other assets | 2.3 | 8,315 | - |
| Other investments | 5.5 | - | 968 |
| **Total non-current assets** | | **156,516** | **86,258** |
| **Total assets** | | **338,807** | **286,557** |
| **Current liabilities** | | | |
| Trade and other payables | 2.5 | 36,295 | 17,527 |
| Employee benefits provisions | 4.2 | 2,268 | 1,967 |
| Other provisions | 2.6 | 50,994 | 37,777 |
| Other liabilities | 2.7 | 48,429 | 45,232 |
| **Total current liabilities** | | **137,986** | **102,503** |
| **Non-current liabilities** | | | |
| Employee benefits provisions | 4.2 | 299 | 188 |
| Deferred tax liabilities | 2.9 | 435 | - |
| **Total non-current liabilities** | | **734** | **188** |
| **Total liabilities** | | **138,720** | **102,691** |
| **Net assets** | | **200,087** | **183,866** |
| **Equity** | | | |
| Retained earnings | | 199,903 | 183,682 |
| Asset revaluation reserve | | 184 | 184 |
| **Total equity** | | **200,087** | **183,866** |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated statement of changes in equity

## For the year ended 30 June 2016

| | Retained earnings ($'000) | Asset revaluation reserve ($'000) | Total ($'000) |
|---|---|---|---|
| Balance at 1 July 2014 | 160,545 | 184 | 160,729 |
| Profit for the year | 23,137 | - | 23,137 |
| **Total comprehensive income for the year** | **23,137** | **-** | **23,137** |
| Balance at 30 June 2015 | 183,682 | 184 | 183,866 |
| Balance at 1 July 2015 | 183,682 | 184 | 183,866 |
| Profit for the year | 16,221 | - | 16,221 |
| **Total comprehensive income for the year** | **16,221** | **-** | **16,221** |
| Balance at 30 June 2016 | 199,903 | 184 | 200,087 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows

For the year ended 30 June 2016

| | Note | 2016 ($'000) | 2015 ($'000) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premium receipts | | 525,407 | 379,105 |
| Benefits paid | | (428,219) | (297,131) |
| Payments to suppliers and employees | | (95,153) | (66,162) |
| Other income received | | 2,612 | 827 |
| **Net cash inflow from operating activities** | **3.1(a)** | **4,647** | **16,639** |
| **Cash flows from investing activities** | | | |
| Purchase of financial assets | | (190,094) | (156,829) |
| Purchase of property, plant and equipment and intangible assets | | (4,285) | (2,841) |
| Acquisition of businesses, net of cash acquired | | (5,446) | (1,485) |
| Dividends received | | 614 | 617 |
| Interest received | | 7,236 | 8,714 |
| Proceeds from sale of financial assets | | 164,546 | 182,941 |
| Net movement in loan to related party | | 650 | (650) |
| **Net cash (outflow)/inflow from investing activities** | | **(26,779)** | **30,467** |
| Net (decrease)/increase in cash held | | (22,132) | 47,106 |
| Cash and cash equivalents at beginning of the financial year | | 62,878 | 15,772 |
| **Cash and cash equivalents at end of the financial year** | **3.1(b)** | **40,746** | **62,878** |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements

For the year ended 30 June 2016

### 1. About this report

The "About this report" section contains general information about the annual financial report, broken down into the following sub sections:

1.1 Company information
1.2 Basis of accounting
1.3 Basis of measurement
1.4 Use of estimates and judgements
1.5 Comparative information
1.6 Rounding of amounts

### 1.1 Company information

GMHBA Limited (the "Company") is a not for profit company, incorporated and domiciled in Australia. Its registered office is 60-68 Moorabool Street, Geelong, Victoria, 3220. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually "Group companies"). The Company is exempt from income tax by virtue of Section 50-30 item 6.3 of the Income Tax Assessment Act. Subsidiaries of the parent entity are for profit entities and subject to income tax.

### 1.2 Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

They were authorised for issue by the Board of Directors on 30 August 2016.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 1.3 Basis of measurement

The accounting policies adopted in the preparation of this financial report have been applied consistently by the Group Companies and are the same as those applied for the previous reporting period unless otherwise noted. The Group's financial statements were prepared in accordance with the historical cost convention, except for the following:

- Financial instruments are measured at fair value through profit or loss
- Land and Buildings are recorded at fair value with movements in value taken through the asset revaluation reserve
- Rewards benefit provision carried at present value.

The functional and presentation currency used for the preparation of these financial statements is Australian dollars.

### 1.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Deferred acquisition costs, see note 2.3
- Outstanding claims liability, see note 2.6
- Reward benefits, see note 2.6
- Liability adequacy test, see note 2.7

It is possible that outcomes within the next financial year that are different from the assumptions above could require a material adjustment to the carrying amount of the assets or liabilities affected.

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

### 1.5 Comparative information

Where necessary, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### 1.6 Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and amounts have been rounded off in accordance with that Instrument. All amounts shown in the financial statements are expressed to the nearest thousand dollars, unless otherwise stated.

## 2. Member assets

This section contains important information about the composition and use of our members' assets. The section is broken down into the following areas of focus:

- 2.1 Trade and other receivables
- 2.2 Financial assets
- 2.3 Other assets
- 2.4 Property, plant and equipment, and intangible assets
- 2.5 Trade and other payables
- 2.6 Other provisions
- 2.7 Other liabilities
- 2.8 Fair value measurement
- 2.9 Taxes

### 2.1 Trade and other receivables

*<u>Accounting Policies</u>*
*Trade and other receivables*

The carrying amounts of trade and other receivables approximate their fair value due to the short-term maturities of these assets.

The premium receivable as at 30 June 2016 consists of:

(i) Unclosed premium earned – this represents premiums in arrears measured up to 30 June 2016;

(ii) Unclosed premium unearned – forecast premiums receivable from policyholders at 30 June 2016.

Federal government rebate receivable represents premiums receivable from Medicare at the end of the period, relating to the Health Insurance Rebate portion of member contributions.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

*Premium revenue*
Premium revenue comprises amounts charged to Fund members for insurance contracts. Premium revenue is recognised in the consolidated statement of profit or loss and other comprehensive income from the date of attachment of insurance risk, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of premium received or receivable not earned in the consolidated statement of profit or loss and other comprehensive income at the reporting date is recognised in the consolidated statement of financial position as unearned premium liability.

# Notes to the consolidated financial statements
## For the year ended 30 June 2016 (continued)

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Unclosed premium earned | 2,189 | 1,709 |
| Unclosed premium unearned | 1,014 | 976 |
| | **3,203** | **2,685** |
| Accrued investment income | 1,028 | 1,486 |
| Other debtors | 858 | 5,198 |
| Federal government rebate receivable | 12,042 | 9,183 |
| | **17,131** | **18,552** |

### 2.2 Financial assets

*Accounting Policies*

Financial assets comprise investment assets held to back insurance liabilities. All investments are managed and performance is evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented investment management strategy.

All investments are determined to be assets backing insurance liabilities and accordingly are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value being the cost of acquisition excluding transaction costs and are subsequently remeasured to fair value at each reporting date.

Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

Transaction costs for purchases of investments are expensed as incurred and presented in the statement of profit or loss and other comprehensive income as investment expenses on assets backing insurance liabilities. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

Investment revenue, comprising interest and dividends is brought to account on an accruals basis. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Current** | | |
| Term deposits | 101,966 | 104,482 |
| Bonds | 12,400 | 10,583 |
| **At fair value** | **114,366** | **115,065** |
| **Non-current** | | |
| Equity securities | 22,547 | 22,788 |
| Bonds | 75,241 | 48,101 |
| **At fair value** | **97,788** | **70,889** |

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in note 3.2. Further detail regarding fair value measurement is disclosed in note 2.8.

### 2.3 Other assets

*Accounting Policies*

*Deferred Acquisition Costs*
The Group incurs costs to acquire and establish Fund members. These costs include commission paid to intermediaries. Deferred acquisition costs are capitalised and amortised in accordance with the pattern of the incident of risk. The Group capitalises these costs and amortises them on a straight-line basis in the statement of profit or loss and other comprehensive income.

| *Financial Disclosure* | Note | 2016 ($'000) | 2015 ($'000) |
|---|---|---|---|
| **Current** | | | |
| Prepayments | | 1,159 | 338 |
| Deferred acquisition costs | | 6,415 | 3,260 |
| Current income tax receivable | 2.9 | 2,367 | - |
| Inventory | | 107 | 206 |
| | | **10,048** | **3,804** |
| **Non-current** | | | |
| Deferred acquisition costs | | 8,315 | - |

### 2.4 Property, plant and equipment, and intangible assets

*Accounting Policies*

*Property, plant and equipment*
Land and buildings are recorded at fair value (buildings are subsequently subject to depreciation) and plant and equipment are recorded in the financial statements at cost less accumulated depreciation and accumulated impairment losses.

*Recoverable amount of non-current assets*
Non-current assets, except for investments and land and buildings are recorded in the financial statements at cost less accumulated depreciation. The carrying values of all non-current assets are reviewed by management at regular intervals to ensure that they are not stated at amounts in excess of their recoverable amounts. Except where stated, recoverable amounts are not determined using discounted cash flows. Management has reviewed the assets and are of the opinion that there has been no impairment of the asset's current values within the asset classes.

*Depreciation*
Property, plant and equipment, other than land, is depreciated using either the diminishing value method or the straight line method over the period during which benefits are expected to be derived from the asset. Profits and losses on disposal of property, plant and equipment are taken into account in determining the profit for the year and recorded in other income/other expenses in the statement of profit or loss and other comprehensive income. The financial disclosure section outlines the depreciation rates applied to each asset class.

*Intangible assets – Goodwill*
Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

*Intangible assets – Health.com.au customer list*
Upon acquisition, an intangible asset was recognised attributable to the customer list of Health.com.au at acquisition. This represents the present value (at acquisition date) of the expected future incremental cash flows from the acquired book of members and is measured at cost less accumulated amortisation and any accumulated impairment losses. The useful life of the asset has been assessed as 13 years, and amortisation is calculated on a straight-line basis over this period and recognised through profit of loss.

*Other intangible assets*
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful life of the license fee is 20 years and software is between 3 and 10 years.

*Financial disclosure:*

Reconciliation of the carrying amounts of each class of property, plant and equipment and intangible assets at the beginning and end of the financial year are set out below:

| Reconciliation of carrying amount – Property plant and equipment | Land ($'000) | Buildings ($'000) | Furniture & fittings ($'000) | Office equipment ($'000) | Motor vehicles ($'000) | Capital WIP & Development costs ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| Depreciation rate | - | 1.5% | 10.0% | 15.0 – 40.0% | 22.5% | - | - |
| Cost (or valuation as applicable) | 5,693 | 3,068 | 1,489 | 2,853 | 77 | 621 | 13,801 |
| Accumulated depreciation | - | (47) | (989) | (1,463) | (35) | - | (2,534) |
| **Carrying amount at 1 July 2015** | **5,693** | **3,021** | **500** | **1,390** | **42** | **621** | **11,267** |
| Additions[1] | - | 8 | 377 | 775 | - | 119 | 1,279 |
| Disposals[2] | - | - | - | (1) | - | - | (1) |
| Depreciation | - | (57) | (181) | (520) | (8) | - | (766) |
| Cost | 5,693 | 3,076 | 1,929 | 3,714 | 77 | 740 | 15,229 |
| Accumulated depreciation | - | (104) | (1,233) | (2,070) | (43) | - | (3,450) |
| **Carrying amount at 30 June 2016** | **5,693** | **2,972** | **696** | **1,644** | **34** | **740** | **11,779** |
| Cost | 5,693 | 2,975 | 1,459 | 1,944 | 64 | 87 | 12,222 |
| Accumulated depreciation | - | - | (896) | (1,260) | (49) | - | (2,205) |
| **Carrying amount at 1 July 2014** | **5,693** | **2,975** | **563** | **684** | **15** | **87** | **10,017** |
| Additions[1] | - | 93 | 32 | 1,194 | 44 | 534 | 1,897 |
| Disposals[2] | - | - | - | (69) | (7) | - | (76) |
| Depreciation | - | (47) | (95) | (419) | (10) | - | (571) |
| Cost | 5,693 | 3,068 | 1,489 | 2,853 | 77 | 621 | 13,801 |
| Accumulated depreciation | - | (47) | (989) | (1,463) | (35) | - | (2,534) |
| **Carrying amount at 30 June 2015** | **5,693** | **3,021** | **500** | **1,390** | **42** | **621** | **11,267** |

1. Additions include the written down value of assets acquired in business combinations.
2. Balances shown net of accumulated depreciation.

| Reconciliation of carrying amount – intangible assets | Goodwill ($'000) | Health.com.au customer list ($'000) | License fee ($'000) | Software ($'000) | Domain names ($'000) | Software WIP ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| Amortisation rate | - | 7.7% | 5.0% | 10%-30% | - | - | - |
| **Carrying amount at 1 July 2014** | **-** | **-** | **-** | **870** | **-** | **-** | **870** |
| Additions | 1,632 | - | 579 | 276 | - | - | 2,487 |
| Amortisation | - | - | (20) | (204) | - | - | (224) |
| Cost | 1,632 | - | 579 | 2,199 | - | - | 4,410 |
| Accumulated amortisation | - | - | (20) | (1,256) | - | - | (1,276) |
| **Carrying amount at 30 June 2015** | **1,632** | **-** | **559** | **943** | **-** | **-** | **3,134** |
| Additions (inclusive of business combination) | 19,091 | 13,882 | 579 | 1,590 | 271 | 1,666 | 37,079 |
| Amortisation | - | (979) | (55) | (544) | - | - | (1,578) |
| Cost | 20,723 | 13,882 | 1,158 | 4,118 | 271 | 1,666 | 41,818 |
| Accumulated amortisation | - | (979) | (75) | (2,130) | - | - | (3,184) |
| **Carrying amount at 30 June 2016** | **20,723** | **12,903** | **1,083** | **1,988** | **271** | **1,666** | **38,634** |

Additional information on goodwill is included in note 5.7D.

### 2.5 Trade and other payables

Accounting Policies

*Health benefits risk equalisation special account*

Under the provisions of the Private Health Insurance Risk Equalisation Policy Rules 2007, hospital benefits are submitted to the Risk Equalisation Special Account and shared amongst all health benefit funds in the following circumstances:

- Where a fund has directly paid these benefits, which are proportionally less than the average of other funds in the State, it is required to pay to the Risk Equalisation Special Account an amount equivalent to the shortfall.
- Conversely, where the direct payment is proportionally greater than the average, the difference is paid to the Company from the Risk Equalisation Special Account. Eligible claims are assessed on a quarterly basis.

*Other payables*

Liabilities are recognised for amounts payable in the future for goods and services received at balance date, whether or not billed to the Group. The Group's payables are all considered short term.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Health Benefits Risk Equalisation Special Account | 20,794 | 8,388 |
| Creditors and accruals | 15,501 | 9,139 |
| | **36,295** | **17,527** |

### 2.6 Other provisions

Accounting policies

*Insurance contracts*

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. The Company has determined that all current contracts with policyholders are insurance contracts.

Underwriting insurance contracts expose the Company to liquidity risk through payment obligations of unknown amounts on unknown dates. Liquidity risk is the risk of having insufficient cash resources to meet payment obligations.

The assets held to back insurance liabilities consist largely of money market securities, fixed interest investments and other highly liquid assets. Asset management is designed to provide consistency between forecasted claims payment obligation and asset maturity profiles.

Management of liquidity risk is incorporated into GMHBA's risk management strategy, capital management plan and investment framework.

*Insurance Risk Management*

The risk management framework offers a level of assurance that the Group's risks are administered thoroughly and astutely. The risk management plan addresses the operational risks of the Group.

The framework is inclusive of a risk management plan, which is the process of planning, organising, directing and controlling the resources and activities of an organisation in order to minimise the adverse effects of accidental losses to the organisation. It is recognised as an integral part of good management practice, which involves a process consisting of steps which when undertaken in sequence, enable continual improvement in decision-making. Risk management is as much about identifying opportunities as avoiding or mitigating losses.

The risk management plan defines management responsibilities and the processes involved in mitigating identified qualitative and quantitative risks through a set of developed guidelines. The risk management plan is subject to a formal review process to ensure continued effectiveness.

*Accounting Policies*

*Outstanding claims liability*

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

Claims that have been incurred by Fund members, but not yet presented to the Company for reimbursement, are estimated based on the claims experience in previous accounting periods. Outstanding claims are not discounted as they are usually settled within six months of the reporting date. The provision is calculated in accordance with the principles of the chain ladder method which can be used under the prudential regulations of the Private Health Insurance Industry.

AASB 1023 requires a risk margin be applied to allow for the inherent uncertainty in the central estimate. GMHBA adopted a risk margin of 7% giving in excess of 75% probability of adequacy, whilst Health.com.au adopted a risk margin of 10% in order to give a 75% probability of adequacy. The risk margins have been based on an analysis of the past experience of the respective health benefits funds by our Appointed Actuaries on the adequacy of the provision over prior years.

The liability also allows for an estimate of claims handling costs which include internal and external costs incurred in connection with the negotiation and settlement of the claims and any part of the general administrative costs directly attributable to the claims function. The allowance for the claims handling cost at 30 June 2016 is 1.7% of the claims liability for the GMHBA fund and between 2% and 4.5% for the Health.com.au fund.

*Reward benefits*

The Company operates a reward benefits entitlement for certain Fund members who have at least one year of eligible combined (hospital and ancillary) membership. Fund members receive an additional annual allocation of benefits as long as their eligible cover is maintained. In addition, the 'Rewards' product entitles eligible combined Fund members to accumulate annual allocations, which they can use to claim additional benefits.

Provision is made for the future liability for claims under the Rewards entitlements. The Group has provided for the total eligible benefit to combined Fund members as at 30 June 2016 with due allowance for both expected timing of payments and foregone benefit entitlements on the basis that it is likely that not all Fund members will use their full entitlement. This allowance is reviewed periodically and the provision is currently 77% of the full Reward entitlement in respect of membership up to 30 June 2016. This is consistent with the approach at 30 June 2015.

Rewards entitlements also exist for certain Fund members who hold eligible hospital membership with our Frank Health Insurance brand. The value of entitlement provision at 30 June 2016 is based on the estimated value of rewards earned up to the balance date. No change has been made to the approach to provisioning for Frank rewards in 2016.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Current** | | |
| Outstanding claims (a) | 35,291 | 23,337 |
| Risk margin | 2,408 | 1,469 |
| | **37,699** | **24,806** |
| Reward benefits (b) | 13,295 | 12,971 |
| | **50,994** | **37,777** |

### (a) Outstanding claims including risk margin

The reconciliation of the provisions are as follows:

| | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Balance at beginning of year | 24,806 | 23,907 |
| Add: balance acquired in business combination | 8,283 | - |
| Add: claims incurred | 385,637 | 296,487 |
| Less: claims settled | (381,027) | (295,588) |
| **Net outstanding claims liability** | **37,699** | **24,806** |

### 2.6 Other provisions (continued)

### (a) Outstanding claims including risk margin (continued)

| **Benefits paid to Fund members** | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Gross Claims - undiscounted** | | |
| Current | 429,417 | 301,246 |
| Prior | 981 | (2,378) |
| **Total benefits paid** | **430,398** | **298,868** |

Current year benefits relate to claim events that occurred in the current financial year. Prior year benefits relate to a reassessment of the claim events that occurred in all previous financial periods.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **(b) Reward benefits** | | |
| Balance at beginning of year | 12,971 | 12,133 |
| Add: Benefits accrued | 5,623 | 5,457 |
| Less: Benefits utilised | (5,299) | (4,619) |
| | **13,295** | **12,971** |

### 2.7 Other liabilities

*Accounting Policies*

*Liability adequacy test*

Under AASB 1023 the Company is required to perform a liability adequacy test to determine whether the carrying amount of insurance liabilities is adequate based on expected future cash flows. The test is carried out with the inclusion of a risk margin and is undertaken at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. Any deficiency arising is recognised by writing down any related intangible assets, then the related deferred acquisition costs with any remaining balance being recognised as an unexpired risk liability.

The liability adequacy test is required to be performed to determine whether the unearned premium liability (premiums in advance) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The risk margins adopted are 3.3% for the GMHBA Limited fund and 5% for the Health.com.au Pty Ltd fund; both of which correspond to a 75% probability of adequacy.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium is deemed to be deficient. No deficiency was identified in the GMHBA Limited fund, however the liability adequacy testing as at 30 June 2016 resulted in a deficiency of $2.259m in the Health.com.au Pty Ltd subsidiary health insurance fund.

*Unearned premium liability*

Premiums received or receivable up to the end of the financial year are recorded as revenue for the period from the date of the attachment of risk. Premiums received prior to 30 June 2016 relating to the period beyond 30 June 2016 are recognised as an unearned premium liability. Also, forecast premiums receivable from policyholders at 30 June 2016 are recognised as unclosed business premiums.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Unearned premium liability | 45,156 | 44,256 |
| Unclosed business premiums | 1,014 | 976 |
| Unexpired risk liability | 2,259 | - |
| | **48,429** | **45,232** |

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

### 2.8 Fair value measurement

*Accounting policies*

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods disclosed in the notes specific to that asset or liability.

*Term Deposits*
The fair value of term deposits is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a market interest rate. These investments are held for a set term and rolled over at maturity.

*Equity securities*
The fair value of listed equity securities is determined by reference to their quoted closing bid price at the reporting date. International equity securities are also determined by reference to their quoted closing bid price at the reporting date, however are also subject to foreign exchange movements, see note 3.2.

*Bonds*
The fair value of bonds are evaluated using market accepted formulae such as those set out in the Prospectuses for Australian Government Bonds, Indexed Bonds, Treasury Bills. Valuation is derived via any one of 3 methods; direct sourcing from market participants, average spread over benchmark bonds or swap curve, matrix yield curves, and are quoted to 3 decimal places.

*Land and buildings*
The Group uses Opteon (Victoria) Specialised Pty Ltd, a valuations and advisory services company which employs accredited independent valuers, to determine the fair value of its land and buildings. Fair value is determined directly by reference to market based evidence, which is the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. A full valuation of land and buildings is performed at intervals not greater than three years, with the effective date of the most recent valuation being 30 June 2014. Increments/decrements from the revaluation of the Group's land and buildings are reflected in the asset revaluation reserve.

The fair value measurement for land and buildings of $8.67m has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

*Fair Value Hierarchy*

The table below separates financial assets and financial liabilities based on a hierarchy that reflects the significance of the input used in the determination of fair value. The fair value hierarchy has the following levels:

*Level–1 - quoted prices*
Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

*Level–2 - other observable inputs*
Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

*Level–3 - unobservable inputs*
Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used.

### 2.8 Fair value measurement (continued)

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the highest level input that is significant to the fair value measurement in its entirety. This table does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. No transfers between fair value heirarchy levels have occured during the period.

| | Level 1 ($'000) | Level 2 ($'000) | Level 3 ($'000) | Total ($'000) |
|---|---|---|---|---|
| **30 June 2016** | | | | |
| Cash and cash equivalents | 40,746 | - | - | 40,746 |
| Term deposits | 101,966 | - | - | 101,966 |
| Equity securities | 22,547 | - | - | 22,547 |
| Bonds | - | 87,641 | - | 87,641 |
| Land and buildings | - | - | 8,665 | 8,665 |
| **Total** | **165,259** | **87,641** | **8,665** | **261,565** |
| **30 June 2015** | | | | |
| Cash and cash equivalents | 62,878 | - | - | 62,878 |
| Term deposits | 104,482 | - | - | 104,482 |
| Equity securities | 22,788 | - | - | 22,788 |
| Bonds | - | 58,684 | - | 58,684 |
| Land and buildings | - | - | 8,714 | 8,714 |
| **Total** | **190,148** | **58,684** | **8,714** | **257,546** |

There were no material movements in level 3 assets during the period.

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

**Valuation technique and unobservable inputs for level 2 and 3**

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|---|---|
| Bonds<br>(Level 2) | Market comparison technique:<br>The fair values are based on market accepted formulae such as those set out in the Prospectuses for Australian Government Bonds, Indexed Bonds and Treasury Bills. Valuation is derived via any one of 3 methods; direct sourcing from market participants, average spread over benchmark bonds or swap curve, matrix yield curves, and are quoted to 3 decimal places | • Benchmark bonds<br>• Swap curve<br>• Monthly yield curve | The estimated fair value would increase (decrease) if:<br>• interest rates were lower/(higher)<br>• Government bond rates were lower/(higher) |
| Land and buildings<br>(Level 3) | Income capitalisation method and market approach:<br>The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets<br>Based on requirements in accordance with the International Valuations Standards 2011 | • Annual market income $370,000<br>• Capitalisation rate: 7.5%<br>• Capital costs: $140,000 | The estimated fair value would increase (decrease) if:<br>• expected market rental growth were higher/(lower);<br>• void periods were shorter/(longer);<br>• the occupancy rate were higher/(lower);<br>• the rent-free periods were shorter/(longer); or<br>• the capitalisation rate were lower/(higher). |

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

## 2.9 Taxes

*Accounting Policies*

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entit is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Current income tax (benefit)/expense** | | |
| Current period | (2,367) | - |
| Change in unrecognised tax losses | - | - |
| | **(2,367)** | **-** |
| **Deferred tax expense** | | - |
| Origination and reversal of temporary differences | 1,390 | - |
| Change in unrecognised deductible temporary differences | - | - |
| Recognition of previously unrecognised tax losses | - | - |
| | **1,390** | **-** |
| **Total tax (benefit)/expense** | **(977)** | **-** |

| Reconciliation of effective tax rate | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Profit for the year | 16,221 | 23,137 |
| Total tax (benefit)/expense | (977) | - |
| **Profit excluding tax** | **15,244** | **23,137** |
| Tax using the Company's domestic tax rate of 30% | 4,573 | 6,941 |
| Tax effect of tax exempt profits of GMHBA Limited[1] | (5,830) | (6,941) |
| Tax effect of non-deductible expenses | 280 | - |
| Change in the unrecognised deductible temporary differences | - | - |
| Current year losses for which no deferred tax asset was recognised | - | - |
| | **(977)** | **-** |

1: GMHBA Limited is a tax exempt entity and tax is payable only on taxable entities within the GMHBA Limited Group.

### 3. Capital management

This section outlines the ways in which the Company manages financial risks and cash flow requirements associated with operating in the insurance industry. It is split into the following sub sections:

- 3.1 Cash flows
- 3.2 Management of financial risks
- 3.3 Commitments and contingencies

### 3.1. Cash flows

For the purposes of the statement of cash flows, cash includes cash on hand and bank deposits at call within 90 days. Cash and cash equivalents are carried at cost which, due to their short-term nature, approximates fair value.

**(a) Reconciliation of net cash provided by operating activities to profit:**

| | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Profit for the year | 16,221 | 23,137 |
| Realised investment gains | (2,264) | (1,404) |
| Depreciation and amortisation | 2,344 | 795 |
| Loss on disposal of assets | - | 207 |
| Unrealised investment loss/(gains) | 2,604 | (2,056) |
| Interest and dividends received | (6,903) | (8,606) |
| Income tax (benefit) | (812) | - |
| Share of net loss of equity accounted investee | - | 102 |
| *Changes in assets and liabilities* | | |
| (Increase)/decrease in trade and other receivables | (340) | 30 |
| (Increase) in other assets and investments | (7,923) | (3,573) |
| Increase in trade and other payables | 2,458 | 1,843 |
| Increase in provisions | 2,179 | 1,736 |
| (Decrease)/increase in other liabilities | (2,118) | 3,630 |
| Increase in employee benefits | 178 | 326 |
| (Decrease)/increase in current and deferred tax assets and liabilities | (977) | - |
| Change in net assets due to business acquisition | - | (189) |
| Loans to related parties | - | 661 |
| **Net cash inflow from operating activities** | **4,647** | **16,639** |

**(b) Reconciliation of cash**

For the purposes of the cash flow statement, cash includes cash on hand and bank deposits at call within 90 days, net of any outstanding bank overdraft. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Balance Sheet:

| | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Cash on hand | 100 | 101 |
| Cash at bank | 40,646 | 62,777 |
| | **40,746** | **62,878** |

The Group has no credit standby arrangements or loan facilities.

### 3.2 Management of financial risks

The Group is exposed to the following financial risks in the normal course of business; (a) Market Risk (including Currency Risk (i), Interest Rate Risk (ii) and Price Risk (iii)), (b) Credit Risk, and (c) Liquidity Risk.

The Board of GMHBA Limited has a governance framework to enable the Board to comply with the relevant requirements of the Corporations Act 2001, the Company's Constitution, the Private Health Insurance Act 2007 and Associated Rules which embodies relevant corporate governance leading practice.

**(a) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations in market prices). The following policies and procedures are in place to mitigate the Group's exposure to market risk.

- A risk management plan and investment plan setting out the assessment and determination of what constitutes market risk for the Group.
- The Investment Committee is responsible for compliance with the investment plan which it monitors for any exposures or breaches. It is also the role of the Investment Committee to determine action plans in mitigation of market risk.

(i) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to currency risk via its investments in international equities that are denominated in a currency other than the respective functional currency of the Group, the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are Euro, CHF, USD and GBP with the investment carried at fair value with gains and losses through profit or loss. The Group does not carry any cash in foreign currency or debt in foreign currency.

### 3.2 Management of financial risks (continued)

**(a) Market Risk (continued)**

(i) Currency Risk (continued)

#### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk is as follows.

| | 30 June 2016 | | | | 30 June 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| $'000 AUD | Euro | CHF | USD | GBP | Euro | CHF | USD | GBP |
| Equities | 1,991 | 762 | 9,346 | 473 | 2,426 | 1,921 | 9,486 | 553 |
| **Net statement of financial position exposure** | 1,991 | 762 | 9,346 | 473 | 2,426 | 1,921 | 9,486 | 553 |

As at 30 June 2016, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, other comprehensive income would have (increased)/decreased as follows:

| | 2016 ($'000) | | 2015 ($'000) | |
|---|---|---|---|---|
| | +10% | -10% | +10% | -10% |
| Euro to AUD | (181) | 222 | (221) | 270 |
| CHF to AUD | (69) | 85 | (175) | 213 |
| USD to AUD | (850) | 1,038 | (862) | 1,054 |
| GBP to AUD | (43) | 53 | (50) | 61 |

(ii) Interest Rate Risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group invests primarily in financial instruments with fixed and floating interest rates which expose the Group to fair value interest rate risk.

The Group is exposed to interest rate risk as it places funds in term deposits and bonds. The Group has adopted an investment strategy that delivers a diversified portfolio with a greater weighting to defensive assets versus growth assets. The Group achieves a balance mitigating the exposure to interest rate risk while maximising the return by allowing some flexibility to the external investment advisor.

# Notes to the consolidated financial statements
## For the year ended 30 June 2016 (continued)

The Group's exposure to interest rate risk is set out below:

| 2016 | Note | Variable interest rate ($'000) | Fixed interest maturing in: 1 year or less ($'000) | Over 1 to 5 years ($'000) | Non-interest bearing ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | 3.1 | 35,964 | - | - | 4,782 | 40,746 |
| Receivables | 2.1 | - | - | - | 17,131 | 17,131 |
| Term deposits | 2.2 | - | 101,966 | - | - | 101,966 |
| Equity securities | 2.2 | - | - | - | 22,547 | 22,547 |
| Bonds | 2.2 | 87,641 | - | - | - | 87,641 |
| | | **123,605** | **101,966** | **-** | **44,460** | **270,031** |
| Weighted average interest rate % | | 3.09 | 2.71 | - | - | - |
| **Financial liabilities** | | | | | | |
| Payables | 2.5 | - | - | - | 36,295 | 36,295 |
| **Net financial assets** | | **123,605** | **101,966** | **-** | **8,165** | **233,736** |

| 2015 | Note | Variable interest rate ($'000) | 1 year or less ($'000) | Over 1 to 5 years ($'000) | Non-interest bearing ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | 3.1 | 54,335 | - | - | 8,543 | 62,878 |
| Receivables | 2.1 | - | - | - | 18,552 | 18,552 |
| Term deposits | 2.2 | - | 104,482 | - | - | 104,482 |
| Equity securities | 2.2 | - | - | - | 22,788 | 22,788 |
| Bonds | 2.2 | 57,146 | 1,538 | - | - | 58,684 |
| | | **111,481** | **106,020** | **-** | **49,883** | **267,384** |
| Weighted average interest rate % | | 2.99 | 3.07 | - | - | - |
| **Financial liabilities** | | | | | | |
| Payables | 2.5 | - | - | - | 17,527 | 17,527 |
| **Net financial assets** | | **111,481** | **106,020** | **-** | **32,356** | **249,857** |

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

### 3.2 Management of financial risks (continued)

#### (a) Market Risk (continued)

The following table illustrates the sensitivity on net profit for the year ended 30 June 2016 to a reasonably possible change in interest rates of +/-1% (2015: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at balance sheet date, with all other variables held constant.

| | 2016 ($'000) | | 2015 ($'000) | |
|---|---|---|---|---|
| **Net result** | **+1%** | **-1%** | **+1%** | **-1%** |
| **Fair value risk**<br>Fixed rate instruments | | | | |
| Term deposits | (405) | 412 | (357) | 363 |
| Bonds | (79) | 79 | (29) | 29 |
| **Cash flow risk**<br>Variable rate instruments | | | | |
| Cash | 360 | (360) | 543 | (543) |
| Bonds | 876 | (876) | 571 | (571) |

The Group actively manages its investments in high quality liquid fixed interest securities and cash for the duration of the fixed interest period. This should be taken into consideration when considering the impact of the above movement.

#### (iii) Price Risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. At 30 June 2016 the Group investments are composed of term deposits, bonds and equities. The Group holds its term deposits to maturity and does not trade these investments.

The Group is exposed to equity securities price risk due to equity investments that are classified as fair value through profit and loss. The Group is indirectly exposed to commodity risk through its investments in listed equities. The Group manages the price risk arising from investments in equity securities, through the diversification of its investment portfolios. Diversification of the portfolios is performed by the Group's investment advisor in accordance with the mandates set by the Group.

A 10% decrease in the price of listed equities within the equity portfolio would result in a loss of $2.25m. A 10% increase in the price of listed equities within the equity portfolio would result in a gain of $2.25m. The unrealised gain or loss would be recognised as a fair value movement and disclosed in the statement of profit or loss and other comprehensive income.

#### (b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to meet its contracting obligations and arises principally from the Group's receivables and investments. The carrying amount of financial assets represents the maximum exposure.

Credit risk in relation to trade receivables is considered low with the balance largely comprising the Federal Government rebate, accrued interest on strong credit-rated assets and with premiums earned having a history of low credit risk. Measurement is based on unbiased support and taking into account past experience. The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers/contributors. The Group is not materially exposed to any individual customer, however is exposed to credit risk through insurance, risk equalisation and investments.

Credit risk in respect of insurance and risk equalisation receivables is actively monitored through the risk management plan which includes analysis of claiming patterns. The Group developed and adopted an investment plan to manage the return of the investment portfolio within defined risk categories. The Group minimises concentrations of investment risk by undertaking direct investment transactions with a wide variety of suitably rated financial institutions, and through the appointment of a reputable and appropriate investment advisor.

The Standard & Poor's (S&P's) credit rating as at 30 June 2016 for the term deposits of $102.0m, bonds of $87.6m and cash of $40.7m, which represents its maximum credit exposure on these assets, is as follows:

| Term deposits | | Bonds | | Cash | |
|---|---|---|---|---|---|
| S&P credit rating | % of portfolio | S&P credit rating | % of portfolio | S&P credit rating | % of portfolio |
| AAA | - | AAA | 3% | AAA | - |
| AA+ | - | AA+ | 5% | AA+ | - |
| AA | - | AA | 5% | AA | - |
| AA- | - | AA- | 11% | AA- | 79% |
| A-1+ | 76% | A+ | 17% | A-1+ | - |
| A-1 | - | A | 14% | A-1 | 9% |
| A-2 | 24% | A- | 27% | A-2 | - |
| | | BBB+ | 18% | | |
| Unrated | - | Unrated | - | Unrated | 12% |

The above table details the percentage of the Group's term deposits, bonds and cash investment portfolio, based on the number of deposits held and the S&P credit rating as at 30 June 2016.

The fair value of the equity securities has been determined by reference to quoted stock exchanges. The Group has assessed whether any of the financial assets are impaired. Based on the risk management measures undertaken by the Group, there is no objective evidence that any financial assets are impaired below the fair market value as stated.

### (c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and holds a high percentage of highly liquid investments.

Financial liabilities comprise trade and other payables at the reporting date. The balance of $36.30m (2015: $17.53m) is gross and undiscounted and has committed cash flows of 2 months or less and exclude the impact of netting agreements.

### (d) Capital Management

The capital structure of the Group consists of cash reserves and investments representing members' funds. Operating cash flows are used to maintain and increase the Group's investments. The Group's investments at reporting date are composed of term deposits, bonds and investments in the equity market. Management and the Investment Committee along with the Board continue to monitor market conditions. The Group does not have any external borrowings.

The Group manages its capital to enable it to continue as a going concern and protect members' funds. Total equity and percentage increases are as follows:

| Year | ($'000) | Increase |
|---|---|---|
| 2012 | 122,570 | 11.82% |
| 2013 | 140,498 | 14.62% |
| 2014 | 160,729 | 14.40% |
| 2015 | 183,866 | 14.40% |
| 2016 | 200,087 | 8.82% |

The Group's health benefits funds are required to maintain sufficient capital to comply with APRA's solvency and capital adequacy standards. The solvency standard aims to ensure that health benefits funds have enough cash or liquid assets to meet all of its liabilities as they become due, even if the cash flow is 'stressed'. The standard consists of a requirement to hold a prescribed level of cash, and also mandates a liquidity management plan. Private health insurers are required to have, and comply with, a Board endorsed Capital Management Policy and Liquidity Management Plan. The Liquidity Management Plan exists to ensure the health benefits fund continues to comply with the solvency requirements set out in the Solvency Standard by setting minimum liquidity requirements of the health benefits fund and describing the actions GMHBA Limited will perform in order to comply with the liquidity requirements.

Health benefits funds are required to comply with these standards on a continuous basis and report results to APRA quarterly. The Group's health benefits funds have been in compliance with these standards throughout the year.

# **Notes to the consolidated financial statements**
For the year ended 30 June 2016 (continued)

### 3.3 Commitments and contingencies

*Accounting Policies*

*Leases*

The Group has several operating leases for the group's branch outlets (in which a significant portion of the risks and rewards of ownership are not transferred to the group). The lease payments are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the term of the lease.

The following is a schedule by years of future minimum rental payments required under operating leases that have non-cancellable lease terms in excess of one year as at 30 June 2016.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Due:** | | |
| Not later than one year | 487 | 274 |
| Later than one year but not later than five years | 781 | 175 |
| | **1,268** | **449** |

### 4. Remuneration of our people

This section contains important information about the remuneration of staff and Key Management Personnel (KMP). Disclosures are broken down into the following categories:

4.1 Key management personnel
4.2 Employee benefits

### 4.1 Key management personnel

Under AASB 124 "Related Party Disclosures" financial disclosures are required for the key management personnel. Under the standard Key Management Personnel are defined as:

"Those people having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director whether (executive or otherwise) of that entity."

**Directors**

The names of persons who were Directors of the Company at any time during the financial year are as follows:

- Kenneth Jarvis
- James Walsh
- Brian Benger
- Gerald Miller
- Sue Renkin
- Vicky Papachristos
- Marie Bismark

| **Compensation of key management personnel - Directors** | 2016 $ | 2015 $ |
|---|---|---|
| Short term benefits | 562,248 | 465,144 |

No long term benefits or termination benefits were paid to Directors at balance date.

| **Compensation of key management personnel - Management** | 2016 $ | 2015 $ |
|---|---|---|
| Short term benefits | 2,686,342 | 2,462,574 |
| Termination benefits | 242,134 | - |
| | **2,928,476** | **2,462,574** |

Management includes the Chief Executive Officer and eight other Executive Managers. Termination benefits were paid to two Executive Managers during the year. No long term benefits were paid to key management personnel during the 2015-16 financial year.

# Notes to the consolidated financial statements
For the year ended 30 June 2016 (continued)

### 4.2 Employee benefits

*Accounting Policies*

*Salaries and wages and annual leave*
Liabilities for salaries and wages and annual leave are recognised and are measured as the amount unpaid at the reporting date based on remuneration rates expected to apply when the obligation is settled, including on-costs, in respect of employees' services up to that date.

*Long service leave*
A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Current** | | |
| Employee annual leave | 1,507 | 1,270 |
| Employee long service leave | 761 | 697 |
| | **2,268** | **1,967** |
| **Non-current** | | |
| Employee long service leave | 299 | 188 |
| | **299** | **188** |

## 5. Other important information

This section contains other important information relevant to the financial report, as required by accounting standards. Disclosures are broken up into the following sections:

5.1 Auditor's remuneration
5.2 New accounting standards
5.3 Company information
5.4 Controlled entities
5.5 Equity accounted investees
5.6 Related parties
5.7 Acquisition of subsidiary
5.8 Parent entity disclosures
5.9 Subsequent events

### 5.1 Auditor's remuneration

| | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Audit and review of financial reports and other regulatory returns | 234,725 | 137,500 |
| Taxation and other services | 11,875 | - |
| | **246,600** | **137,500** |

### 5.2 New accounting standards

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application that are available for early adoption at 30 June 2016, but have not been applied in preparing this financial report:

| AASB amendment | Nature of change to accounting policy | Application date of standard | Application date for GMHBA |
|---|---|---|---|
| AASB 9: Financial instruments | The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. It supersedes AASB 9 (issued in December 2009 – as amended) and AASB 9 (issued in December 2010 – as amended).<br><br>Under the new standard, financial assets are to be measured at either amortised cost or fair value. Only investments in simple debt instruments managed on a contractual yield basis can be measured at amortised cost. All other financial assets must be measured at fair value through profit and loss.<br><br>Investments in equity instruments not held for trading may be measured at fair value with all changes recognised in other comprehensive income. The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.<br><br>The adoption of the revised AASB 9 is expected to have an impact on the Group's financial assets, but not impact on the Group's financial liabilities. The impact on financial assets is not expected to be material. | 1 January 2018 | 30 June 2019 |
| AASB 16: Leases | AASB 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.<br><br>The adoption of AASB 16 is expected to have an impact on the Group's liabilities. This impact is not expected to be material to the financial statements of the Group. | 1 January 2019 | 30 June 2020 |

# **Notes to the consolidated financial statements**
For the year ended 30 June 2016 (continued)

### 5.3 Company information

GMHBA Limited is a public company limited by guarantee. If the Company is wound up, the constitution states that each Company member is required to contribute a maximum of $20 towards meeting any outstanding obligations of the Company. At 30 June 2016 the number of Company members was 7 (2015: 7).

### 5.4 Controlled entities

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group's subsidiaries are outlined in the following table.

| Name | Principal place of business | Ownership interest 2016 | Ownership interest 2015 |
|---|---|---|---|
| Health.com.au Pty Ltd | Victoria, Australia | 100% | - |
| GMHBA Services Pty Ltd | Victoria, Australia | 100% | - |
| GMHBA Armstrong Creek Unit Trust | Victoria, Australia | 100% | 100% |
| GMHBA Land Co Pty Ltd | Victoria, Australia | 100% | 100% |
| GMHBA Health Pty Ltd | Victoria, Australia | 100% | - |

### 5.5 Equity accounted investees

*Accounting Policies*

The Group's interests in equity-accounted investees comprise interests in joint venture entities; Armstrong Creek Residual Land Trust (ACRLT), and its Corporate Trustee Armstrong Creek Residual Land Co Pty Ltd (ACRLC). Neither of the joint ventures is publicly listed.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interests in joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

The following table summarises the financial information of ACRLT as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in ACRLT. In 2016, GMHBA disposed of its interest in the Armstrong Creek Residual Land Trust and at 30 June 2016 the carrying amount of investments in joint ventures is nil (2015: $968). Gain on disposal of this investment was immaterial to the Group financial statements and has been recorded within investment income.

| *Financial Disclosure* | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| Interest in joint venture | - | 968 |
| **Percentage ownership interest** | **-** | **50%** |
| Current assets | - | 1,915 |
| Non-current assets | - | 331 |
| Current liabilities | - | (309) |
| Non-current liabilities | - | - |
| Net assets | - | 1,937 |
| Group's share of net assets (50%) | - | 968 |
| **Carrying amount of investment in joint venture** | **-** | **968** |
| Revenue | - | - |
| Expenses | - | (203) |
| Net (loss)/profit | - | (203) |
| **Group's share of net (loss)/profit** | **-** | **(102)** |
| **Dividends received by the Group** | **-** | **-** |

# Notes to the consolidated financial statements
## For the year ended 30 June 2016 (continued)

### 5.6 Related parties

As outlined in note 5.5, during the year GMHBA Limited sold its share in the joint venture arrangement with HLE Developments Pty Ltd. This resulted in HLE Developments repaying the loan to GMHBA Limited in full at face value. No impairment on the loan balance was recognised. There are no payable or receivable balances with related parties at 30 June 2016. There were no other transactions with related parties during the period.

### 5.7 Acquisition of subsidiary

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

On 31 July 2015 GMHBA Limited obtained control of the operations of Health.com.au Pty Ltd by acquiring 100% of the entity's share capital. Health.com.au Pty Ltd is a niche online health fund. It currently has approximately 40,000 policies providing health insurance cover for more than 85,000 Australians.

The business contributed revenue of $107.5m and a net loss of $0.6m to the Group's results. If the acquisition had occurred on 1 July 2015, management estimates that consolidated revenue would have been $534.2m, and consolidated profit for the year would have been $14.9m.

#### A. Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

| | ($'000) |
|---|---|
| Cash - completion date | 43,867 |
| Cash - deferred | 2,350 |
| **Total consideration transferred** | **46,217** |

The Group has agreed to pay the seller in 15 months from transaction date, deferred consideration of $350,000 subject to there being no breaches of contractual warranties by the seller. The Group has included the full face value of $350,000 as deferred consideration within trade and other payables at 30 June 2016.
The deferred consideration of $2.35m was settled in October 2015.

#### B. Acquisition related costs

The Group incurred acquisition-related costs for legal and due diligence work performed. The total amount incurred was $241,000 and has been included in 'professional fees' in the consolidated statement of profit or loss and other comprehensive income across 2015 and 2016.

#### C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | ($'000) |
|---|---|
| Cash and cash equivalents | 41,230 |
| Property, plant and equipment | 293 |
| Intangible assets | 14,688 |
| Trade and other receivables | 4,246 |
| Provision for outstanding claims | (8,890) |
| Contributions in advance | (6,463) |
| Other liabilities | (17,543) |
| **Total identifiable net assets acquired** | **27,561** |

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

| Assets acquired | Valuation technique |
|---|---|
| Property, plant and equipment | *Market comparison technique and cost technique:* The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. |
| Intangible assets | *Multi-period excess earnings method:* The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. |
| Trade and other receivables | *Recoverable amount:* The fair value is determined based on the subsequent receipt of the receivable, or realisation of economic benefit from the asset by the entity. |

### D. Goodwill

Goodwill arising from the acquisition has been recognised as follows.

| | Note | ($'000) |
|---|---|---|
| Consideration transferred | 5.7 A | 46,217 |
| Fair value of identifiable net assets | 5.7 C | (27,561) |
| **Goodwill on acquisition** | | **18,656** |

The excess of the consideration transferred and the amount of any non-controlling interests in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. The goodwill is attributable primarily to the Health.com.au brand, and the synergies expected to be achieved from integrating components of the company into the Group's existing business operations.

In March 2016, the Group took control of the operations (through acquiring the assets and liabilities) of Comprehensive Dental Care in Portland for cash consideration of $436,350. Accounting is yet to be finalised for this acquisition and 100% of the purchase consideration is reflected as Goodwill on the Group balance sheet due to the fair value of most assets acquired being immaterial. Acquisition related costs were immaterial to the Group result and were expensed as incurred through profit or loss.

The 2017 annual report will outline any adjustments to the provisional disclosures.

### 5.8 Parent entity disclosures

As at and throughout the financial year ended 30 June 2016, the parent entity of the Group was GMHBA Limited. Parent entity financial results are as follows.

| | 2016 ($'000) | 2015 ($'000) |
|---|---|---|
| **Result of parent entity** | | |
| Profit for the year | 19,432 | 23,267 |
| **Total comprehensive income for the year** | **19,432** | **23,267** |
| **Financial position of parent entity at year end** | | |
| Current assets | 148,462 | 206,024 |
| **Total assets** | **309,514** | **286,314** |
| Current liabilities | 105,789 | 102,132 |
| **Total liabilities** | **106,087** | **102,319** |
| **Total equity of parent entity comprising of:** | | |
| Retained earnings | 203,243 | 183,811 |
| Asset revaluation reserve | 184 | 184 |
| **Total equity** | **203,427** | **183,995** |

### 5.9 Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Group's financial report as at 30 June 2016.

# Directors' declaration
## for the year ended 30 June 2016

In accordance with a resolution of the Directors of GMHBA Limited, the Directors declare:

That the financial statements and notes set out on pages 19 to 48:

(a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(b) give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

**In the Directors' opinion:**

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Group 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 Directors.

Signed for and on behalf of the Board.

**Kenneth Jarvis**
**Chairman**
Geelong, 30 August 2016

**Gerald Miller**
**Director**
Geelong, 30 August 2016

# Independent auditor's report to the members of GMHBA Limited

**Report on the financial report**

We have audited the accompanying financial report of GMHBA Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and 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 ended on that date, notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group compromising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

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

*Auditor's opinion*
In our opinion:

(a) the financial report of the Group is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

KPMG

**Darren Scammell**
**Partner**
Melbourne, 30 August 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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GMHBA is a registered not for profit
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ABN 98 004 417 092

GMHBA Limited is a public company limited by
guarantee and incorporated in Australia

Registered office and principal place of business:
60-68 Moorabool Street, Geelong Victoria 3220

GMHBA Limited