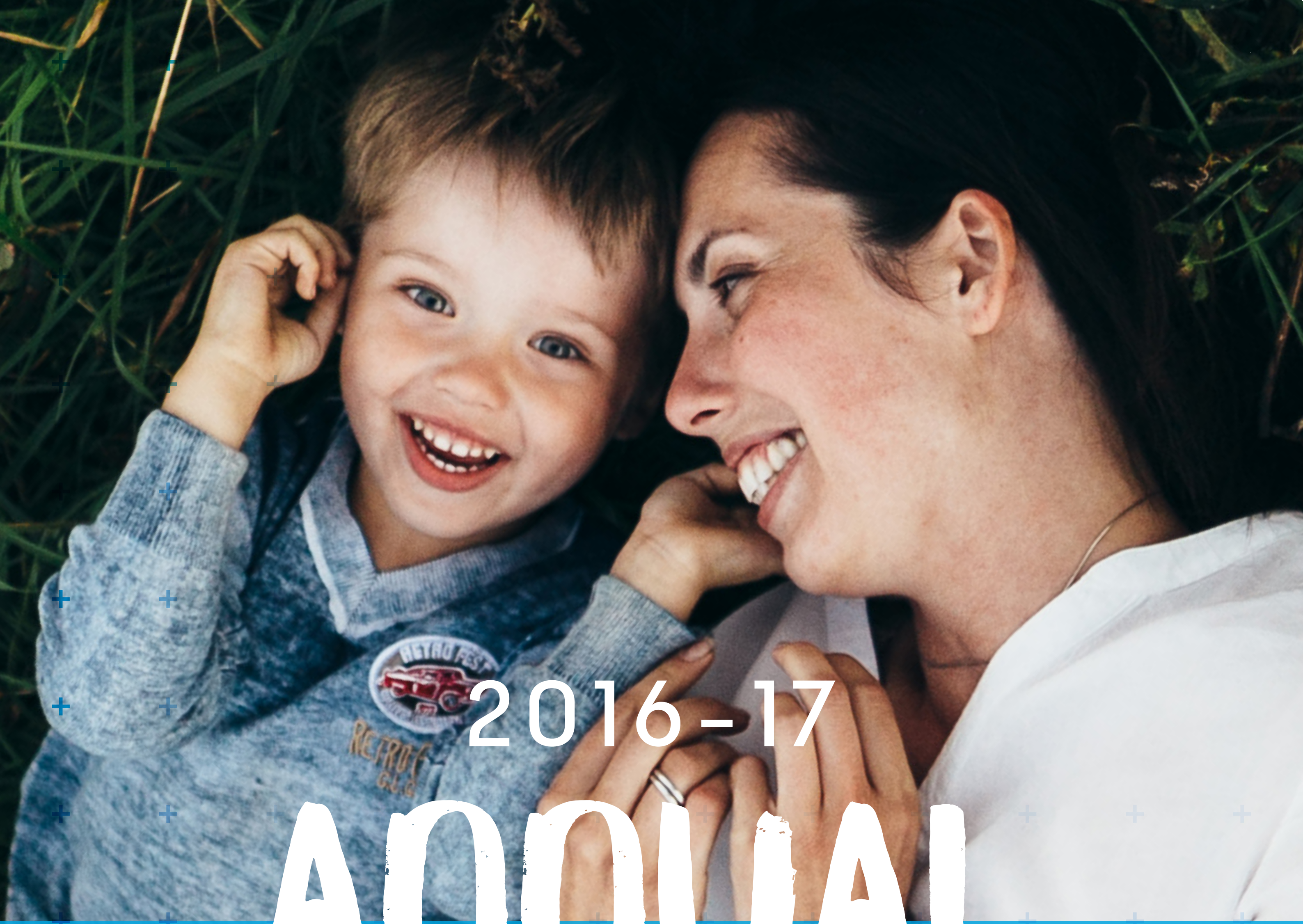

2016–17

ANNUAL REPORT

GMHBA

HEALTHIER TOGETHER

CONTENTS

ABOUT GMHBA

WE ARE AN AUSTRALIAN NOT FOR PROFIT HEALTH INSURANCE AND CARE COMPANY.

We have served the community since 1934, and with more than 80 years' experience, we have become one of the country's leading regionally based private health insurers.

Today, we are proud to cover more than 400,000 Australians through four distinct brands including GMHBA Health Insurance, Frank Health Insurance, health.com.au and Budget Direct Health Insurance. We look after our most at risk members by offering specialised health care programs and we engage the broader community in free public health seminars so that we can be healthier together.

With a growing portfolio now including eye care, dental care and primary care services in Victoria, we are working together with communities to improve health for generations to come.

MISSION

SUPPORTING THE HEALTH OF OUR COMMUNITIES FOR GENERATIONS.

VISION

AUSTRALIA'S LEADING REGIONALLY BASED HEALTH FUND MOST RECOMMENDED BY OUR COMMUNITIES FOR THE CONTRIBUTION THAT WE MAKE TO THEIR HEALTH AND WELLBEING.

WE ARE PROUD

TO REPORT OUR HIGHLIGHTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017.

MORE THAN

$522m

ANNUAL BENEFITS PAID

MORE THAN

$62.8m

INCREASE IN BENEFITS PAID

FOR EVERY DOLLAR RECEIVED IN PREMIUMS

87 CENTS WAS PAID

TO OUR MEMBERS IN BENEFITS

CONTRIBUTION INCOME ($'000)

2017	$599,887
2016	$524,475
2015	$376,534

14% INCREASE

BENEFITS PAID ($'000)

2017	$522,093
2016	$459,246
2015	$325,801

14% INCREASE

MEMBERSHIPS

2017	190,494
2016	181,088
2015	127,617

5% INCREASE

TOTAL GROUP ASSETS ($'000)

2017	$395,890
2016	$338,807
2015	$286,557

17% INCREASE

Figures include all health insurance brands in the GMHBA Group.

MEMBERS

401,951
AUSTRALIANS COVERED

189,835
MEMBERSHIPS

9,065
INCREASE IN MEMBERSHIP IN FY17

MEDICAL CLAIMS

135,123
HOSPITAL ADMISSIONS

47,590
SURGERIES CLAIMED

$171,528 PAID OUT
FOR A SINGLE CORONARY ARTERY BYPASS, THE HIGHEST CLAIM OF FY17

Figures include all health insurance brands in the GMHBA Group.

MORE THAN JUST A HEALTH INSURER

HEALTH INSURANCE IS OUR CORE BUSINESS, BUT TODAY WE ARE MORE THAN JUST A HEALTH INSURER.

HEALTH BUSINESSES

- GMHBA EYE CARE (Geelong + Corio + Belmont + Leopold + Ballarat)
- GMHBA DENTAL CARE (Portland + Geelong)
- PRIMARY CARE PRACTICE (Geelong)

HEALTHIER TOGETHER

1,181

PEOPLE ATTENDED OUR FREE SEMINARS

458

MEMBERS ACCESSED OUR CARE COORDINATION SERVICE

MAJOR PARTNERSHIPS

- GEELONG CATS
- RUN GEELONG
- RUN BALLARAT
- CADEL EVANS GREAT OCEAN ROAD RACE
- GMHBA LORNE PIER TO PUB & MOUNTAIN TO SURF
- GMHBA BALLARAT MINERS

COMMUNITY

$515,493

CONTRIBUTED TO THE COMMUNITY INCLUDING:

- $38,403 donated to the *Give Where You Live Foundation* via workplace giving
- 4,600 people supported through the Victorian Eyecare Service
- Over 4,000 students participated in the primary school program *Healthy Heroes* with the Geelong Cats
- 859.5 hours contributed via staff volunteering
- 25 grants distributed to community organisations

*(*Community contributions verified by London Benchmarking Group)*

VERIFIED 2017 LBG AU & NZ

2016-2017
CHAIRMAN'S REPORT

"I AM PLEASED TO REPORT THAT THE GROUP HAS PERFORMED WELL DURING THE 2017 FINANCIAL YEAR."

This is my first report as Chairman of GMHBA Limited (GMHBA), having been appointed as Chair in September 2016. Some key indicators include growth in contribution income of 14% to $599.9m. Member benefits paid out increased by 14% to $522.1m and total group assets grew by 17% to $395.9m. The surplus recorded for the year was $18.03m which will be reinvested into the fund to benefit members.

AFFORDABILITY

As has been widely reported, health care costs continue to grow at rates well above the level of inflation and average salary and wage earnings growth. This phenomenon is being experienced in many economies globally and is driven by a combination of increased utilisation of health services by consumers and the costs of those services rising at rates above inflation levels. This is of grave concern to both GMHBA and our industry as a whole in particular because the significant majority of policy holders are low income earners.

GMHBA, directly and through its representative body Private Healthcare Australia, continues to advocate for the necessary change to kerb this persistent cost creep which directly drives up health insurance premiums. We intend to do this by influencing government policy, encouraging greater pricing transparency by providers and by working with public and private hospitals. We will also always strive to provide value for money products at competitive prices.

HEALTH CARE SERVICES

A key element of our ten year strategy is to provide members with the opportunity to access health services provided directly by GMHBA. The fund now owns and operates five GMHBA Eye Care practices and two dental care practices. We have also acquired two primary care (GP & Allied Health) practices and our tailored Care Coordination service continues to work with at risk members so that they receive the benefit of a coordinated care plan.

MYOWN AND VITALITY

In May this year, we announced our involvement in the launch of a new standalone health insurer called myOwn, in a partnership that will lead to GMHBA members gaining access to the globally successful wellbeing program called AIA Vitality (later this year). The myOwn business is the result of an innovative joint endeavour between GMHBA, AIA Australia (global life insurance specialist) and Discovery (South African insurance and financial services organisation).

PARTNERSHIPS

In November 2016 we were also pleased to announce an historic 10 year deal with the Geelong Cats (Australian Rules football club) that will see our two iconic Geelong based organisations join forces in a unique long term partnership. Both organisations have a long and proud history of supporting Geelong and regional Victoria while competing nationally. This exciting major sponsorship has been undertaken for sound commercial reasons, designed to drive membership growth while also promoting the health and wellbeing of our members and community.

GOVERNANCE

Regular board renewal is an important element of board governance. My appointment as Chairman has come after six years as Deputy Chairman to Ken Jarvis who retired from the GMHBA board of directors in September 2016 having served his maximum term. We were pleased to welcome former Victorian State Premier Denis Napthine to the GMHBA board of directors in August 2016.

THANK YOU

On behalf of all members, staff and directors I wish to formally thank Ken Jarvis for his outstanding service to the company over a twelve year period during which period the organisation achieved considerable success. I would also like to take this opportunity to thank all of my fellow directors for their professional work on behalf of members throughout the year.

I also express my sincere thanks to CEO Mark Valena, his executive team and all staff for their dedicated efforts. Finally and most importantly, I thank our loyal membership base and customers for continuing to choose GMHBA and its associated brands for the provision of their health insurance and health care services.

JAMES WALSH
Chairman
GMHBA Limited

2016-2017 CHIEF EXECUTIVE'S REPORT

"I AM PLEASED TO PRESENT THE CHIEF EXECUTIVE REPORT AFTER ANOTHER STRONG YEAR."

The chairman has commented on the commendable financial results for the year ending 30 June 2017. From my perspective, it's also important to highlight that we have achieved this result while at the same time over the last two years improving our product benefits. And at the same time we have put millions of dollars in the hands of our members in reduced out of pockets through the move to an improved medical benefits scheme and reaching 'no gap' pathology arrangements with the two most significant providers of pathology to our members.

OUR HEALTH INSURANCE BRANDS

The GMHBA group operates through two licenced health insurance funds with four brands. I summarise below the highlights of each brand for the 2017 financial year

GMHBA

The GMHBA brand holds the dominant market share in Geelong and the western district of Victoria. It is also a significant health insurance brand across the state with a solid national presence.

This year's key highlights include:

- The aforementioned pathology agreements reducing member out of pocket costs by millions of dollars
- Enhancing our product range to reduce member out of pocket costs and improve competitive positioning across hospital and ancillary services
- Launching the GMHBA Member Lounge at St John of God Geelong Hospital
- The continued growth of our free public health seminars and the expansion of our Care Coordination Service that has assisted hundreds of our most unwell members
- The launch of our partnership with the Geelong Cats providing a significant increase in our national, Victorian and regional brand profile which will ultimately flow through to increased sales and retention to the benefit of all members
- This partnership has also allowed us to combine community efforts and educate over 4,000 school aged children through the Healthy Heroes partnership
- The continuation of our direct support of the health of communities through our Community Grants program, (25 grants distributed) and the extraordinary level of donation of time and money by our employees
- The substantial progress in our expansion of healthcare provision services including the acquisition of:
  - One significant general practitioner medical practice (plus a second acquisition in July 2017)
  - Our first dental practice in Geelong (completed August 2017)
  - Plus the further expansion of our eye care stores

FRANK

In the 2017 financial year, Frank has quietly and successfully gone about its business, has grown well and is making a strong contribution to the overall group financial results. A particular highlight has been the strong growth and performance of the Overseas Visitors Health Cover.

BUDGET DIRECT HEALTH INSURANCE

In the 2017 financial year, Budget Direct Health Insurance performed strongly with new member growth above the projected budget. In partnership with Budget Direct, we are delighted with the growth realised and future prospects.

health.com.au

The focus in the 2017 financial year has been addressing the legacy issues of the portfolio we acquired and laying the foundation for a strong future through a digital first focus on customer experience.

MO HEALTH (myOwn HEALTH INSURANCE)

Licenced in May 2017 and commencing operations in July 2017 myOwn is a new brand created to bring together health and life insurance with the AIA Vitality wellbeing program to help its customers lead healthier lives and get more value for money. myOwn is a joint initiative of life insurer AIA Australia, a South African financial services provider Discovery and GMHBA.
The GMHBA investment in myOwn will bring value to GMHBA as an investor and because our members will also gain access to the AIA Vitality wellbeing program assisting them to know their health, improve their health and be rewarded.

THANK YOU

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 across all brands and businesses for their relentless focus on improving our organisation and delivering exceptional service to our members and customers.

MARK VALENA
Chief Executive
GMHBA Limited

GMHBA Limited
ABN 98 004 417 092

ANNUAL REPORT

FOR THE YEAR
ENDED 30 JUNE 2017

CONTENTS

CORPORATE INFORMATION

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

James Walsh

B.Com, MBA, FCA, GAICD.

Director since August 2005

Chairman (from September 2016)

Deputy Chairman (until September 2016)

Chairman Risk Committee (until November 2016)

Member Risk Committee (from November 2016)

Chairman Remuneration & Capability Committee (from November 2016)

Member Remuneration & Capability Committee (until November 2016)

Member Investment Committee (from November 2016)

Director – GMHBA Land Co Pty Ltd (until September 2016)

Chairman – GMHBA Land Co Pty Ltd (from September 2016)

Director – GMHBA Services Pty Ltd (until September 2016)

Chairman – GMHBA Services Pty Ltd (from September 2016)

Director – health.com.au Pty Ltd (until September 2016)

Chairman – health.com.au Pty Ltd (from September 2016)

Director – MO Health Pty Ltd (until September 2016)

Chairman – MO Health Pty Ltd (from September 2016)

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 (until November 2016)

Member Remuneration & Capability Committee (from November 2016)

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

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 Risk Committee

Director – GMHBA Land Co Pty Ltd

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – MO Health Pty Ltd

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)

Director of Lendex Group Limited (from January 2017)

Director of National Vineyard Fund of Australia Limited (from May 2017)

Vicky Papachristos

BE, MBA, MAICD.

Director since November 2011

Chairman Risk Committee (from November 2016)

Member Risk Committee (until November 2016)

Member Investment Committee (until November 2016)

Member Audit & Compliance Committee (from November 2016)

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – MO Health Pty Ltd (from June 2017)

Director – Currant Marketing Pty Ltd

Marie Bismark

MD, LLB, MBHL, MPH, FAFPHM, FAICD.

Director since March 2013

Member Health Services Committee

Member Investment Committee (from November 2016)

Member Audit & Compliance Committee (until November 2016)

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Director – The Young and Well CRC (until December 2016)

Director – Summerset Group Holdings Limited

CORPORATE INFORMATION

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

Denis Napthine

BV Sc. MVS MBA

Director since August 2016

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Member Audit & Compliance Committee

Member Health Services Committee

Ambassador for Standing Tall – Warrnambool

Patron of Solve Disability Solutions

State Premier of Victoria 2013 - 2014

Veterinarian

Kenneth Jarvis

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

Director since September 2004 and until September 2016

Chairman (until September 2016

Chairman Remuneration & Capability Committee (until September 2016)

Member Audit & Compliance Committee (until September 2016)

Member Strategy & Risk Committee (until September 2016)

Member Investment Committee (until September 2016)

Director – GMHBA Land Co Pty Ltd (until September 2016)

Director – GMHBA Services Pty Ltd (until September 2016)

Chairman – health.com.au Pty Ltd (until September 2016)

Director – GMHBA Health Pty Ltd (until September 2016)

Executive Chairman – Aerolite Quarries Pty Ltd

Director – Aviation Development Australia Ltd

CHIEF EXECUTIVE:

Mark Valena,
BBus (Acc), CA, GAICD.

COMPANY SECRETARY:

Dianne Salvo,
BCom, GAICD, GIA (cert),
retired 4 July 2017.

John Christianakis
B.A. Law Hons T.C.D.,
appointed 4 July 2017.

AUDITORS:

KPMG
Tower Two, Collins Square
727 Collins Street
Docklands Victoria 3008

BANKERS:

National Australia Bank Limited

APPOINTED ACTUARY:

David Torrance,
FIAA Director, dbn actuaries Pty Ltd

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

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 2018.

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 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.

Risk Committee

The role of the committee is to oversee and monitor the Company's risk management policies and processes and to assist the Board in the exercising of due care, diligence and skill in relation to risk assessment, treatment strategies and monitoring.

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 2017

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.

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

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.

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 2017 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:

James Walsh
Gerald Miller
Sue Renkin
Brian Benger
Vicky Papachristos
Marie Bismark
Denis Napthine (Appointed August 2016)
Kenneth Jarvis (Retired September 2016)

The qualifications, expertise and special responsibilities of Directors are set out on page 13 to 15 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 attributable to the members of the company for the year was $18.665 million (2016: $16.221 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 7.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Between 1 July 2017 and the date of this report, the Group acquired a dental practice and a medical practice in Geelong for combined consideration of $2.52m. There have been no other events subsequent to balance date which would have a material effect on the Group's financial report as at 30 June 2017.

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.

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 2017 and the number of meetings attended by each Director. It should be noted that not all Directors are members of all Committees.

Directors	Board meetings A	Board meetings B	Committee meetings A	Committee meetings B
James Walsh	12	12	12	12
Gerald Miller	12	12	9	9
Sue Renkin	12	11	9	9
Brian Benger	12	12	8	8
Vicky Papachristos	12	12	9	9
Marie Bismark	12	12	9	9
Denis Napthine	8	8	4	4
Ken Jarvis*	2	2	5	5

* This Director retired from the Board on 27 September 2016

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year.

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 Company has agreed to indemnify each of the Directors of the Company for all liabilities, costs and expenses that may arise from their position in the Company, except where the liabilities arise out of conduct involving a wilful breach of duty in relation to the Company or a contravention of Sections 182 or 183 of the Corporations Act 2001.

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 20.

For and on behalf of the Board of Directors,

JAMES WALSH
Chairman
GMHBA Limited

GERALD MILLER
Director
GMHBA Limited

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 of GMHBA Limited for the financial year ended 30 June 2017 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
29 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 ($'000)	2016 ($'000)
Revenue			
Premium revenue		599,887	524,475
Total revenue from operating activities		599,887	524,475
Expenses			
Benefits paid to fund members	2.6	(489,056)	(430,398)
Payments to Risk Equalisation Special Account		(33,037)	(28,848)
Total cost of fund benefits		(522,093)	(459,246)
Gross underwriting result		**77,794**	**65,229**
Underwriting expenses			
Employee benefits expenses		(25,780)	(22,707)
Marketing		(8,146)	(7,408)
Commission		(14,740)	(7,322)
Depreciation and amortisation		(2,860)	(2,344)
IT and communications		(4,945)	(4,278)
Professional fees		(4,301)	(3,878)
Other underwriting expenses		(4,778)	(4,708)
Total underwriting expenses		(65,550)	(52,645)
Net underwriting result		**12,244**	**12,584**
Health services and health prevention activities			
Revenue		4,469	2,408
Expenses		(10,356)	(6,311)
		(5,887)	(3,903)
Investment income and expenses			
Investment expenses		(498)	(489)
Interest income		6,474	6,778
Dividends		1,120	614
Unrealised investment gain/(loss)		3,748	(2,604)
Realised investment gains		109	2,264
		10,953	6,563
Profit before tax for the year		**17,310**	**15,244**
Income tax benefit	2.9	274	977
Net profit after tax		**17,584**	**16,221**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings		637	-
Total comprehensive income for the year		**18,221**	**16,221**
Net Profit/(loss) attributable to			
Members of the Company		18,028	16,221
Non-controlling interests		(444)	-
		17,584	16,221
Total comprehensive income/(loss) attributable to			
Members of the Company		18,665	16,221
Non-controlling interests		(444)	-
		18,221	16,221

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 2017

	Note	2017 ($'000)	2016 ($'000)
Current assets			
Cash and cash equivalents	3.1	77,876	40,746
Trade and other receivables	2.1	20,721	17,131
Financial assets	2.2	107,402	114,366
Other assets	2.3	13,173	10,048
Total current assets		**219,172**	**182,291**
Non-current assets			
Financial assets	2.2	108,035	97,788
Property, plant and equipment	2.4	14,151	11,779
Intangible assets and goodwill	2.4	40,244	38,634
Other assets	2.3	12,082	8,315
Deferred tax asset		2,206	-
Total non-current assets		**176,718**	**156,516**
Total assets		**395,890**	**338,807**
Current liabilities			
Trade and other payables	2.5	40,117	36,295
Employee benefits provisions	4.2	2,779	2,268
Other Provisions	2.6	59,091	50,994
Other liabilities	2.7	59,639	48,429
Total current liabilities		**161,626**	**137,986**
Non-current liabilities			
Employee benefits provisions	4.2	276	299
Deferred tax liabilities		-	435
Total non-current liabilities		**276**	**734**
Total liabilities		**161,902**	**138,720**
Net assets		**233,988**	**200,087**
Equity			
Retained earnings		217,931	199,903
Asset revaluation reserve		821	184
Equity attributable to			
Members of the Company		218,752	200,087
Non-controlling interests		15,236	-
Total equity		**233,988**	**200,087**

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 2017

	Attributable to members of the Company				
	Retained earnings ($'000)	**Asset revaluation reserve** ($'000)	**Total** ($'000)	**Non-controlling interests** ($'000)	**Total** ($'000)
Balance at 1 July 2015	183,682	184	183,866	-	183,866
Profit for the year	16,221	-	16,221	-	16,221
Total comprehensive income for the year	16,221	-	16,221	-	16,221
Balance at 30 June 2016	**199,903**	**184**	**200,087**	**-**	**200,087**
Balance at 1 July 2016	199,903	184	200,087	-	200,087
Profit/(loss) for the year	18,028	-	18,028	(444)	17,584
Other comprehensive income	-	637	637	-	637
Total comprehensive income for the year	18,028	637	18,665	(444)	18,221
Issue of ordinary shares in subsidiary to Non-Controlling Interests	-	-	-	15,680	15,680
Balance at 30 June 2017	**217,931**	**821**	**218,752**	**15,236**	**233,988**

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 2017

	Note	2017 ($'000)	2016 ($'000)
Cash flows from operating activities			
Premium receipts		607,403	525,407
Benefits paid		(480,959)	(428,219)
Payments to suppliers and employees		(111,381)	(95,153)
Other income received		4,468	2,612
Net cash inflow from operating activities	**3.1(a)**	**19,531**	**4,647**
Cash flows from investing activities			
Purchase of financial assets		(175,282)	(190,094)
Purchase of property, plant and equipment and intangible assets		(5,120)	(4,285)
Acquisition of businesses, net of cash acquired		(1,232)	(5,446)
Dividends received		1,120	614
Interest received		6,577	7,236
Proceeds from sale of financial assets		175,856	164,546
Net movement in loan to related party		-	650
Net cash inflow/(outflow) from investing activities		**1,919**	**(26,779)**
Cash flows from financing activities			
Proceeds from issue of share capital to non-controlling interest		15,680	-
Net cash inflow from financing activities		**15,680**	**-**
Net increase/(decrease) in cash held		37,130	(22,132)
Cash and cash equivalents at beginning of the financial year		40,746	62,878
Cash and cash equivalents at end of the financial year	**3.1(b)**	**77,876**	**40,746**

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 2017

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 29 August 2017.

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.

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

Accounting Policies

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 2017 consists of:

(i) Unclosed premium earned – this represents premiums in arrears measured up to 30 June 2017; and

(ii) Unclosed premium unearned – forecast premiums receivable from policyholders at 30 June 2017.

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.

2.1 TRADE AND OTHER RECEIVABLES (CONTINUED)

Premium revenue (continued)

Financial Disclosure	2017 ($'000)	2016 ($'000)
Unclosed premium earned	1,639	2,189
Unclosed premium unearned	897	1,014
	2,536	**3,203**
Accrued investment income	925	1,028
Other debtors	4,365	858
Federal government rebate receivable	12,895	12,042
	20,721	**17,131**

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	2017 ($'000)	2016 ($'000)
Current		
Term deposits	100,334	101,966
Bonds	7,068	12,400
At fair value	**107,402**	**114,366**
Non-current		
Equity securities	28,273	22,547
Bonds	79,762	75,241
At fair value	**108,035**	**97,788**

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	2017 ($'000)	2016 ($'000)
Current		
Prepayments	1,529	1,159
Deferred acquisition costs	11,364	6,415
Current income tax receivable	-	2,367
Inventory	280	107
	13,173	**10,048**
Non-current		
Deferred acquisition costs	12,082	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 – 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.

2.4 PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS (CONTINUED)

Accounting Policies (continued)

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.

Intangible assets – Goodwill
Goodwill arising on the acquisition of subsidiaries or businesses is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently if events or circumstances indicate that assets may be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Goodwill is allocated to the Group's CGUs identified according to which CGU is expected to benefit from the synergies of the combination.

Below is a CGU level summary of the Group's goodwill balance and the key assumptions made in determining the recoverable amounts at 30 June 2017.

CGU	Goodwill allocation ($'000)
Health.com.au	18,666
Eye Care (multiple practices)	1,673
Primary Care	1,391
Dental Care	436
	22,166

Inputs and key assumptions used for recoverable amount calculations

The recoverable amount of the CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on the budget and business plan approved by the Board. Cash flows beyond the projection period are extrapolated using the estimated growth rates, with a terminal value assumed in the calculations. The following key assumptions have been made in determining the recoverable amount of the CGUs:

Growth rate: 2%	The growth rate represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU's operate as per industry forecasts.
Discount rate: 12%	In performing the recoverable amount calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The discount rates used reflect specific risks relating to the relevant CGU.
Cash flows	Future cash flows have been estimated based on Forecast revenue and expenses of the CGU, including: > Estimated change in the number of members and changes in future premium rates > Estimated gross margins and sales volumes > Forecast claims and operating expenses

There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge in the current financial year.

Financial disclosure

Reconciliation of the carrying amounts of each class of property, plant and equipment 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 and fittings ($'000)	Office equipment ($'000)	Motor vehicles ($'000)	Capital WIP and Development costs ($'000)	Total ($'000)
Depreciation rate	–	1.5%	10.0%	15.0 – 40.0%	22.5%	–	
Cost (or valuation as applicable)	5,693	3,076	1,929	3,714	77	740	15,229
Accumulated depreciation	–	(104)	(1,233)	(2,070)	(43)	–	(3,450)
Carrying amount at 1 July 2016	**5,693**	**2,972**	**696**	**1,644**	**34**	**740**	**11,779**
Additions[1]	–	–	–	–	–	2,743	2,743
Disposals[2]	–	–	(36)	(31)	(3)	–	(70)
Revaluation	550	87	–	–	–	–	637
Depreciation	–	(59)	(222)	(647)	(10)	–	(938)
Transfers	–	–	1,116	820	32	(1,968)	–
Cost	6,243	3,000	2,980	4,497	76	1,515	18,311
Accumulated depreciation	–	–	(1,426)	(2,711)	(23)	–	(4,160)
Carrying amount at 30 June 2017	**6,243**	**3,000**	**1,554**	**1,786**	**53**	**1,515**	**14,151**
Cost	5,693	2,975	1,459	1,944	64	87	12,222
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**

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

2.4 PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS (CONTINUED)

Financial disclosure (continued)

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 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 depreciation	–	(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**
Additions	1,443	–	–	–	–	2,089	3,532
Amortisation	–	(1,068)	(88)	(766)	–	–	(1,922)
Transfers	–	–	1,057	2,411	–	(3,468)	-
Cost	22,166	13,882	2,215	6,529	271	287	45,350
Accumulated amortisation	–	(2,047)	(163)	(2,896)	–	–	(5,106)
Carrying amount at 30 June 2017	**22,166**	**11,835**	**2,052**	**3,633**	**271**	**287**	**40,244**

Additional information on goodwill is included in note 5.6C.

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	2017 ($'000)	2016 ($'000)
Health Benefits Risk Equalisation Special Account	18,506	20,794
Creditors and accruals	21,611	15,501
	40,117	**36,295**

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.

2.6 OTHER PROVISIONS (CONTINUED)

Accounting Policies (continued)

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.

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% (2016: 7%) giving in excess of 75% probability of adequacy, whilst Health.com.au adopted a risk margin of 15% (2016: 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 2017 is 1.7% (2016: 1.7%) of the claims liability for the GMHBA fund and 1.5% (2016: 2%) for ancillary and 3.0% (2016: 4.5%) for hospital in the Health.com.au fund.

Reward benefits

The Company operates a reward benefits entitlement program for certain eligible Fund members. Fund members receive an additional annual allocation of benefits as long as their eligible cover is maintained. In addition, the 'Rewards' product entitles eligible 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 2017 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 75% (2016: 77%) of the Reward entitlement in respect of membership up to 30 June 2017 for the GMHBA program, and 37% for the Frank program. There was a change in methodology for Frank rewards. The value of entitlement provision at 30 June 2016 was based on the estimated value of rewards earned up to the balance date. The approach to both rewards programs is now aligned at 30 June 2017.

Financial Disclosure	2017 ($'000)	2016 ($'000)
Current		
Outstanding claims (a)	42,549	35,291
Risk margin	3,407	2,408
	45,956	**37,699**
Reward benefits (b)	13,135	13,295
	59,091	**50,994**

(a) Outstanding claims including risk margin

The reconciliation of the provisions are as follows:

	2017 ($'000)	2016 ($'000)
Balance at beginning of year	37,699	24,806
Add: balance acquired in business combination	-	8,283
Add: claims incurred	437,853	385,637
Less: claims settled	(429,596)	(381,027)
Net outstanding claims liability	**45,956**	**37,699**

Gross Claims - undiscounted	2017 ($'000)	2016 ($'000)
Current	489,817	429,417
Prior	(761)	981
Total benefits paid	**489,056**	**430,398**

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.

(b) Reward benefits	2017 ($'000)	2016 ($'000)
Balance at beginning of year	13,295	12,971
Add: Benefits accrued	4,844	5,623
Less: Benefits utilised	(5,004)	(5,299)
	13,135	**13,295**

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% for the GMHBA Limited fund and 3% 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 2017 resulted in a deficiency of $0.539m (2016: 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 2017 relating to the period beyond 30 June 2017 are recognised as an unearned premium liability. Also, forecast premiums receivable from policyholders at 30 June 2017 are recognisedas unclosed business premiums.

Financial Disclosure	2017 ($'000)	2016 ($'000)
Unearned premium liability	58,203	45,156
Unclosed business premiums	897	1,014
Unexpired risk liability	539	2,259
Total other liabilities	**59,639**	**48,429**

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, 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.

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 2017. 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 $9.24m 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 inputs 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.

No transfers between fair value hierarchy levels have occurred during the period. 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.

	Level 1 ($'000)	Level 2 ($'000)	Level 3 ($'000)	Total ($'000)
30 June 2017				
Cash and cash equivalents	77,876	–	–	77,876
Term deposits	100,334	–	–	100,334
Equity securities	28,273	–	–	28,273
Bonds	–	86,830	–	86,830
Land and buildings	–	–	9,243	9,243
Total	**206,483**	**86,830**	**9,243**	**302,556**
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**

2.8 FAIR VALUE MEASUREMENT (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 (Level 2)	*Market comparison technique:* 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 > Swap curve > Monthly yield curve	The estimated fair value would increase (decrease) if: > interest rates were lower/(higher) > Government bond rates were lower/(higher)
Land and buildings (Level 3)	*Income capitalisation method and market approach:* The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets Based on requirements in accordance with the International Valuations Standards 2011	> Annual market income $370,000 > Capitalisation rate: 7.5% > Capital costs: $140,000	The estimated fair value would increase (decrease) if: > expected market rental growth were higher/(lower); > void periods were shorter/(longer); > the occupancy rate were higher/(lower); > the rent-free periods were shorter/(longer); or > the capitalisation rate were lower/(higher).

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 entity 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.

Tax recognised in profit or loss	**2017** ($'000)	**2016** ($'000)
Current period	395	(2,367)
Origination and reversal of temporary differences	(669)	1,390
Total tax (benefit)	**(274)**	**(977)**

2.9 TAXES (CONTINUED)

Reconciliation of effective tax rate	2017 ($'000)	2016 ($'000)
Profit for the year	17,584	16,221
Total tax (benefit)	(274)	(977)
Profit excluding tax	17,310	15,244
Tax using the Company's domestic tax rate of 30%	5,193	4,573
Tax effect of tax exempt profits of GMHBA Limited[1]	(5,894)	(5,830)
Tax effect of non-deductible expenses	337	280
Change in the unrecognised deductible temporary differences	90	-
Current year losses for which no deferred tax asset was recognised	-	-
	(274)	**(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:

	2017 ($'000)	**2016 ($'000)**
Profit for the year	18,221	16,221
Realised investment gains	(109)	(2,264)
Depreciation and amortisation	2,860	2,344
Revaluation of land and buildings	(637)	-
Unrealised investment (gain)/loss	(3,748)	2,604
Interest and dividends received (net of fees)	(7,095)	(6,903)
Income tax (benefit)	(274)	(812)
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	667	(340)
(Increase) in other assets and investments	(13,619)	(7,923)
Increase in trade and other payables	3,822	2,458
Increase in provisions	8,097	2,179
Increase/(decrease) in other liabilities	11,131	(2,118)
Increase in employee benefits	489	178
(Decrease) in current and deferred tax assets and liabilities	(274)	(977)
Net cash inflow from operating activities	**19,531**	**4,647**

3.1 CASH FLOWS (CONTINUED)

(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:

	2017 ($'000)	2016 ($'000)
Cash on hand	93	100
Cash at bank	77,783	40,646
	77,876	**40,746**

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.

(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 policy 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 carries a small amount of cash in foreign currency for the purpose of settling trades of international equities.

Exposure to currency risk

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

	30 June 2017				30 June 2016			
$'000 AUD	**Euro**	**CHF**	**USD**	**GBP**	**Euro**	**CHF**	**USD**	**GBP**
Equities	2,589	718	10,616	406	1,991	762	9,346	473
Cash	35	16	207	4	-	-	-	-
Net statement of financial position exposure	**2,624**	**734**	**10,823**	**410**	**1,991**	**762**	**9,346**	**473**

As at 30 June 2017, 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:

	2017 ($'000)		2016 ($'000)	
	+10%	-10%	+10%	-10%
Euro to AUD	(239)	292	(181)	222
CHF to AUD	(67)	81	(69)	85
USD to AUD	(984)	1,203	(850)	1,038
GBP to AUD	(37)	46	(43)	53

(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.

3.2 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

(a) Market Risk (continued)

(ii) Interest Rate Risk (continued)

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

2017	Note	Variable interest rate ($'000)	Fixed interest maturing in: 1 year or less ($'000)	Fixed interest maturing in: Over 1 to 5 years ($'000)	Non-interest bearing ($'000)	Total ($'000)
Financial assets						
Cash	3.1	76,674	–	–	1,202	77,876
Receivables	2.1	–	–	–	20,721	20,721
Term deposits	2.2	–	100,334	–	–	100,334
Equity securities	2.2	–	–	–	28,273	28,273
Bonds	2.2	86,830	–	–	–	86,830
		163,504	**100,334**	**-**	**50,196**	**314,034**
Weighted average interest rate %	–	2.70	2.44	–	–	–
Financial liabilities						
Payables	2.5	–	–	–	40,117	40,117
	–	–	–	–	40,117	40,117
Net financial assets		**163,504**	**100,334**	**-**	**10,079**	**273,917**

2016	Note	Variable interest rate ($'000)	Fixed interest maturing in: 1 year or less ($'000)	Fixed interest maturing in: 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
	–	–	–	–	36,295	36,295
Net financial assets		**123,605**	**101,966**	**-**	**8,165**	**233,736**

The following table illustrates the sensitivity on net profit for the year ended 30 June 2017 to a reasonably possible change in interest rates of +/-1% (2016: +/- 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.

	2017 ($'000)		2016 ($'000)	
Net result	+1%	-1%	+1%	-1%
Fair value risk Fixed rate instruments				
Term deposits	(67)	81	(69)	85
Bonds	(984)	1,203	(850)	1,038
Cash flow risk Variable rate instruments				
Cash	767	(454)	340	(340)
Bonds	868	(868)	867	(867)

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 2017 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 or 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 $2.83m. A 10% increase in the price of listed equities within the equity portfolio would result in a gain of $2.83m. 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 parameters. 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.

3.2 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

(b) Credit Risk (continued)

The *Standard & Poor's (S&P's)* credit rating as at 30 June 2017 for the term deposits of $100.3m, bonds of $86.8m and cash of $77.9m, 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	4%	AAA	–
AA+	–	AA+	3%	AA+	–
AA	–	AA	3%	AA	–
AA-	–	AA-	13%	AA-	–
A-1+	80%	A+	17%	A-1+	90%
A-1	–	A	11%	A-1	8%
A-2	20%	A-	14%	A-2	–
		BBB+	13%		
		BBB	22%		
Unrated	–	Unrated	–	Unrated	2%

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 2017.

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 $40.12m (2016: $36.30m) 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 (balances shown are equity attributable to members, excluding non-controlling interests):

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%
2017	218,752	9.33%

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.

3.3 COMMITMENTS AND CONTINGENCIES

Accounting Policies

Leases

The Group has several operating leases for the group's accommodation (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 2017.

Financial Disclosure	2017 ($'000)	2016 ($'000)
Due:		
Not later than one year	1,149	487
Later than one year but not later than five years	2,719	781
	3,868	**1,268**

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
- Gerald Miller
- Denis Napthine
- James Walsh
- Sue Renkin
- Marie Bismark
- Brian Benger
- Vicky Papachristos

Compensation of key management personnel - Directors	2017 $	2016 $
Short term benefits	563,600	562,248

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

Compensation of key management personnel - Managment	2017 $	2016 $
Short term benefits	2,582,114	2,686,342
Termination benefits	44,423	242,134
	2,626,537	**2,928,476**

Management includes the Chief Executive Officer and eight other Executive Managers. Termination benefits were paid to one Executive Manager during the year. No long term benefits were paid to key management personnel during the 2016-17 financial year.

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	2017 ($'000)	2016 ($'000)
Current		
Employee annual leave	1,754	1,507
Employee long service leave	1,025	761
	2,779	**2,268**
Non-current		
Employee long service leave	276	299
	276	**299**

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 Related parties
5.6 Acquisition of subsidiary or business
5.7 Parent entity disclosures
5.8 Subsequent events

5.1 AUDITOR'S REMUNERATION

	2017 $	2016 $
Audit and review of financial reports and other regulatory returns	249,800	234,725
Taxation and other services	3,500	11,875
	253,300	**246,600**

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 2017, 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: Financial assets and Financial liabilities	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). 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 or loss. 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. 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 2022 (The AASB passed amendment AASB 2016-6 which amends the effective date of AASB 9 to that of AASB 17 for those entities with predominantly insurance based activities. GMHBA intends to apply this exemption and will defer adoption of AASB 9 accordingly)
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. 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

5.2 NEW ACCOUNTING STANDARDS (CONTINUED)

AASB amendment	Nature of change to accounting policy	Application date of standard	Application date for GMHBA
AASB 15: Revenue from contracts with customers	This standard addresses the recognition of revenue, replacing AASB 118, which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Company's premium revenue is recognised under AASB 1023 General Insurance Contracts which is not impacted by AASB 15. Therefore, the Company does not expect a material impact from this standard.	1 January 2017	30 June 2018
AASB 17 Insurance Contracts (effective from 1 January 2021)	This standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The Company is yet to undertake a detailed assessment but expects a material impact from this standard.	1 January 2021	30 June 2022

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 2017 the number of Company members was 7 (2016: 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 2017	Ownership interest 2016
Health.com.au Pty Ltd	Victoria, Australia	100%	100%
GMHBA Services Pty Ltd	Victoria, Australia	100%	100%
GMHBA Armstrong Creek Unit Trust	Victoria, Australia	100%	100%
GMHBA Land Co Pty Ltd	Victoria, Australia	100%	100%
MO Health Pty Ltd (formerly GMHBA Health Pty Ltd)	Victoria, Australia	51%	100%

The Group's ownership interest in MO Health Pty Ltd was diluted in 2017 due to the issuance of shares to a non-controlling interest.

5.5 RELATED PARTIES

There are no payable or receivable balances with related parties of the Group at 30 June 2017. There were no other transactions with related parties of the Group during the period.

5.6 ACQUISITION OF SUBSIDIARY OR BUSINESS

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 1 February 2017 GMHBA Limited obtained control of the operations of a medical practice in Geelong by acquiring 100% of the business' assets and liabilities. The practice specialises in providing primary care medical services in the Geelong region. The decision to purchase the practice is strategic and consistent with the implementation of our 10 Year Strategy and in particular our diversification plans.

In the five months to 30 June 2017, the practice contributed revenue of $480,068 and a net profit after tax of $135,696 to the Group's results. If the acquisition had occurred on 1 July 2016, management estimates that consolidated revenue would have been $600.56m, and consolidated net profit after tax for the year would have been $17.78m.

A. Consideration transferred

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

	($000)
Cash - completion date	1,186
Cash - deferred	186
Total consideration transferred	**1,372**

The Group has agreed to pay the seller in 12 months from transaction date, additional cash consideration of $140,000 if the acquiree meets key targets set by the Group. The Group has included the full face value of $140,000 as contingent consideration at 30 June 2017. $46,264 was paid after completion date but before 30 June 2017.

B. Acquisition related costs

The Group incurred acquisition-related costs for legal and due diligence work performed. The total amount incurred was immaterial to the Group result and has been included in 'professional fees' in the consolidated statement of profit or loss and other comprehensive income in 2017.

C. Identifiable assets acquired and liabilities assumed and goodwill arising

Assets and liabilities assumed were immaterial to the Group financial statements. Goodwill arising from the acquisition has been recognised as follows.

	Note	**($000)**
Consideration transferred	5.6 A	1,372
Fair value of identifiable net assets		(19)
Goodwill on acquisition		**1,391**

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. The goodwill is attributable primarily to the reputation of the practice, and the synergies expected to be achieved from integrating components of the company into the Group's existing business operations.

5.7 PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2017, the parent entity of the Group was GMHBA Limited. Parent entity financial results are as follows.

	2017 ($'000)	2016 ($'000)
Result of parent entity		
Net profit for the year	19,646	19,432
Total comprehensive income for the year	**20,283**	**19,432**
Financial position of parent entity at year end		
Current assets	160,777	148,462
Total assets	352,402	309,514
Current liabilities	128,466	105,789
Total liabilities	128,692	106,087
Total equity of parent entity comprising of:		
Retained earnings	222,889	203,243
Asset revaluation reserve	821	184
Total equity	**223,710**	**203,427**

5.8 SUBSEQUENT EVENTS

On 3 July 2017, GMHBA Limited obtained control of a medical practice in Geelong by acquiring 100% of the business' assets and liabilities. On 1 August 2017, GMHBA Limited obtained control of the operations of a dental practice in Geelong by acquiring 100% of the business' assets and liabilities. The combined price of these 2 acquisitions is approximately $2.52m to be settled with available cash. Full disclosure will be presented in the financial statements for the year ending 30 June 2018.

Except for the matters disclosed above, no other matter or circumstance has occurred since the end of the reporting period that may materially affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2017

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

That the financial statements and notes set out on pages 21 to 51:

(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 2017 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.

James Walsh
Chairman
Geelong, 29 August 2017

Gerald Miller
Director
Geelong, 29 August 2017

Independent Auditor's Report

To the members of GMHBA Limited

Opinion

We have audited the ***Financial Report*** of GMHBA Limited (the Company). The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2007,* including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the Corporations *Regulations 2007.*

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the Corporations Act 2007 and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 710 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in GMHBA Limited's annual reporting, which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GMHBA LIMITED (CONTINUED)

KPMG

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

Darren Scammell
Partner
Melbourne
29 August 2017

GMHBA Limited

60-68 Moorabool Street,
Geelong Vic 3220

PO Box 761, Geelong Vic 3220

Phone: 1300 446 422

Fax: (03) 5221 4582

Email: service@gmhba.com.au

Website: gmhba.com.au

GMHBA is a registered not-for-profit
private health insurer

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