GMHBA LIMITED
ABN 98 004 417 092

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

HEALTHIER TOGETHER

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

WE HAVE SERVED THE COMMUNITY SINCE 1934, AND WITH 84 YEARS' EXPERIENCE, WE HAVE BECOME ONE OF THE COUNTRY'S LEADING REGIONALLY BASED PRIVATE HEALTH INSURERS.

Our approach is guided by our philosophy *Healthier Together* and decisions are made with our members first and foremost in mind.

Today, we are proud to cover more than 400,000 Australians through four distinct brands; GMHBA Health Insurance, Frank Health Insurance, health.com.au and myOwn.

We are committed to improving the health and wellbeing of our members, customers and the communities in which we operate.

We look after our members by offering specialised health care programs and we engage the broader community in free public health seminars and a variety of health promoting programs 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 playing an even bigger role in the health journey of our members and customers.

VISION

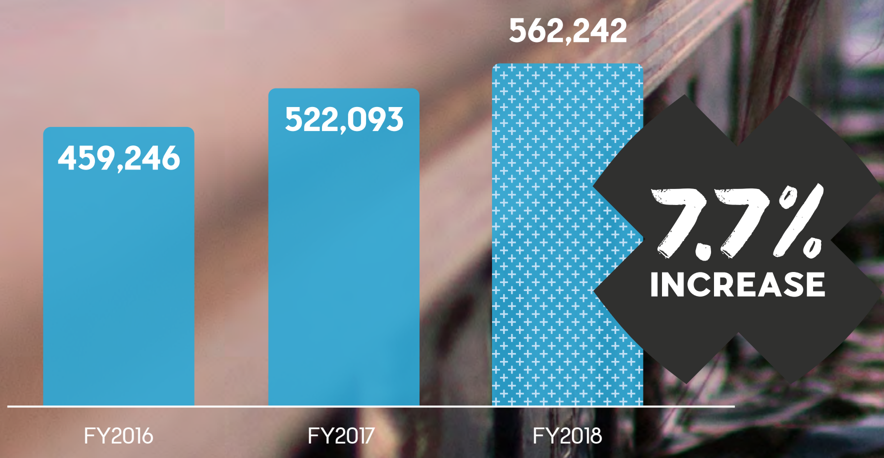
AUSTRALIA'S LEADING REGIONALLY BASED HEALTH FUND MOST RECOMMENDED BY OUR COMMUNITIES FOR THE CONTRIBUTION THAT WE MAKE TO THEIR HEALTH AND WELLBEING.

MISSION

SUPPORTING THE HEALTH OF OUR COMMUNITIES FOR GENERATIONS.

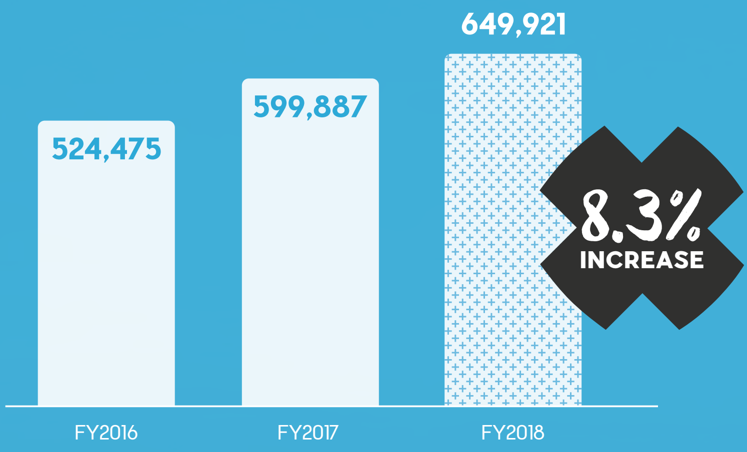
WE ARE PROUD TO REPORT OUR HIGHLIGHTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.

BENEFITS PAID ($'000)

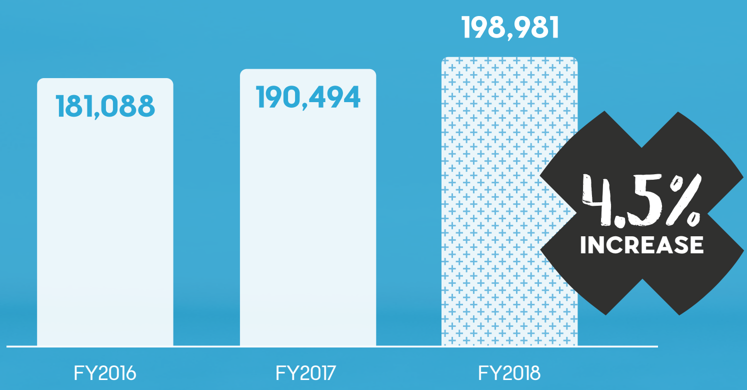


Figures include all health insurance brands in the GMHBA Consolidated Group.

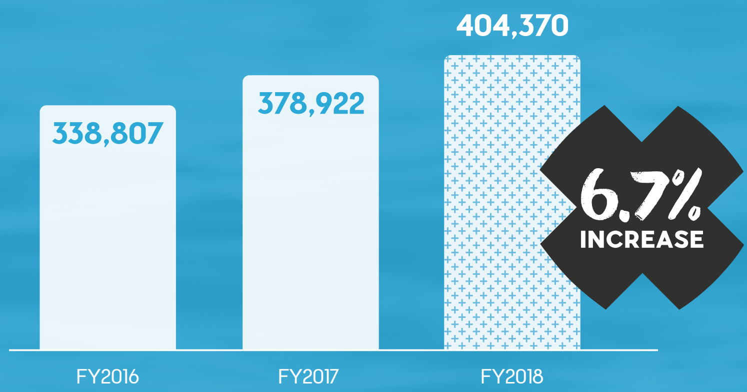
CONTRIBUTION INCOME ($'000)



MEMBERS



TOTAL GROUP ASSETS ($'000)



Figures include all health insurance brands in the GMHBA Consolidated Group.

MORE THAN
$562M
ANNUAL BENEFITS PAID

MORE THAN
$40M
INCREASE IN TOTAL BENEFITS PAID

418,620
AUSTRALIANS COVERED

198,981
MEMBERSHIPS

8,487
INCREASE IN MEMBERSHIPS IN FY18

2,125
NEWBORNS WELCOMED INTO THE WORLD

120,378
REPORTED HOSPITAL ADMISSIONS

51,511
SURGERIES CLAIMED

$158,204
PAID OUT FOR AN ACUTE SUBENDOCARDIAL MYOCARDIAL INFARCTION, THE HIGHEST CLAIM OF FY18

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

WE NOW OFFER EYE CARE, DENTAL CARE AND PRIMARY CARE SERVICES ACROSS VICTORIA. IN ADDITION, WE ASSIST SOME OF OUR MOST AT RISK MEMBERS WITH SPECIALISED HEALTH PROGRAMS SO THAT THEY CAN BE AT THEIR BEST.

HEALTH BUSINESSES

- GMHBA EYE CARE GEELONG + CORIO + WAURN PONDS + LEOPOLD + BALLARAT
- GMHBA DENTAL CARE PORTLAND + GEELONG
- GMHBA PRIMARY CARE GEELONG + LARA

HEALTHIER TOGETHER

1,836

PEOPLE ATTENDED OUR FREE HEALTH SEMINARS

393

MEMBERS ACCESS OUR CARE COORDINATION SERVICE IN THE GEELONG REGION

COMMUNITY AND STAFF CONTRIBUTIONS

$32,861

DONATED BY EMPLOYEES TO GIVE WHERE YOU LIVE FOUNDATION VIA WORKPLACE GIVING

4,600

PEOPLE SUPPORTED THROUGH THE VICTORIAN EYECARE SERVICE

6,200+

STUDENTS PARTICIPATED IN HEALTHY HEROES PRESENTED BY GMHBA AND GEELONG CATS

846.5

HOURS CONTRIBUTED VIA STAFF VOLUNTEERING

MAJOR SPONSORSHIPS

- GEELONG CATS
- RUN GEELONG
- RUN BALLARAT
- GMHBA LORNE PIER TO PUB & MOUNTAIN TO SURF
- GMHBA BALLARAT MINERS

TIMELINE

2017

JULY

MYOWN LAUNCHED

myOwn health insurance with AIA Vitality

AUG

INTRODUCTION OF INCREASED OPTICAL BENEFITS

SEP

GMHBA STADIUM **UNVEILING**

OCT

NOV

WAURN PONDS CO LOCATION OPENED

DEC

2018

HEALTHY HEROES PROGRAM RECEIVES COMMENDED FINALIST IN THE ANNUAL VIC HEALTH AWARDS

JAN

FEB

GMHBA with AIA Vitality

MAJOR AD CAMPAIGN OFFICIALLY LAUNCHES GMHBA AND AIA VITALITY PARTNERSHIP

MAR

frank. health insurance

EASY AS FRANK POP UP COFFEESHOP IN MELBOURNE CBD

APRIL

GMHBA

FELICE JACKA HEALTH SEMINAR

MAY

JUNE

GMHBA GEELONG DENTAL CARE REBRAND/ REFURBISHMENT

2018

BENEFITS PAID INCREASED BY 7.7% TO $562.2M AND TOTAL GROUP ASSETS GREW TO $404.4M.

THE 2018 FINANCIAL YEAR WAS ONE OF CONTINUED GROWTH FOR GMHBA LIMITED (GMHBA) AND AS CHAIRMAN, I AM PLEASED TO REPORT YOUR FUND DELIVERED VERY SATISFACTORY RESULTS IN BOTH NATIONAL MEMBERSHIP GROWTH AND ITS COMMITMENT TO THE HEALTH OF OUR REGIONS.

For health insurance, growth over prior year in contribution income was 8.3 per cent to $649.9m. Member benefits paid out increased by 7.7 per cent to $562.2m and total group assets grew to $404.4m. The surplus recorded for the year was $15.1m which is reinvested into the fund to benefit members. Our startup joint venture health insurer myOwn has grown to now cover more than 6,000 customers. Our existing and newly acquired health services businesses traded well, driving revenue growth of 121 per cent over prior year for this segment.

This performance has allowed us to grow our managed investment portfolio to $280m at 30 June and contributing $11.1m to profit before tax for the year.

EVOLUTION AND STRATEGIC DIRECTION

We see our role as a private health insurer continuing to evolve to also being a trusted provider of health services. GMHBA now has eight health insurance branches across Geelong and the Western Districts. We also have five eye care practices, two dental care practices and two primary care practices, as a result of our diversification strategy. We continue our national growth ambitions while always retaining our commitment to Geelong and regional Victoria.

myOwn, GMHBA's joint venture with AIA Australia (global life insurance specialist) and Discovery (South African insurance and financial services organisation) has allowed our members to gain access to the globally successful health and wellness program, AIA Vitality. The launch of GMHBA products with AIA Vitality empowers members to understand their health and be rewarded for healthy choices.

The program also allows us to actively participate in our members' health journey, instead of mainly engaging with members when they have already experienced a health issue. We have seen a positive response to the program and this suite of products will continue to grow.

AFFORDABILITY

This year, GMHBA announced the lowest average premium percentage increase in a decade and over the last three years, we have reduced out of pocket costs with a range of providers, increased coverage and benefits back to members and established new partnerships which will help make health insurance more affordable.

We were pleased to see the Federal Government's private health insurance reforms – which GMHBA was actively involved in – delivering direct savings to our customers.

We fully appreciate and understand members' concerns regarding affordability. Health care costs continue to grow at rates well above the level of inflation and average wage earnings growth.

When combined with high housing and energy costs there is financial pressure on many households.

The fundamental reason why premiums are going up is because health funds are paying for more healthcare on behalf of their policy holders. The drivers of rate increases include an ageing population, an ever-increasing demand on services, complexity of treatments, rising health and medical costs and a growing number of claims.

GMHBA, directly and through its representative body Private Healthcare Australia, continues to advocate for reform that makes a real difference to our members, including increasing pricing transparency by providers, reducing low value/no value care, bringing prosthesis costs down, reducing the practice of encouraging public patients in emergency to be treated as a private patient, reducing unnecessary hospitalisation, and reducing inappropriate billing practices.

Health reform takes time, commitment and goodwill from all stakeholders. We believe there is a pressing need for action to ensure the long-term sustainability and affordability of the private health system in Australia.

There are headwinds confronting the entire private health insurance sector, and the environment has become increasingly challenging.

Inevitably GMHBA must adjust to survive and compete in the prevailing market conditions. Our commitment to our members will not waver, and our decisions will be made with our members' best interests our primary guide.

THE VALUE OF PRIVATE HEALTH INSURANCE

In this operating environment, and with roughly half of the Australian population covered, it is important to remember the value of private health insurance and the role that it plays in our health system. A strong private health insurance sector takes pressure off the public health system. Having private health insurance protects members and their families so they have the cover and treatment they require, by the doctor or specialist of their choice, when they need it most.

The private health system in Australia, as in most developed economies, requires a level of government support in the form of financial "sticks and carrots". When this support is reduced, as it was by the government in 2012, the consequences are predictable. Participation rates fall putting upward pressure on premiums, forcing the government to spend additional amounts in the public hospital system. In fact, analysis undertaken by Evaluate (Furnival et al, 2017) indicates that for every dollar saved in reducing the health insurance rebate, the government is forced to spend $1.15 in additional public system support.

The latest research shows that close to 75 per cent of private health insurance holders in Australia value it and want to keep it (IPSOS). Our job is to continue to work with the government, the private health sector, our partners and within our own business to keep premiums as low as possible, and continue to ingrain value into everything we do. We want our members to be active healthcare consumers and extract the maximum value from their policies. We will continue to work with our members on achieving this.

GEELONG CATS PARTNERSHIP

Our unique long term partnership with the Geelong Cats continues to go from strength to strength, with Australia's most impressive regional stadium now bearing the name GMHBA. It is a privilege to put our name on such an iconic landmark. GMHBA Stadium is a place that brings people together. It's a venue that unites us and we are proud to be associating our brand with such a loved community asset.

The commencement of the long term naming rights sponsorship of GMHBA Stadium in Geelong is part of the organisation's national growth ambitions. Increased brand awareness is critical to those objectives. The partnership also provides GMHBA with the opportunity to reward our members with unique Geelong Cats experiences.

GOVERNANCE

Heightened public and regulatory scrutiny, as well as member and community expectations underscore the need for sound and transparent corporate governance practices.

Our governance structures are set out more fully later in this report. The board and management of GMHBA continue to champion a culture where good corporate practices are observed and supported by all our people. Regular board renewal is important and to this end I welcome the recently announced appointment of Mike Hirst to the GMHBA Ltd board.

THANK YOU

Thank you to my fellow directors for their work on behalf of our members throughout the year. Thank you to CEO Mark Valena and his executive team and all staff throughout our brands and businesses for their dedicated efforts.

Finally and most importantly I thank our loyal members and customers for continuing to choose GMHBA and its associated brands for the provision of their health insurance and health care services.

"WE SEE OUR ROLE AS A CARING AND COMMUNITY MINDED PRIVATE HEALTH INSURER CONTINUING TO EVOLVE TO BECOME A TRUSTED PROVIDER OF HEALTH SERVICES."

JAMES WALSH
Chairman GMHBA Limited

REFERENCES

Furnival, A., David Cullen, D., McGovern, C., & Ergas, H. 2017 The Relative Efficiency of The Private Health Insurance Rebate v. Direct Public Health Expenditure Evaluate

IPSOS – Healthcare and Insurance in Australia, 2017

"WE CONTINUALLY LOOK FOR WAYS TO PROVIDE EVEN MORE VALUE TO OUR MEMBERS."

GMHBA HAS AGAIN DELIVERED SATISFACTORY FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018, GUIDED BY OUR 10 YEAR STRATEGY AND DELIVERING ON OUR BRAND PROMISE, *HEALTHIER TOGETHER*.

OUR HEALTH INSURANCE BRANDS

The GMHBA group operates through three licensed health insurance funds with five brands. Highlights across the brands are outlined below.

GMHBA

The GMHBA brand holds the leading 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. As a not for profit health fund, our decisions are made with our members in mind. We continually look for ways to provide even more value to our members and ensure they receive maximum benefits from their health insurance, while maintaining affordability.

This year we:

> Increased optical benefits for members with extras products, exclusive to GMHBA Eye Care practices.

> Partnered with smile.com.au to make dental care more affordable and accessible for our members across Australia. Members who have extras with dental cover are saving on dental treatments performed by a smile.com.au affiliated dentist. These savings are in addition to existing GMHBA extras benefits.

> Built upon 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.

> Introduced the GMHBA Health Navigation Line, where members can talk to a health navigation professional who can help them with guidance, referrals, health coaching and information relevant to their health needs Australia-wide.

> Have made available to patients at Epworth Geelong access to the GMHBA menu page from their bed side point-of-care screen. Accessing this information on the point-of-care devices allows non-members to see a range of services and supports provided by GMHBA. For members, beyond the general information they are also able to directly access the Member Portal.

FRANK

During 2018, Frank continued to successfully and significantly contribute to the overall group financial results with healthy levels of growth. Providing simple and affordable health cover continues to drive the strategic direction of the brand.

BUDGET DIRECT HEALTH INSURANCE

Budget Direct Health Insurance again contributed significantly to the overall success of the business. Membership growth was strong with the total portfolio now exceeding 8,000 members. While the GMHBA partnership with Budget Direct has now expired, we continue to support existing members under the Budget Direct brand with further opportunities to leverage the strength of GMHBA under consideration.

HEALTH.COM.AU

Our focus on margin recovery has seen health.com.au make significant gains over the past year. Centred on a revised brand proposition of "simply helpful", the introduction of new technology platforms has allowed health.com.au focus on three key areas: an agile approach to product development, a focus on driving cost-effective acquisition, and the delivery of a significantly enhanced digital customer experience.

Performance has been strong, and has consolidated on the gross margin improvement noted in FY17 with further increase of approximately three per cent in FY18.

MO HEALTH (MYOWN HEALTH INSURANCE)

Commencing operations in July 2017 myOwn was 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, Discovery a South African financial services provider and GMHBA.

GMHBA WITH AIA VITALITY

We continue to develop our AIA Vitality partnership to bring this globally renowned health and wellness rewards program to our members. This scientifically backed program will allow members to understand and improve their health while being rewarded for it. Members can earn rewards for preventative health checks, reaching fitness goals and eating a healthy diet, with significant discounts on products and services at leading Australian brands. Our partnership with AIA Vitality will revolutionise health insurance and help us build a stronger customer value proposition, transforming the way consumers think about health insurance. We see this program enabling behavioural change, helping members achieve better health outcomes and also strengthening our retention. AIA Vitality is now available with GMHBA's V Plus product range and we have future expansion plans.

HEALTH SERVICES

Our diversification into general practice and allied health services, including eye care and dental care, means that we now offer holistic, integrated care and genuinely work towards improving the health outcomes of our members and customers. In December, we opened a new eye care and private health insurance co-location in Waurn Ponds, Geelong, which has performed well above expectations and helped keep costs down for members. Geelong Dental Care has since the end of the financial year been refurbished and rebranded to GMHBA Dental Care Geelong.

HEALTH AND WELLBEING

The health of our community and members is paramount. GMHBA is no longer just engaging with members when they already have a health issue; we actively support our members to understand why maintaining and achieving good health is important, and help them to master their health. The key areas in which we are currently active, include:

> Improving health literacy;

> Maintaining bone and joint health;

> Improving nutrition;

> Increasing physical activity; and

> Maintaining good mental health.

OUR COMMITMENT TO THE COMMUNITY

We're part of Geelong and regional Australia. And we give back. In the financial year 2017-18, we contributed to the communities in which we operate, inclusive of cash, time, in-kind, and management costs – primarily focused on health and wellbeing initiatives.

No other venue inspires our region more than GMHBA Stadium. The Geelong Cats and GMHBA have demonstrated their power in working together in their first year as partners by engaging over 6,200 Year 3 and 4 students across the Geelong region in the "Healthy Heroes" program which empowers young people to make good choices about their health and wellbeing. In December, the Healthy Heroes program was recognised as a finalist in the annual VicHealth Awards for promoting healthy eating.

We're also extremely proud to be the Founding Partner of Active Geelong, a collective impact initiative that aims to make Geelong Australia's most active city.

CHANGING TRENDS

The private health insurance landscape is constantly changing, and with it, the way we service our customers. To this end, we have formed a cross-functional customer experience team and have invested heavily in our online services to match the increasing trend in customer self-service. Through the online member area, members can lodge claims, review and change their level of cover, and with the recent launch of a photo claiming option, submit claims directly from their mobile phone.

LOOKING AHEAD

As the Chairman outlined, there are headwinds facing GMHBA and the entire private health insurance industry and we are very concerned about the impact of these headwinds.

While there may be some changes in the way we go about our business, our commitment to our mission and vision will not change. We will continue to work for our members, to advocate for our members, and deliver exceptional health insurance products and care services to our members and customers.

THANK YOU

I extend my thanks to our directors and executives for the leadership they have shown to shape our 10 year strategy and to commit to its implementation. I thank our staff across all brands and businesses for their relentless focus on improving our organisation, embracing change and delivering exceptional customer service.

"WHILE THERE MAY BE SOME CHANGES TO THE WAY WE GO ABOUT OUR BUSINESS, OUR COMMITMENT TO OUR MISSION AND VISION WILL NOT CHANGE."

MARK VALENA
CEO GMHBA Limited

GMHBA LIMITED
ABN 98 004 417 092

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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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
Board Chairman
Chairman Remuneration & Capability Committee
Member Risk Committee
Member Investment Committee
Chairman – GMHBA Land Co Pty Ltd
Chairman – GMHBA Services Pty Ltd
Chairman – health.com.au Pty Ltd
Chairman – MO Health Pty Ltd
Director – A.G. Coombs Group Pty Ltd
Director – Rathaney Pty Ltd
Director – Placer Property Ltd (appointed March 2018)
Chartered Accountant

GERALD MILLER

BA, LLB. GAICD.

Director since September 2007
Chairman Audit & Compliance Committee
Member Remuneration & Capability Committee
Director – GMHBA Services Pty Ltd
Director – health.com.au Pty Ltd
Deputy Chair – The Geelong College Ltd (resigned 30 June 2018)
Director – ICT Geelong Ltd
Lawyer and General Counsel, formerly registered psychologist

VICKY PAPACHRISTOS

BE, MBA, MAICD.

Director since November 2011
Chairman Risk Committee
Director – GMHBA Services Pty Ltd
Director – health.com.au Pty Ltd
Director – MO Health Pty Ltd
Director – Currant Marketing Pty Ltd
Director – Big River Industries Limited

MARIE BISMARK

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

Director since March 2013
Member Health Services Committee
Member Investment Committee
Director – GMHBA Services Pty Ltd
Director – health.com.au Pty Ltd
Director – Summerset Group Holdings Limited

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

Member – Global Leadership Board International Women's Forum

Director – Eureka Group Holdings (appointed November 2017)

Strategic Advisor to GJK Facility Services and McKenzie Aged Care Services

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 – Mercer Financial Advice (Australia) Pty Ltd

Director – Mercer Superannuation (Australia) Ltd

Director – Mercer Investments (Australia) Ltd (resigned 30 June 2018)

Director – Lendex Group Ltd (resigned November 2017)

Director – Enginsure Pty Ltd

Director – National Vineyard Fund of Australia Limited

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

Patron of the Sir Rupert Hamer Awards

State Premier of Victoria 2013 – 2014

MIKE HIRST

B. COM, SF FIN, MAICD

Director since July 2018

Director – GMHBA Services Pty Ltd

Director – health.com.au Pty Ltd

Deputy Chairman, Racing Victoria Limited

Honorary Member, Business Council of Australia

Member, Grow Strategic Directions Group

Former Managing Director of Bendigo and Adelaide Bank (until 2018)

CHIEF EXECUTIVE:

MARK VALENA
BBus (Acc), CA, GAICD.

COMPANY SECRETARY:

ELIZABETH MELVILLE-JONES
LLB, BA, MBA (Melb), appointed 30 April 2018

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

GMHBA IS COMMITTED TO MAINTAINING HIGH STANDARDS OF CORPORATE GOVERNANCE, AS A FOUNDATION FOR EFFECTIVE DECISION MAKING AND TO SUPPORT THE BOARD IN FULFILLING ITS OBLIGATIONS UNDER THE CORPORATIONS ACT AND APRA PRUDENTIAL STANDARDS, ITS CONSTITUTION AND CHARTER, LEGISLATION INCLUDING THE PRIVATE HEALTH INSURANCE ACT 2007, AND FOR GENERAL BEST CORPORATE GOVERNANCE PRACTICE.

This Statement provides an overview of the main corporate governance structures and practices that were in place throughout the financial year.

The role of the Board is to act in members' interests, while having regard to the interests of other stakeholders including GMHBA employees, regulators, and the local community. The Board reviews, monitors and approves a range of matters including setting and monitoring corporate strategy and plans, oversight of business performance, approving the Capital Management Plan and overseeing capital structure and investment activities, and approving risk management and compliance frameworks. The Company Secretary is accountable to the Board, through the Chairman, for all matters relating to the proper functioning of the Board.

Formal Delegations of Authority to permit efficient business operations are captured in the Instrument of Delegation which is annually reviewed and approved by the Board to ensure that delegations remain appropriate. A suite of internal policies further support the governance of the Group and its compliance with legislative and regulatory obligations.

To assist it in carrying out its duties, the Board has five established Committees which focus on specific areas as below. Additional Committees may be formed from time to time as necessary.

Each Committee has a Charter and Committee Chairs report to the Board after each Committee meeting. Details of the number of meetings of the Board and each Committee, and attendance at those meetings, during 2018 are set out in the Directors' Report.

GMHBA BOARD

AUDIT & COMPLIANCE COMMITTEE

Oversight of the integrity of GMHBA's systems of accounting and financial statements and reporting, and compliance activities and frameworks.

Maintenance of a framework of internal control to monitor the audit and actuarial functions, ensuring regulatory compliance, and advise on appropriate ethical standards for the management of the Company.

Approve the internal audit plan and monitor performance against it.

RISK COMMITTEE

Oversight of GMHBA's risk profile, risk tolerance and risk management.

Monitor effective implementation of the Group's risk management framework and assess processes for managing key risk areas.

Review of the Group's insurance arrangements.

INVESTMENT COMMITTEE

Advise on the Group's total investment portfolio to preserve the security of the company's investments and protect member funds.

Review and approve the Investment Policy. Oversight of the investment management strategy including asset allocation and setting investment parameters in line with risk appetite and the Board approved Investment Policy.

Appoint, monitor and evaluate the performance of the Investment Manager.

HEALTH SERVICES COMMITTEE

Oversight of the key health services initiative components of GMHBA's strategic plan.

Oversight of the alignment of the Health Services Strategy with the annual Business Plan.

Oversight of the effectiveness of clinical governance within GMHBA's Health Services businesses.

REMUNERATION & CAPABILITY COMMITTEE

Oversight of remuneration and succession planning policies and practices.

Recommendation of development programs and practices to enhance culture and workforce capability

Review and approve compensation arrangements for Directors and senior management.

Recommend the appointment and removal of Directors and the Chief Executive Officer.

INDEPENDENCE AND MANAGEMENT OF CONFLICTS OF INTEREST

During 2018 all directors were non-executive and were judged by the Board to be independent and free of relationships or material interests that might influence their ability to act in the best interests of the Group and its members. A register of directors' interests is maintained and regularly reviewed, and an annual independence assessment is conducted to ensure this position remains current. The Board manages its meetings and proceedings to manage any instances of actual or perceived conflict of interest.

BOARD COMPOSITION AND PERFORMANCE

As at 30 June 2018 there were seven directors on the Board, with an average tenure of six years. An eighth director, Mr Mike Hirst, was appointed effective 31 July 2018.

The Board considers that it has an appropriate mix of skills, experience and diversity necessary for a breadth of views and perspectives. Directors come from a range of backgrounds with successful executive careers in the areas below. Continuing education is provided to directors through combination of internal and external presentations, workshops, and conference attendance. The Board periodically considers its skills mix to ensure that it remains appropriate to enable the Board to continue to function at a high level.

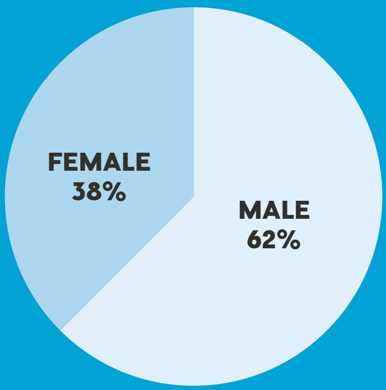
DIRECTOR SKILLS AND EXPERIENCE

Directors bring to the Board a range of relevant skills, knowledge and experience including:

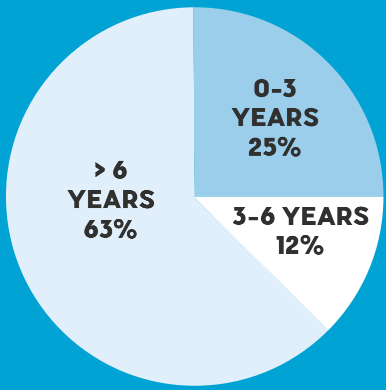
- Accounting and audit;
- Health and medical;
- Financial services;
- Legal and governance;
- Marketing, digital and customer acquisition;
- Government and policy;
- Strategy and risk management; and
- Community and regional focus.

DIVERSITY OF GENDER AND A VARIETY OF TENURE ARE CONSIDERED IMPORTANT FACTORS IN THE COMPOSITION OF THE BOARD, AND ARE CURRENTLY DISTRIBUTED AS BELOW (INCLUDING THE DIRECTOR MOST RECENTLY APPOINTED).

GENDER DIVERSITY



DIRECTOR TENURE



The Board conducts a regular assessment of its performance, and the performance of its Committees and individual directors. During 2018 an independent external consultant was engaged to review the Board's structure, operation and effectiveness. The outcome of the Report and any recommendations will be considered and, where useful, implemented to ensure the continuing effectiveness of the Board.

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 proactive way which helps to achieve the objectives of legislation and regulatory obligations.

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. Employees are encouraged to raise any concerns with the company's leaders, or through the external operator of the whistleblower hotline service.

INTERNAL AUDIT FUNCTION

The internal audit function provided by Ernst & Young and Protiviti assists the Board by providing objective assurance and oversight of the Group's 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.

RISK MANAGEMENT

The Audit & Compliance Committee and the Risk Committee provide advice to the Board and report on the status of risks to the Company through an integrated risk management framework aimed at ensuring risks are identified, assessed and appropriately managed. The risk management model is structured around the "three lines of defence" which together permit effective risk management across the organisation. A comprehensive insurance program provides protection against residual risk exposures.

During 2018 Risk Appetite Tolerance Statements have been developed and approved, and the Board will make a Risk Management Declaration under APRA Prudential Standard CPS220. During 2018 the Board created a separate Risk Committee and appointed a Chief Risk Officer.

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 Board annually reviews and approves a Capital Management Plan.

CODE OF CONDUCT

The Board's Governance Framework contains GMHBA's Code of Conduct which sets out expectations for the ethical and professional conduct necessary to meet the expectations of Fund members and other stakeholders. As these expectations may change over time, the Code is regularly reviewed.

GMHBA is also a signatory to the Private Health Insurance Code of Conduct, a self-regulatory code designed to maintain and enhance regulatory and compliance standards across the private health insurance industry.

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 2018 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
Mike Hirst (appointed July 2018)

The qualifications, expertise and special responsibilities of Directors are set out on page 13 to 14 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 $15.112 million (2017: $18.665 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 and CEO's reports on pages 7 to 10.

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

On 10 August 2018, GMHBA contributed further capital of $5.1m to MO Health Pty Ltd, by way of purchase of ordinary shares paid in full. There was a concurrent contribution from the Joint Venture partner, and as such, there has been no change in the ownership percentage or any other terms of the joint arrangement. 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.

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 2018 and the number of meetings attended by each Director. It should be noted that not all Directors are members of all Committees.

Directors	Meetings of Directors held	Meetings of Directors attended	Relevant Committee meetings held	Relevant Committee meetings attended
James Walsh	10	10	13	13
Gerald Miller	10	9	8	8
Sue Renkin	10	9	9	9
Brian Benger	10	9	9	8
Vicky Papachristos	10	10	9	9
Marie Bismark	10	9	9	9
Denis Napthine	10	10	9	8

INSURANCE OF OFFICERS

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

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

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

For and on behalf of the Board of Directors,

JAMES WALSH
CHAIRMAN GMHBA Limited

GERALD MILLER
DIRECTOR GMHBA Limited

KPMG

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 2018 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

KPMG

Rachel Milum

Rachel Milum
Partner
Melbourne
28 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 ($'000)	2017 ($'000)
Revenue			
Premium revenue		649,921	599,887
Total revenue from operating activities		649,921	599,887
Expenses			
Claims expense	2.6	(488,433)	(446,030)
Risk Equalisation Special Account levy		(73,809)	(76,063)
Total cost of fund benefits		(562,242)	(522,093)
Gross underwriting result		**87,679**	**77,794**
Underwriting expenses			
Employee benefits expenses		(27,041)	(24,844)
Marketing		(9,281)	(7,876)
Commission		(19,690)	(14,740)
Depreciation and amortisation		(2,919)	(2,860)
IT and communications		(5,295)	(4,945)
Professional fees		(3,475)	(4,182)
Other underwriting expenses		(8,217)	(4,751)
Total management expenses		(75,918)	(64,198)
Net underwriting result		**11,761**	**13,596**
Other revenue		9,600	4,469
Other expenses		(14,190)	(10,356)
		(4,590)	(5,887)
Investment income and expenses			
Investment expenses		(501)	(498)
Interest income		5,678	6,416
Dividends		994	1,120
Unrealised investment gains		4,445	3,748
Realised investment gains		520	109
Share of net loss of equity accounted investee	5.5	(2,746)	(462)
		8,390	10,433
Profit before tax for the year		**15,561**	**18,142**
Income tax expense	2.9	449	114
Net profit after tax		**15,112**	**18,028**
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		**15,112**	**18,665**

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 2018

	Note	2018 ($'000)	2017 ($'000)
Current assets			
Cash and cash equivalents	3.1	50,096	46,766
Trade and other receivables	2.1	18,188	20,721
Financial assets	2.2	102,720	107,402
Other assets	2.3	18,417	13,158
Total current assets		**189,421**	**188,047**
Non-current assets			
Financial assets	2.2	127,636	108,035
Property, plant and equipment	2.4	14,912	13,461
Intangible assets and goodwill	2.4	39,861	39,621
Other assets	2.3	18,061	12,082
Investment in equity accounted investee	5.5	13,111	15,858
Deferred tax asset		1,368	1,818
Total non-current assets		**214,949**	**190,875**
Total assets		**404,370**	**378,922**
Current liabilities			
Trade and other payables	2.5	36,866	38,385
Employee benefits provisions	4.2	3,221	2,779
Other provisions	2.6	61,955	59,091
Other liabilities	2.7	68,118	59,639
Total current liabilities		**170,160**	**159,894**
Non-current liabilities			
Employee benefits provisions	4.2	346	276
Total non-current liabilities		**346**	**276**
Total liabilities		**170,506**	**160,170**
Net assets		**233,864**	**218,752**
Equity			
Retained earnings		233,043	217,931
Asset revaluation reserve		821	821
Total equity		**233,864**	**218,752**

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 2018

	Retained earnings ($'000)	Asset revaluation reserve ($'000)	Total ($'000)
Balance at 1 July 2016	199,903	184	200,087
Profit for the year	18,028	–	18,028
Other comprehensive income	–	637	637
Total comprehensive income for the year	18,028	637	18,665
Balance at 30 June 2017	**217,931**	**821**	**218,752**
Balance at 1 July 2017	**217,931**	**821**	**218,752**
Profit for the year	15,112	–	15,112
Other comprehensive income	–	–	–
Total comprehensive income for the year	15,112	–	15,112
Balance at 30 June 2018	**233,043**	**821**	**233,864**

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 2018

	Note	2018 ($'000)	2017 ($'000)
Cash flows from operating activities			
Premium receipts		660,736	607,403
Benefits paid		(485,569)	(437,933)
Payments to suppliers and employees		(172,765)	(154,772)
Other income received		9,728	4,410
Net cash inflow from operating activities	**3.1(a)**	**12,130**	**19,108**
Cash flows from investing activities			
Purchase of financial assets		(155,888)	(175,282)
Purchase of property, plant and equipment and intangible assets		(3,307)	(3,807)
Acquisition of businesses, net of cash acquired		(2,238)	(1,232)
Dividends received		994	1,120
Interest received		5,732	6,577
Proceeds from sale of financial assets		145,907	175,856
Purchase of shares in Joint Venture		–	(16,320)
Net cash (outflow) from investing activities		**(8,800)**	**(13,088)**
Cash flows from financing activities			
Net cash inflow from financing activities		**-**	**-**
Net increase in cash held		3,330	6,020
Cash and cash equivalents at beginning of the financial year		46,766	40,746
Cash and cash equivalents at end of the financial year	**3.1(b)**	**50,096**	**46,766**

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

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 28th August 2018.

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; and
- 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
- Valuation of intangible assets, see note 2.4
- 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 2018 consists of:

(i) Unclosed premium earned – this represents premiums in arrears measured up to 30 June 2018 and;
(ii) Unclosed premium unearned – forecast premiums receivable from policyholders at 30 June 2018.

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)

Financial Disclosure	2018 ($'000)	2017 ($'000)
Unclosed premium earned	1,500	1,639
Unclosed premium unearned	922	897
	2,422	**2,536**
Accrued investment income	871	925
Other debtors	1,927	4,365
Federal government rebate receivable	12,968	12,895
	18,188	**20,721**

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	2018 ($'000)	2017 ($'000)
Current		
Term deposits	96,521	100,334
Bonds	6,199	7,068
At fair value	**102,720**	**107,402**
Non-current		
Equity securities	40,459	28,273
Bonds	87,177	79,762
At fair value	**127,636**	**108,035**

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	2018 ($'000)	2017 ($'000)
Current		
Prepayments	2,046	1,514
Deferred acquisition costs	16,103	11,364
Current income tax receivable	-	-
Inventory	268	280
	18,417	**13,158**
Non-current		
Deferred acquisition costs	14,534	12,082
Prepayments	3,527	-
	18,061	**12,082**

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.

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 Members' Own Health Funds license fee is 20 years and software is between 3 and 10 years.

Intangible assets – Goodwill

Goodwill arising on the acquisition of subsidiaries 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, defined as Cash Generating Units (CGUs). Goodwill is allocated to the Group's CGUs identified according to which CGU is expected to benefit from the synergies of the combination.

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

Accounting Policies (Continued)

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 2018. Note that Eye Care has been tested for impairment at an individual practice level, however goodwill attributable is shown at total Eye Care level below.

CGU	Goodwill allocation	
	2018	**2017**
	($'000)	**($'000)**
Health.com.au	18,666	18,666
Eye Care	1,375	1,632
Primary Care (GPs)	2,949	1,391
Dental Care	1,381	477
	24,371	**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 – Health.com.au: 3% Eye Care: 1.6% Primary Care: 2% Dental Care: 2%	The growth rates represent 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 industries in which the CGU's operate as per industry forecasts.
Discount rate – Health.com.au: 11% Eye Care: 12% Primary Care: 12% Dental Care: 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; and > Forecast claims and operating expenses.

The impairment testing resulted in an impairment loss being recognised in the Eye Care CGU of $257k (2017: $0).

This charge is reflected in other management expenses within profit or loss. Following the impairment loss recognised in this CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment. There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge in the current financial year in the Primary Care or Dental Care CGUs.

The estimated recoverable amount of the Health.com.au CGU is equal to its carrying amount. Management has identified that a reasonably possible change in 2 key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the impairment that would result in the Health.com.au CGU from a change in these 2 key assumptions.

Expected Impairment that would arise as a result of changes to key assumptions ($m)		Discount rate			
		11%	**12%**	**13%**	**14%**
Cash flow terminal growth rate	0%	11	14	16	18
	1%	8	11	14	17
	2%	5	9	12	15
	3%	-	5	9	13

Financial disclosure

Reconciliation of carrying amount – Property plant and equipment

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:

	Land ($'000)	Buildings ($'000)	Furniture & fittings ($'000)	Office equipment ($'000)	Motor vehicles ($'000)	Capital WIP & Development costs ($'000)	Total ($'000)
Depreciation rate	–	1.5%	10.0%	15.0–40.0%	22.5%	–	
Cost (or valuation as applicable)	6,243	3,000	2,980	4,497	76	825	17,621
Accumulated depreciation	–	–	(1,426)	(2,711)	(23)	–	(4,160)
Carrying amount at 1 July 2017	**6,243**	**3,000**	**1,554**	**1,786**	**53**	**825**	13,461
Additions[1]	–	–	82	62	–	2,568	2,712
Disposals[2]	–	–	(24)	(55)	(20)	–	(99)
Depreciation[3]	–	(61)	(353)	(739)	(9)	–	(1,162)
Transfers	–	440	1,129	724	–	(2,293)	–
Cost	6,243	3,440	4,076	5,041	32	1,100	19,932
Accumulated depreciation	–	(61)	(1,687)	(3,262)	(10)	–	(5,020)
Carrying amount at 30 June 2018	**6,243**	**3,379**	**2,389**	**1,779**	**22**	**1,100**	**14,912**
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]	–	–	–	–	–	2,053	2,053
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	825	17,621
Accumulated depreciation	–	–	(1,426)	(2,711)	(23)	–	(4,160)
Carrying amount at 30 June 2017	**6,243**	**3,000**	**1,554**	**1,786**	**53**	**825**	**13,461**

1. Additions include the written down value of assets acquired in business combinations.
2. Balances shown net of accumulated depreciation.
3. Includes depreciation attributable to health services and health prevention activities.

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

Reconciliation of carrying amount – Intangible assets

	Goodwill ($'000)	Health.com.au customer list ($'000)	License fee ($'000)	Software ($'000)	Domain names ($'000)	Software WIP	Total ($'000)
Amortisation rate	–	7.7%	5.0%	10.0-30.0%	–	–	–
Carrying amount at 30 June 2016	**20,723**	**12,903**	**1,083**	**1,988**	**271**	**1,666**	**38,634**
Additions[1]	1,443	–	–	–	–	1,467	2,910
Transfers	–	–	435	2,411	–	(2,846)	–
Amortisation	–	(1,068)	(88)	(766)	–	–	(1,922)
Cost	22,166	13,882	1,592	6,529	271	287	44,727
Accumulated amortisation	–	(2,047)	(163)	(2,896)	–	–	(5,106)
Carrying amount at 30 June 2017	**22,166**	**11,835**	**1,429**	**3,633**	**271**	**287**	**39,621**
Additions[1]	2,463	–	–	–	–	739	3,202
Disposals at written down value	–	–	–	(45)	–	–	(45)
Amortisation[2]	–	(1,068)	(128)	(816)	–	–	2,012
Transfers	(258)	–	367	456	–	(823)	–
Write-offs	–	–	–	(647)	–	–	(905)
Cost	24,371	13,882	2,181	5,872	271	203	46,780
Accumulated amortisation	–	(3,115)	(292)	(3,513)	–	–	(6,919)
Carrying amount at 30 June 2018	**24,371**	**10,767**	**1,889**	**2,359**	**271**	**203**	**39,861**

1. Additions include written down value of assets acquired in business combinations.
2. Includes amortisation attributable to health services and health prevention activities.

Additional information on goodwill is included in note 5.7C.

2.5 TRADE AND OTHER PAYABLES

Accounting Policies

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	**2018 ($'000)**	**2017 ($'000)**
Health Benefits Risk Equalisation Special Account	22,841	18,506
Creditors and accruals	14,025	19,879
	36,866	**38,385**

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% (2017: 7%) giving in excess of 75% probability of adequacy, whilst Health.com.au adopted a risk margin of 15% (2017: 15%) 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 Actuary 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 2018 is 1.5% (2017: 1.7%) of the claims liability for the GMHBA fund. For Health.com.au Pty Ltd, the allowance is 1.5% (2017: 1.5%) for ancillary and 3.0% (2017: 3.0%) for hospital.

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 2018 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. The provision is reflective of the expected net cost to the Group, after Risk Equalisation. This allowance is reviewed periodically and the provision is currently 76% (2017: 75%) of the Reward entitlement in respect of membership up to 30 June 2018 for the GMHBA program, and 42% (2017: 37%) for the Frank program.

Financial Disclosure	**2018 ($'000)**	**2017 ($'000)**
Current provisions		
Outstanding claims (a)	46,311	42,549
Risk margin	3,567	3,407
	49,878	**45,956**
Reward benefits (b)	12,077	13,135
	61,955	**59,091**

(a) Outstanding claims including risk margin

Gross Claims – undiscounted

The reconciliation of the provisions are as follows:

	2018 ($'000)	2017 ($'000)
Balance at beginning of year	45,956	37,699
Add: claims incurred	480,087	437,853
Less: claims settled	(476,165)	(429,596)
Net outstanding claims liability	**49,878**	**45,956**

Benefits paid

	2018 ($'000)	2017 ($'000)
Gross Claims – undiscounted		
Current	492,563	446,791
Prior	(4,130)	(761)
Total benefits paid	**488,433**	**446,030**

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

	2018 ($'000)	2017 ($'000)
Balance at beginning of year	13,135	13,295
Add: Benefits accrued	4,206	4,844
Less: Benefits utilised	(5,264)	(5,004)
	12,077	**13,135**

2.7 OTHER LIABILITIES

Accounting Policies

Liability adequacy test

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

The liability adequacy test is required to be performed to determine whether the unearned premium liability (premiums in advance) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The risk margins adopted are 3.3% for the GMHBA Limited fund and 3.0% 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 or Health.com.au Pty Ltd funds.

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 2018 relating to the period beyond 30 June 2018 are recognised as an unearned premium liability. Also, forecast premiums receivable from policyholders at 30 June 2018 are recognised as unclosed business premiums.

Financial Disclosure	2018 ($'000)	2017 ($'000)
Unearned premium liability	67,196	58,203
Unclosed business premiums	922	897
Unexpired risk liability	–	539
	68,118	**59,639**

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, or 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 and the next valuation expecting to be performed no later than 30 June 2020. 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 $9.62m 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 2018				
Cash and cash equivalents	50,096	–	–	50,096
Term deposits	96,521	–	–	96,521
Equity securities	40,459	–	–	40,459
Bonds	5,460	87,916	–	93,376
Land and buildings	–	–	9,622	9,622
Total	**192,536**	**87,916**	**9,622**	**290,074**
30 June 2017				
Cash and cash equivalents	46,766	–	–	46,766
Term deposits	100,334	–	–	100,334
Equity securities	28,273	–	–	28,273
Bonds	12,620	74,210	–	86,830
Land and buildings	–	–	9,243	9,243
Total	**187,993**	**74,210**	**9,243**	**271,446**

2.8 FAIR VALUE MEASUREMENT (CONTINUED)

(B) Valuation technique and unobservable inputs for level 3

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
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.

Financial Disclosure

Current income tax expense

Tax recognised in profit or loss Current tax expense	2018 ($'000)	2017 ($'000)
Current period	2,757	783
Deferred tax expense		
Origination and reversal of temporary differences	(2,308)	(669)
Total tax expense	**449**	**114**

2.9 TAXES (CONTINUED)

Financial Disclosure (continued)

Reconciliation of effective tax rate	**2018 ($'000)**	**2017 ($'000)**
Profit for the year	15,112	18,028
Total tax expense	449	114
Profit excluding tax	**15,561**	**18,142**
Tax using the Company's domestic tax rate of 30%	4,668	5,443
Tax effect of tax exempt profits of GMHBA Limited[1]	(5,454)	(5,894)
Tax effect of non-deductible Group share of joint venture loss	824	138
Tax effect of other non-deductible expenses	411	337
Change in the unrecognised deductible temporary differences	–	90
	449	**114**

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:

	2018 ($'000)	2017 ($'000)
Profit for the year	15,112	18,665
Realised investment gains	(520)	(109)
Depreciation and amortisation	2,919	2,860
Revaluation of land and buildings	–	(637)
Unrealised investment (gain)	(4,445)	(3,748)
Interest and dividends received	(6,171)	(7,095)
Share of loss of Joint Venture	2,746	462
Income tax expense	449	114
Changes in assets and liabilities		
Decrease in trade and other receivables	114	682
(Increase) in other assets and investments	(8,872)	(13,619)
(Decrease)/increase in trade and other payables	(1,518)	2,090
Increase in provisions	2,864	8,097
Increase in other liabilities	8,435	11,131
Increase in employee benefits	568	489
Increase/(decrease) in current and deferred tax assets and liabilities	449	(274)
Net cash inflow from operating activities	**12,130**	**19,108**

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:

	2018 ($'000)	2017 ($'000)
Cash on hand	159	93
Cash at bank	49,937	46,673
	50,096	**46,766**

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 2018				30 June 2017			
($'000 AUD)	**Euro**	**CHF**	**USD**	**GDP**	**Euro**	**CHF**	**USD**	**GDP**
Equities	4,453	948	20,341	1,140	2,589	718	10,616	406
Cash	9	–	915	–	35	16	207	4
Net statement of financial position exposure	**4,462**	**948**	**21,256**	**1,140**	**2,624**	**734**	**10,823**	**410**

As at 30 June 2018, 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:

	2018 ($'000)		2017 ($'000)	
	+10%	-10%	+10%	-10%
Euro to AUD	(406)	496	(239)	292
CHF to AUD	(86)	105	(67)	81
USD to AUD	(1,932)	2,362	(984)	1,203
GBP to AUD	(104)	127	(37)	46

(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 optimising 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:

			Fixed interest maturing in:			
2018	**Note**	**Variable interest rate** ($'000)	**1 year or less** ($'000)	**Over 1 to 5 years** ($'000)	**Non-interest bearing** ($'000)	**Total** ($'000)
Financial assets						
Cash	3.1	48,078	–	–	2,018	50,096
Receivables	2.1	–	–	–	18,188	18,188
Term deposits	2.2	–	96,521	–	–	96,521
Equity securities	2.2	–	–	–	40,459	40,459
Bonds	2.2	93,376	–	–	–	93,376
		141,454	**96,521**	**-**	**60,665**	**298,640**
Weighted average interest rate %		2.83	2.50			
Financial liabilities						
Payables	2.5	–	–	–	36,866	36,866
		–	–	–	36,866	36,866
Net financial assets		**141,454**	**96,521**	**-**	**23,799**	**261,774**

			Fixed interest maturing in:			
2017	**Note**	**Variable interest rate** ($'000)	**1 year or less** ($'000)	**Over 1 to 5 years** ($'000)	**Non-interest bearing** ($'000)	**Total** ($'000)
Financial assets						
Cash	3.1	45,564	–	–	1,202	46,766
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
		132,394	**100,334**	–	**50,196**	**282,924**
Weighted average interest rate %		2.70	2.44			
Financial liabilities						
Payables	2.5	–	–		38,385	38,385
		–	–		38,385	38,385
Net financial assets		**132,394**	**100,334**		**11,811**	**244,539**

The following table illustrates the sensitivity on net profit for the year ended 30 June 2018 to a reasonably possible change in interest rates of +/-1% (2017: +/- 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.

	2018 ($'000)		2017 ($'000)	
Net result	+1%	-1%	+1%	-1%
Fair value risk				
Fixed rate instruments				
Term deposits	(399)	406	(355)	361
Bonds	(187)	187	(182)	182
Cash flow risk				
Variable rate instruments				
Cash	471	(465)	456	(454)
Bonds	923	(923)	868	(868)

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 2018 the Group investments are composed of term deposits, bonds and equities. The Group holds its term deposits to maturity and does not trade these investments.

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

A 10% decrease in the price of listed equities within the equity portfolio would result in a loss of $4.05m. A 10% increase in the price of listed equities within the equity portfolio would result in a gain of $4.05m. The unrealised gain or loss would be recognised as a fair value movement and disclosed in the statement of profit or loss and other comprehensive income.

(B) Credit Risk

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

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

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

3.2 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

(B) Credit Risk (continued)

The Standard & Poor's (S&P's) credit rating as at 30 June 2018 for the term deposits of $96.5m, bonds of $93.4m and cash of $50.1m, which represents its maximum credit exposure on these assets, is as follows:

Term deposits		Bonds		Cash	
S&P credit rating	% of portfolio	S&P credit rating	% of portfolio	S&P credit rating	% of portfolio
AAA	–	AAA	3%	AAA	–
AA+	–	AA+	–	AA+	–
AA	–	AA	3%	AA	–
AA–	–	AA–	19%	AA–	–
A-1+	77%	A+	17%	A-1+	84%
A-1	–	A	8%	A-1	12%
A-2	23%	A–	24%	A-2	–
		BBB+	5%		
		BBB	21%		
Unrated	–	Unrated	–	Unrated	4%

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 2018.

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

(C) Liquidity Risk

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

Financial liabilities comprise trade and other payables at the reporting date. The balance of $36.87m (2017: $38.4m) 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, investments, and other assets. Operating cash flows are used to maintain and increase the Group's investments. The Group's investments at reporting date are composed of term deposits, bonds and investments in the equity market. Management and the Investment Committee along with the Board continue to monitor market conditions. The Group does not have any external borrowings.

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

Year	$'000	Increase
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%
2018	**233,864**	**6.91%**

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 owner-ship 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 2018.

Financial Disclosure	2018 ($'000)	2017 ($'000)
Due:		
Not later than one year	1,383	1,149
Later than one year but not later than five years	2,153	2,719
	3,536	**3,868**

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 or since the end of the financial year are as follows:

> James Walsh
> Brian Benger
> Denis Napthine
> Gerald Miller
> Sue Renkin
> Mike Hirst (appointed July 2018)
> Vicky Papachristos
> Marie Bismark

Compensation of key management personnel – Directors

	2018 ($)	2017 ($)
Short term benefits	**757,660**	**563,600**

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

Compensation of key management personnel – Management

	2018 ($)	2017 ($)
Short term benefits	2,573,023	2,582,114
Termination benefits	74,211	44,423
	2,647,234	**2,626,537**

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 2017-18 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	2018 ($'000)	2017 ($'000)
Current		
Employee annual leave	2,012	1,754
Employee long service leave	1,209	1,025
	3,221	**2,779**
Non-current		
Employee long service leave	346	276
	346	**276**

5. OTHER IMPORTANT INFORMATION

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

5.1 Auditor's remuneration
5.2 New accounting standards
5.3 Company information
5.4 Controlled entities
5.5 Equity accounted investees
5.6 Related parties
5.7 Acquisitions
5.8 Parent entity disclosures
5.9 Restatement of prior year balances
5.10 Subsequent events

5.1 AUDITOR'S REMUNERATION

Financial Disclosure	2018 ($)	2017 ($)
Audit and review of financial reports and other regulatory returns	254,800	249,800
Taxation and other services	-	3,500
	254,800	**253,300**

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 2018, 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 and 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. As the Group currently classifies its investments at fair value through profit or loss, the Group does not expect this to have a material impact.	1 January 2018	30 June 2022 (The AASB passed amendment AASB 2016-6, (and subsequently 2017-3) 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. Based on consideration of current lease agreements and relevant expiry dates, this impact is not expected to be material to the financial statements of the Group. The quantitative effect will depend on the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into before application date. The Group expects to disclose its transition approach and quantitative information before adoption of AASB 16.	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 Group's Health Insurance premium revenue will be outside the scope of the standard, as these are accounted for under AASB 1023 General Insurance Contracts. Our assessment of the impact of revenue within the scope of AASB 15 based on current customer contracts in place indicates that there will not be a significant impact on revenue recognition. Therefore, the Company does not expect a material impact from this standard. New contracts will need to be assessed individually as they occur, and we expect our disclosures around revenue recognised from contracts with customers may be expanded to ensure that the requirements of AASB 15 are met in future financial statements.	1 January 2018	30 June 2019
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, most notably from a required change to treatment of deferred acquisition costs. The Group expects to be required to deferred its accounting policy to expense customer acquisition costs as they are paid, rather than capitalising and amortising on a straight-line basis in accordance with the pattern of the incident of risk. The extent of this impact will be highly dependent on the extent of acquisitions through commission based channels in the year of initial adoption.	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 2018 the number of Company members was 7 (2017: 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	
		2018	2017
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%

5.5 EQUITY ACCOUNTED INVESTEES

ACCOUNTING POLICIES

The Group's interest in equity-accounted investees comprises interests in an unlisted joint venture entity – MO Health Pty Ltd (trading as MyOwn Health Insurance).

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

The following table summarises the financial information of MO Health Pty Ltd as included in its own financial statements, adjusted for fair value adjustments at acquisition. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in MO Health Pty Ltd.

Financial Disclosure	2018 ($'000)	2017 ($'000)
Interest in joint venture	13,111	15,858
Percentage ownership interest	**51%**	**51%**
Current assets	24,203	31,226
Non-current assets	8,042	1,701
Current liabilities	6,536	1,833
Non-current liabilities	–	–
Net assets	25,709	31,094
Group's share of net assets (51%)	13,111	15,858
Carrying amount of investment in joint venture	**13,111**	**15,858**
Revenue	6,253	–
Expenses	11,638	906
Net (loss)	(5,385)	(906)
Group's share of net (loss)	**(2,746)**	**(462)**
Dividends received by the Group	**-**	**-**

5.6 RELATED PARTIES

At 30 June 2018, the Group had a balance of $53k receivable (2017: $350k) from MO Health Pty Ltd – a joint venture in which GMHBA Limited has an equity interest (refer to note 5.5). The balance has since been settled. Throughout the year, GMHBA recharged certain costs to MO Health Pty Ltd for providing operational and administrative support to MO Health Pty Ltd. Total recharges were immaterial to the Group result and were at cost with no mark-up applied. There were no other transactions with related parties of the Group during the period.

5.7 ACQUISITIONS

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.

Dental Practice

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 decision to purchase the practice is consistent with the Group's implementation of its 10 Year Strategy.

In the eleven months to 30 June 2018, the business contributed revenue of $947,339 and a net profit after tax of $140,678 to the Group's results. If the acquisition had occurred on 1 July 2017, management estimates that neither consolidated revenue nor consolidated net profit would not have been materially different. In arriving at this conclusion, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2017.

A. Consideration transferred

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

	$'000
Cash - completion date	686
Cash - deferred	45
Cash – contingent consideration	229
Total consideration transferred	**960**

Contingent cash consideration of $229k is payable by the Group within 12 months after transaction date subject to the achievement of certain patient targets by the acquiree.

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 2018.

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	960
Fair value of identifiable net assets		55
Goodwill on acquisition		**905**

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.

Primary Care Practice

On 3 July 2017 GMHBA Limited obtained control of the operations of a medical practice by acquiring 100% of the business' assets and liabilities. The decision to purchase the practice is consistent with the Group's implementation of its 10 Year Strategy.

In the 12 months to 30 June 2018, the business contributed revenue of $1,067,022 and a net profit after tax of $180,075 to the Group's results. If the acquisition had occurred on 1 July 2017, management estimates neither consolidated revenue nor consolidated net profit would not have been materially different. In arriving at this conclusion, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2017.

A. Consideration transferred

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

	$'000
Cash – completion date	1,146
Cash – deferred	47
Cash – contingent consideration	401
Total consideration transferred	**1,594**

Contingent cash consideration of $401k is payable by the Group within 12 months after transaction date subject to the achievement of certain patient targets by the acquiree.

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 2018.

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	1,594
Fair value of identifiable net assets		36
Goodwill on acquisition		**1,558**

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.

5.8 PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2018, the parent entity of the Group was GMHBA Limited. Parent entity financial results are as follows.

	2018 ($'000)	2017 ($'000)
Result of parent entity		
Net profit for the year	18,179	19,646
Total comprehensive income for the year	**18,179**	**20,283**
Financial position of parent entity at year end		
Current assets	164,458	160,777
Total assets	**381,775**	**352,402**
Current liabilities	139,592	128,466
Total liabilities	**139,886**	**128,692**
Total equity of parent entity comprising of:		
Retained earnings	241,705	222,889
Asset revaluation reserve	821	821
Total equity	**241,889**	**223,710**

5.9 RESTATEMENT OF PRIOR YEAR BALANCES

The Group consolidated its 51% investment in MO Health Pty Ltd in the prior year. Following the commencement of operations in July 2017, this investment has been reassessed as a joint venture which is accounted for using the equity method in the current year. As a result, prior year comparatives have been restated for presentation comparability.

Statement of Financial Position (Extract)	30 June 2017 previously reported ($'000)	Adjustments ($'000)	30 June 2017 as restated ($'000)
Cash and cash equivalents	77,876	(31,110)	46,766
Trade and other receivables	20,721	-	20,721
Financial assets (current)	107,402	-	107,402
Other assets (current)	13,173	(15)	13,158
Financial assets (non-current)	108,035		108,035
Property, plant and equipment	14,151	(690)	13,461
Intangible assets and goodwill	40,244	(623)	39,621
Investment in equity accounted investee	-	15,858	15,858
Other assets (non-current)	12,082		12,082
Deferred tax asset	2,206	(388)	1,818
Trade and other payables	(40,117)	1,732	(38,385)
Employee benefits provisions (current)	(2,779)	-	(2,779)
Provisions	(59,091)	-	(59,091)
Other liabilities	(59,639)	-	(59,639)
Employee benefits provisions (non-current)	(276)	-	(276)
Net Assets	**233,988**	**(15,236)**	**218,752**
Equity attributable to members of the Company	218,752	-	218,752
Non-controlling interests	15,236	(15,236)	-
Total Equity	**233,988**	**(15,236)**	**218,752**

5.9 RESTATEMENT OF PRIOR YEAR BALANCES (CONTINUED)

Statement of Comprehensive Income (Extract)	30 June 2017 previously reported ($'000)	Adjustments ($'000)	30 June 2017 as restated ($'000)
Total revenue from operating activities	599,887	–	599,887
Total cost of fund Benefits	(522,093)	–	(522,093)
Employee benefits expenses	(25,780)	936	(24,844)
Marketing	(8,146)	270	(7,876)
Professional fees	(4,301)	119	(4,182)
Other management expenses	(27,323)	27	(27,296)
Health services and health prevention activities	(5,887)	–	(5,887)
Share of loss of equity accounted investee	–	(462)	(462)
Other investment income	10,953	(58)	10,895
Income tax (expense)/benefit	274	(388)	(114)
Net profit	**17,584**	**444**	**18,028**
Other comprehensive income	637	–	637

5.10 SUBSEQUENT EVENTS

On 10 August 2018, GMHBA contributed further capital of $5.1m to MO Health Pty Ltd, by way of purchase of ordinary shares paid in full. There was a concurrent contribution from the Joint Venture partner, and as such, there has been no change in the ownership percentage or any other terms of the joint arrangement.

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 2018

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 55:

(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 2018 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 GMHBA Limited

Geelong, 28 August 2018

GERALD MILLER
DIRECTOR GMHBA Limited

Geelong, 28 August 2018

Independent Auditor's Report

To the members of GMHBA Limited

Opinion

We have audited the ***Financial Report*** of GMHBA Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001,* including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001.*

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018;
- 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; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

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 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have 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; and
- 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.

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_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Rachel Milum
Partner
Melbourne
28 August 2018

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

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