



Teachers Health Fund

Annual Report

for the year ended 30 June 2016

Financial snapshot

(\$M)	FY14/15	FY15/16	Change	Change %
Premium revenue	485.7	543.8	58.1	12.0%
Claims	441.8	495.1	53.3	12.1%
Gross margin	43.9	48.7	4.8	11.0%
Payout ratio	91%	91%		
Operating surplus	22.4	22.8	0.4	2.0%
Net assets	257.6	280.4	22.8	8.9%
Membership	131,804	140,214	8,410	6.4%

Contents

From the Chairperson	2
From the CEO	3
Review of operations	7
Directors' Report	9
Auditor's Independence Declaration	13
Corporate Governance Statement	15
Key financial performance	26
Consolidated statement of profit or loss and other comprehensive income	27
Consolidated statement of financial position	28
Consolidated statement of changes in equity	29
Consolidated statement of cash flows	30
Notes to the financial statements	32
Directors' Declaration	62
Independent Auditor's Report	63



From the Chairperson



Helen MacGregor
Chairperson

I am very pleased to report that Teachers Federation Health has had another successful year.

Overall our policyholder numbers grew by 6.4% against an industry growth of 1.3%. The Fund has maintained its focus on providing value to members, returning 91 cents in benefits from every dollar of contribution income received.

Teachers Health Fund has again contained management expenses to below 6.7%, which is more than a percent lower than the industry average, so contributing to the return to members through lower rate increases and improved benefits.

As a not-for-profit/for member health fund, we pride ourselves on operating for the benefit of our policyholders. This means we do not have other investors or shareholders and therefore do not pay dividends.

Our guiding philosophy is to be the first choice private health insurer for teachers and the education industry and to assist our policyholders to achieve the best possible health outcomes. Our business strategy is derived from this fundamental objective.

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

This philosophy and engagement has helped us continue to recruit members in all states, building the business to support the ongoing needs of all our policyholders and ensuring we continue to have sustainable growth into the future.

In an effort to contain costs the Federal Government has continued to seek changes to the health industry and private health insurance in particular. Teachers Health Fund remains actively involved in responding to government proposals through our participation in industry forums, providing submissions to discussion papers and seeking opportunities to work with relevant bodies in an endeavour to improve the final outcomes.

Governance

The Australian Prudential Regulation Authority (APRA) has now been responsible for private health insurers for a full year. During this period APRA has emphasised its commitment to consultation and working with the industry prior to future changes being introduced.

APRA has indicated its three-year work-plan, highlighting key areas of focus over coming years. The Board is committed to ensuring that Teachers Health Fund remains actively involved in these consultations and aims to ensure the Fund's practices in relation to governance and other regulatory standards meet the expectations of all stakeholders.

Diversity continues to be a cornerstone of our employment practices and Teachers Health Fund works to ensure all employees are treated equally with fairness, pay equity and respect, free from harassment and discrimination. The staff of Teachers Health Fund continue to be one of the Fund's greatest assets.

All directors and employees are provided with the opportunity to attend training appropriate to their professional needs through a range of development initiatives, supported by regular evaluation and monitoring. This both assists with the retention of high quality staff and supports the business in its endeavours for continuous improvement.

The Teachers Health Foundation

Last year the Teachers Health Foundation was established by grant from Teachers Health Fund. The purpose of the Foundation is to provide financial support in the form of grants for health and medical research, aimed at delivering better health outcomes for the education and wider community.

During the year a \$50,000 grant was awarded to Hunter Institute of Mental Health to assess peer support as a strategy for improving wellbeing of early career teachers.

A further grant of \$58,750 was awarded to the Hunter Medical Research Institute to conduct a study on a physical activity intervention for the prevention and treatment of type 2 diabetes. Both these research projects have commenced and the Foundation looks forward to final reports and recommendations in early 2017.

The future

Teachers Health Fund continues to be well positioned for the future. With a clear strategic direction that provides guidance to activities of the Fund and with the financial strength and dedicated workforce to execute our initiatives, the Fund is extremely well placed to continue to deliver excellent value and service to our members and to succeed in a climate of volatility and change.

In closing

Once again I thank my fellow directors for their continued support and commitment throughout a busy year and, in particular, for their work on the various Board sub-committees. In particular, I would like to thank Michael Garner for his work on the Board as the staff representative director.

Teachers Health Fund's management team and staff throughout the organisation are a vital component of our continued success. The Board of Directors and I thank them for their effort and dedication throughout the year.

H M MacGregor
Chairperson

Dated this 22nd day of September 2016
Sydney, NSW

From the CEO



Brad Joyce
Chief Executive Officer

I am pleased to report that Teachers Health Fund has had another successful year with continued strong growth in our policyholder base together with positive operating margins. This strong result was particularly significant in the face of challenging market conditions that included intensified competition as well as concerns over the affordability of health insurance and the increasing media commentary focussing on the rising cost of premiums and the quality of policies contributing to a lack of confidence in the category.

As the only health fund exclusively for the education community, we have worked closely with the industry and our members to ensure our ongoing commitment to providing high quality, affordable, value for money health insurance supported by excellent customer service.

Our members' experience sits at the heart of our organisation's values and we believe it is important to continue strengthening our capability and improving our customer service and efficiencies. We have an ongoing commitment to achieving these goals.

Policyholder growth

Our policyholder growth continues to be much greater than the industry and we now have over 140,000 policyholders with more than 290,000 lives covered. Teachers Health Fund remains the seventh largest health fund in Australia and the largest health fund with a dedicated focus on an industry sector - education.

A number of improvements in the way policyholders join and interact with the Fund including a new website, online join form and mobile claiming app were made over the past year. We also ensured that our product range remains competitive and continues to meet the needs of our policyholders.

UniHealth Insurance, with its focus on tertiary education staff, has also continued to grow with over 1,000 policyholders now part of the Fund.

Moving forward, Teachers Health Fund will continue to provide great cover at affordable prices, to all members of the education community and their families.

**Our members' experience
sits at the heart of our
organisation's values**

Financial performance

Teachers Health Fund operates at low but financially sustainable margins, ensuring that policyholders obtain great value for their premiums. Our operating surplus for 2016 of \$22.8m reflects a prudent return, to ensure that we can continue to sustain and strengthen the business, whilst effectively managing our capital position.

Teachers Health Fund returns the majority of premiums (91% in 2016) as benefit payments. Over the 2015/2016 financial year, claims costs, Inclusive of levies and payments in respect of risk equalisation, grew by \$53.3m, to \$495.1m (+12.1%) while premium income grew by \$58.1m, to \$543.8m (+12.0%).

Our continued investment in process improvement and business capability enables Teachers Health Fund to maintain a management expense ratio of <6.7%, a slight reduction from historical performance and well below recent industry averages (the most recently available comparative is 8.5% for the twelve months to June 2016). Further initiatives are planned for the coming year to ensure high quality service continues to be delivered in a cost efficient manner.

Other revenue streams

A number of additional revenue streams contribute substantially to the overall commercial success of the Fund and assist in minimising the unavoidable annual increase to premiums. In 2016 these totalled \$20.7m. Many of these also assist in providing quality health solutions to Teachers Health Fund members, including:

- Teachers Healthcare Services providing support for chronic disease management and wellness initiatives
- Teachers Eyecare, Dental and Physiotherapy services
- Provision of travel and general insurance policies

Despite a low performing investment market, investments achieved a return of \$9.1 m over the year.

Strategic focus

The strategic focus of Teachers Health Fund over the year has continued to be on ensuring growth and retention and improving internal capabilities.

A part of these initiatives has been the establishment of Teachers Healthcare Services, a wholly owned subsidiary responsible for the provision of wellness and disease management programs for our policyholders. The success of these programs are encapsulated in the ongoing positive feedback received from participants.

As these strategic aspects have become part of the way we do business, the next year sees an expansion in focus, with the central tenant driven by a desire to improve our policyholder experience in each and every interaction with the Fund.

People

Teachers Health Fund could not succeed without the continuing contribution of our dedicated staff.

Teachers Health Fund has been recognised by the Australian Government as an Employer of Choice for Gender Equality over a number of years. Much of the success of our organisation can be attributed to what I believe underpins our thriving business – a gender diverse organisation as part of an overall diverse workforce.

Over the past decade, Teachers Health Fund's Board of Directors and I have been strongly committed to supporting and achieving a culture of gender equality and diversity throughout the organisation where both men and women can excel. The areas where I have been personally committed to achieving gender equality across the Company have been ensuring pay equity for men and women in the same jobs, ensuring women have the same access as men to take on leadership positions and where possible and appropriate making available flexible working arrangements to men and women who need them.

We have many policies and practices in place – most for many years – which specifically support the achievement and maintenance of these gender equality objectives across the organisation. Our Gender Equality & Inclusion Strategy includes many of the positive steps to ensure that Teachers Health Fund continues on this journey.

This, combined with our support of relevant learning opportunities and a workplace where work-life balance is valued, assists the business in attracting and retaining quality people allowing Teachers Health Fund to benefit from the skills of a highly diverse workforce.

The community

Teachers Health Fund continues to have strong ties with the education community. Over the past year we have continued to work closely with our union partners and departments of education and have also sponsored a number of Teacher Awards, across many states and territories.

Teachers Health Fund believes that our relationships with the wider education community are fundamental and we will continue to concentrate on three key areas of support: Reward and Recognition, Professional Development and Health and Wellbeing Initiatives.

In addition, our Business Development team visited over 1,800 schools and education workplaces across the country, interacting with members and potential members to grow awareness of the Fund and directly support the intimate relationship the Fund has with its policyholders.

Throughout the year, the Fund has continued to encourage support of Stewart House, the teachers' charity, as well as funding:

- NSW Public Education Foundation
- QLD Teacher of the Year
- TAS New Teacher of the Year
- ACT Reconciliation Award
- VIC Principal Health & Wellbeing Study Award – VPA
- National: Contributor to the Australian Principal Health & Wellbeing Study

Looking forward

Teachers Health Fund is well positioned to continue to support our policyholders in achieving quality health outcomes. Our strategy has been developed to ensure we implement effective and appropriate responses to the ever-changing private health insurance landscape and competitive marketplace in which we operate.

We remain focused on operating the Fund in a responsible and sustainable manner. Growth remains a vital focus to ensure the resilience and sustainability of the Fund. We continue to work hard to attract new members from our eligible market. Our focus on strengthening our overall capability and continually improving the customer experience will assist in attaining these objectives.

Teachers Health Fund will also continue to seek opportunities to diversify our sources of income and will retain sufficient capital to both meet our regulatory requirements. We will remain adaptable and agile in an increasingly complex market.

Looking forward, we are excited by the opportunities presented by the changing landscape and believe that we are well positioned to respond in a timely manner to both obstacles and opportunities as they arise.

Our strong financial position, combined with our dedicated team, will assist in reaching our objective of helping Teachers Health Fund policyholders to achieve their best possible health outcomes.



B S Joyce
Chief Executive Officer

Dated this 22nd day of September 2016
Sydney, NSW

We remain the only health
insurer exclusively for the
education community





\$495m

in benefit
payments

An average of

\$3,636

per policyholder

Review of operations

Growth

Policyholder growth

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

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

While NSW continues to account for over 70% of our policyholder base, THF is continuing to achieve greater growth in other states. In FY15/16, we achieved 5.0% net growth in NSW and net growth across the remaining states of nearly 9.9%.

People who join us stay with us

Lapse rates for the year are broadly in line with last year. TFH continues to enjoy industry leading retention rates of around 96.4%.¹

Financials

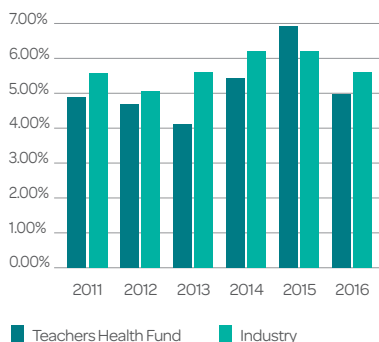
As a member focussed organisation, TFH works to ensure that revenue is used to provide quality, relevant cover options at competitive premiums while ensuring the ongoing financial sustainability of the Fund.

TFH's five-year average premium increase of 5.20%pa remains significantly below the industry average of 5.73%pa.

Premium revenue

Annual premium revenue is now over \$543m. This growth is the result of THF's pricing policy which reflects the need to cover growth in claims and achieve a sustainable and responsible level of operating surplus to maintain capital reserves at a level appropriate to a health fund of this size.

Weighted average rate increase



Benefit payments

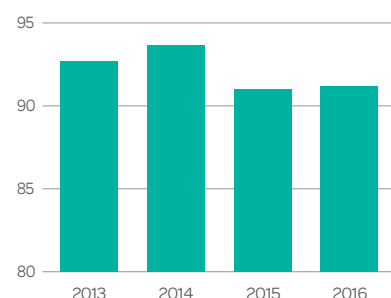
Benefit payments include: hospital charges, doctors fees, dental and eye-care payments, ambulance levies, ancillary services such as physiotherapy, speech therapy and chiropractic services as well as regulatory risk equalisation payments, and member wellness and disease management programs.

TFH incurred total benefit payments of \$495m, a 12.1% increase on FY14/15 (\$442m). THF returned an average of \$3,636 for every policyholder, up from \$3,438 in FY14/15.

THF continues to return a high proportion of contributions to policyholders at 91c in every premium dollar in 2016.

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

Cents in the dollar returned as benefits



¹Source: APRA returns

Administrative costs

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

In FY1516 total administrative management expenses were \$36.2m, representing 6.7% of contribution income, well under the industry average of 8.5%².

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

Operating surplus³

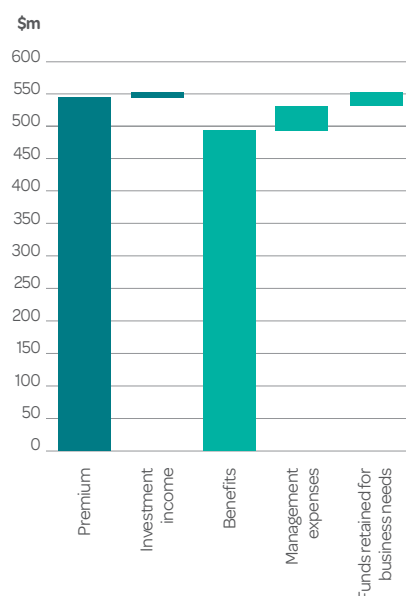
This year, benefit growth was slightly lower than premium rate growth as margins were managed to ensure ongoing financial stability. This increased business margins. The overall gross margin has remained stable in FY1516 at 9.0% (FY1415: 9.0%).

Gross margin = premiums less benefits

Operating surplus = premiums less benefits less expenses plus investment income

TFH's premium rate increase in 2016, combined with effective management of TFH's capital position, resulted in an operating surplus of \$22.8m.

How income was spent



Investments and capital

Investments and other revenue

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

The investment performance of TFH decreased to \$9.1m in FY1516 (FY1415: \$13.2m).

Capital

TFH's capital position remains strong, with assets held in excess of prudential requirements and financial obligations well matched against cash and other interest bearing deposits.

It is essential to balance capital requirements against premium increases and security for our policyholders

This sound financial position secures policyholder entitlements, and allows the business to implement business strategies to suit the targeted growth rate and market conditions.

²The industry Management Expense Ratio has been determined based on APRA published statistics for the 12 months to June 2016. TFH's management expense has been reported on the same basis to enable industry comparison.

³Note: In prior years, gross and net margin were reported to match APRA reporting requirements. This year the figures have been adjusted to reflect the accounting treatment.

Directors' Report

The Board of Directors of Teachers Federation Health Limited (Teachers Health Fund or the Fund) has pleasure in submitting its report for the year ended 30 June 2016.

Directors

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

H M MacGregor

B.A. (USYD), Dip. Ed. (USYD), MAICD

Chairperson, independent non-executive director

Appointed director in June 2001

Special responsibilities:

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

N E Dawson

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

Independent non-executive director
Appointed director in September 2010

Special responsibilities:

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

J M Dixon

B. Com. (Eco. and Acc.), Dip. Ed., Grad. Dip. Marketing

Non-executive director

Appointed director in June 2001

Special responsibilities:

Member of the Strategy Committee and People and Remuneration Committee

M C Fogarty

B.A. (USYD), Dip. Ed. (USYD), M. Ed. (UTS), PHD (UTS), MAICD
Independent non-executive director
Appointed director in November 2010

Special responsibilities:

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

M W Garner

Dip Mgt (MCI)

Independent non-executive director
Appointed director in July 2011. Retired, as at 25 June 2016.

Special responsibilities:

Prior to 25 June 2016, member of the Risk and Governance Committee and Audit and Finance Committee

M Mulheron

BA Dip Ed

Non-executive director

Appointed director in February 2012

Special responsibilities:

None

T J Mulroy

BA Dip Ed (NSW), MAICD

Independent non-executive director
Appointed director in November 2012

Special responsibilities:

Member of the Audit and Finance Committee

M Rosicky

BA Visual Arts, Dip Ed

Independent non-executive director
Appointed director in November 2013

Special responsibilities:

Member of the Risk and Governance Committee

N S Smith

B.Fin.Admin. (UNE), C.A., GAICD

Independent non-executive director
Appointed director in September 2010

Special responsibilities:

Chairperson of the Audit and Finance Committee and member of the Strategy Committee

D Wynne

Dip. Teach. (Goulburn CAE), B. Ed. (CSU), Ext. Courses Ind. Law (UTS), MAICD

Independent non-executive director
Appointed director in June 2001

Special responsibilities:

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

Company Secretaries

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

B S Joyce

B Comm (University of Newcastle), FCPA, MAICD

Appointed Company Secretary in November 2010

Mr Joyce was appointed Chief Executive Officer of Teachers Health Fund in 2006

D N Lethbridge

LLB, MBA, Grad Dip ACG, FGIA, FCIS, GAICD

Appointed Company Secretary in April 2012

Mr Lethbridge was appointed Chief Operating Officer of Teachers Health Fund in February 2012

Fund objectives

Teachers Health Fund's long-term objectives are:

- To maintain the commercial sustainability of the business through a combination of initiatives designed to grow revenue, manage benefits and deliver business efficiencies;
- To continue to ensure that Teachers Health Fund delivers the value propositions designed to attract and retain members by providing members with competitively priced products and services that meet their needs, and through a level of service that our members recognise as superior;
- To operate an efficient business which focuses on ongoing business improvement, transformation and innovation and undertake activities that are designed to increase organisational capabilities through the retention, development and engagement of staff.

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

Fund strategy

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

- Policyholder growth – to increase our organic policyholder growth across Australia;
- Diversification and expansion – to consider opportunities for non-organic growth;
- Health management – to provide an integrated wellness, prevention and disease management solution for our policyholders; and
- Capability – to enhance the efficiency and effectiveness of the business.

Principal activities

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

- the operation of its restricted access private health insurance business;
- the operation of Teachers Health Centres eyecare, dental, physiotherapy, chiropractic and remedial massage businesses; and
- the operation of Teachers Healthcare Services care coordination for chronic disease management and hospital substitute programs.

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

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

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

Measuring performance

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



Meetings of directors

During the financial year, 28 meetings of directors (including committees of directors) was held. Attendances by each director during the year were as follows:

	Board Meetings		Committee Meetings							
			Risk & Governance Committee		Audit & Finance Committee		Strategy Committee		People & Remuneration Committee	
Name	E	A	E	A	E	A	E	A	E	A
N E Dawson	10	9	5	5					4	4
J M Dixon	10	8					5	4	4	3
M C Fogarty	10	10			4	4			4	4
M W Garner	10	9	5	5	4	4				
H M MacGregor	10	10	5	5	4	4	5	5	4	4
M Mulheron	10	6								
T Mulroy	10	9			4	4				
M Rosicky	10	7	5	4						
N S Smith	10	8			4	4	5	5		
D Wynne	10	8					5	5	4	4

Table key:

E Number of meetings eligible to attend

A Number of meetings attended

Members' guarantee

The Fund is limited by guarantee and hence has no contributed equity. If the Fund is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the Fund) that remains after payment of all of the debts and liabilities of the Fund shall be paid to an entity or organisation selected by the directors, or in default by the court, which prohibits the distribution of its assets and income to its members. If the Fund is wound up and cannot meet its debts, the Constitution states that each member of the Fund is required to contribute a maximum of ten dollars (\$10) towards meeting any outstanding obligations of the Fund. The total amount that members of the Fund were liable to contribute at 30 June 2016 if the Fund was wound up was one hundred and eighty dollars (\$180).

Auditor's independence declaration

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

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

H M MacGregor

Director

Dated this 22nd day of September 2016
Sydney, NSW

Auditor's Independence Declaration



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Auditor's Independence Declaration To the Directors of Teachers Federation Health Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Teachers Federation Health Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in dark ink, appearing to read "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in dark ink, appearing to read "M A Adam-Smith".

M A Adam-Smith
Partner - Audit & Assurance

Sydney, 22 September 2016

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Corporate Governance Statement

Governance at Teachers Health Fund

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

As at 30 June 2016, the Board's corporate governance practices are broadly based on the corporate governance principles issued by the ASX Corporate Governance Council's Principles and Recommendations third edition (ASX Guidelines) as far as they are relevant and applicable to an unlisted, not-for-profit company limited by guarantee, and reflect the ongoing focus of the Board in discharging its responsibilities at an appropriate level to meet the full expectations of Fund members, fund contributors, regulatory authorities and the general community.

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

As from 1 July 2015, the private health insurance industry regulator transitioned from the Private Health Insurance Commission (PHIAC) to the Australian Prudential Regulatory Authority (APRA). APRA has determined prudential standards pertaining to governance and the Fund provides regular reports to APRA.

Board of Directors

Roles and responsibilities

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

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

- Strategy including charting the direction, strategies and performance objectives for Teachers Health Fund and monitoring the implementation of those strategic and business plans and performance objectives;
- Oversight of management including the regular monitoring and assessment of senior executive's performance including the Chief Executive Officer (CEO) in achieving Board approved strategies and budgets against key performance indicators set by the Board and approving CEO remuneration policies and practices;
- Ethics guidance including actively promoting ethical and responsible decision-making and establishing and maintaining a code of conduct to guide its directors, senior executives and all employees in the practices necessary to maintain confidence in Teachers Health Fund's integrity;

- Oversight of financial and capital management including establishing and overseeing Teachers Health Fund accounting and financial management systems, monitoring Teachers Health Fund financial results on an ongoing basis, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of Teachers Health Fund; and
- Compliance and risk management including establishing, overseeing and regularly reviewing systems of internal compliance, risk management and control, and systems of legal compliance (including but not limited to privacy, work, health and safety) that govern the operations of Teachers Health Fund, and ensuring they are operating effectively.

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

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

Board composition

At the date of this report, the Board comprises nine directors, each of whom is a non-executive director. In accordance with the criteria set out in the Health Insurance (prudential standard) determination made by APRA, the Board has a majority of independent directors, one of whom is the chairperson. As set out in the Fund's Constitution, the Board is made up of the following classes of directors:

- two ex officio directors, being the Branch President and the Branch Secretary of the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch;
- up to five elected member (policyholder) directors;
- two specialist directors
- a specialist Chair; and
- unless the Board otherwise determines, one employee director. The Board has resolved not to fill the vacancy for the employee director position.

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

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

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

Appointment and election of directors

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

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

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

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

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

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

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

Director induction and education

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

Board meetings

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

Conflicts of interest

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

Fit and proper

Teachers Health Fund has developed and implemented a Fit and Proper Policy for Responsible Persons to assist in assessing the fitness and propriety of Teachers Health Fund Responsible Persons (as defined in the policy). A person in a Responsible Person position must have the appropriate skills, experience and knowledge to perform that role ("competencies") and must act with the requisite character, diligence, honesty, integrity and judgment ("character"). A person will be considered "Fit and Proper" if he or she is assessed to meet substantially the assessment criteria set out in this policy and, if appropriate, in the position description for their role.

A person's fitness and propriety will be assessed against the assessment criteria listed in the policy, and any specific requirements set out in the position description for the Responsible Person role. The assessment consists of an attestation by the individual and the Fund undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. The policy includes a process for dealing with and reporting breaches of the policy.

Access to Group information and independent professional advice

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

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

Remuneration of directors and executive management

In accordance with clause 15.9 of the Teachers Federation Health Constitution, directors are to be paid, in the aggregate, the remuneration determined by resolution at a meeting of the Group Members. In November 2012, the Group Members determined an aggregate amount of \$100,000 is to be paid to directors as a whole and divided among the directors in accordance with the Director Remuneration Policy. Total remuneration paid and divided among the directors relating to the 2015/16 year was \$92,940.09. An amount of \$9,583.20 was paid and divided among directors in the 2015/16 year relating to works undertaken in the previous financial year.

Teachers Health Fund has a Directors' Remuneration Policy that guides and regulates the manner in which payments are made to Board members. Director remuneration is based on average standard hours for preparation for and attendance at Board and committee meetings with payments reflecting fair acknowledgement of participation time and effort by directors. The payment rate is based on the hourly rate for a head teacher in schools.

In addition, as required by legislation superannuation is paid in respect of remuneration at the rate provided by the Superannuation Guarantee Charge (9.5%) and directors receive in-house health insurance on a pro-rata monthly basis at the rate of \$1,333 pa (cumulative).

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

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

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

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

Board performance

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

Directors' and officers' insurance

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

Board committees

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

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

Audit and Finance Committee

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

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

The committee comprises of at least four (4) members each of whom have appropriate financial experience and understanding of the private health insurance industry. The Board will determine the chairperson of the committee who will be an independent non-executive member of the Board and who will not also be the Chairperson of the Board.

The committee's responsibilities also include:

- an objective non-executive review of the effectiveness of the financial reporting framework to ensure the balance, transparency and integrity of published financial information;
- the appointment, role and performance of the appointed actuary;
- the effectiveness of Teachers Health Fund's internal control systems and internal audit function;
- assessment of the investment activities including strategy, objective and performance; and
- the independent audit process including the appointment, independence, performance and remuneration of the external auditor.

The Committee Charter provides that the committee meet at least four (4) times per year. The committee met four (4) times during the reporting year. The External Auditor met with the committee three (3) times during the year, including without management being present.



People and Remuneration Committee

The People and Remuneration Committee has been established to assist the Board in fulfilling its statutory and regulatory responsibilities and to oversee, review and make recommendations to the Board relating to human resource matters and compliance with employment laws and regulations. The committee is comprised of five (5) members of the Board. The principal responsibilities of the committee are to:

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

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

Risk and Governance Committee

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

The committee also makes recommendations to the Board on:

- Teachers Health Fund's systems and procedures for compliance with laws, regulations, internal policies and industry standards;
- Teachers Health Fund's system of risk management and internal control including:
 - the effectiveness Teachers Health Fund's risk management and internal control framework, including the Teachers Health Fund Risk Management Strategy and Framework, having regard to Teachers Health Fund's risk management culture;
 - the identification and assessment of the material risks facing Teachers Health Fund considered against Teachers Health Fund's risk appetite;
 - the Teachers Health Fund Business Continuity and Disaster Recovery Plan; and
 - the appropriate level of reporting on the performance and application of the risk management and internal control system throughout Teachers Health Fund;
 - best practice developments in corporate governance;

- Teachers Health Fund corporate governance policies and practices including:

- corporate governance, regulatory and compliance issues including the Private Health Insurance Act 2007, Private Health Insurance (Prudential Supervision) Act 2015, APRA Standards, Rules and Reporting Standards, Ministerial Private Health Insurance Rules, the Corporations Act and ASIC requirements; and
- disclosure of corporate governance policies and information to ensure effective communication of Teachers Health Fund corporate governance practice.

The committee met five (5) times during the reporting year.

Strategy Committee

The Strategy Committee has been established to assist the Board in fulfilling its responsibilities relating to the development and implementation of corporate strategy for Teachers Health Fund. The committee is comprised of four (4) members of the Board.

The principal responsibilities of the committee are to:

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

The committee met five (5) times during the reporting year.

Accountability and audit

External audit

The Group has retained Grant Thornton ("External Auditor") to audit its records and financial statements of the Group for the 2016 financial year.

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

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

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

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

Internal controls

The Board is responsible for the overall internal control framework and for reviewing its effectiveness.

The key features of the control environment include the Charters of the Board and each of its committees and a clear organisational structure with documented delegation of authority from the Board to executive management.

Internal audit

Internal audit operates under its own Charter. KPMG was the Fund's appointed Internal Auditor up until 31 December 2015 and PWC were appointed as at 1 January 2016. The internal audit function provides an independent and objective internal audit review of Teachers Health Fund risks and how the key internal controls are designed and are operating so as to provide reasonable assurance against material misstatement or loss by enabling the timely identification of problems that require the attention of management or the Board. These controls have been established by management and are reviewed from time to time by the internal auditor and the findings of this review reported to the Audit and Finance Committee and the Board.

Risk management

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

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

Ethical standards

Code of Conduct

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

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



Industry code of practice

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

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

Diversity and inclusion

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

The Fund has been a WGEA Employer of Choice for Gender Equality since 2014 and an EOWA Employer of Choice for Women since 2011. Teachers Health Fund has publically reaffirmed its commitment to gender equality and inclusion within the organisation on its website. Continuous improvement, including that of diversity, inclusion and gender equality, remain an ongoing objective for Teachers Health Fund. The number of women across the organisation as at 31 March 2016 is shown in the below table.

In accordance with the requirements of the Workplace Gender Equality Act 2012, on 31 May 2016, Teachers Health Fund lodged its annual public report with the Workplace Gender Equality Agency. Access a copy of the report at teachershealth.com.au or at wgea.gov.au

Whistleblower policy

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

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

Category	Number	Percentage of category
Women on the Board	4	40%
Women in senior executive positions	3	33%
Women in management positions	16	53%
Women employees in whole organisation	178	68%



Financial statements



Key financial performance

Premium revenue

Premium revenue of \$543.8m this year (2015: \$485.7) is brought about by increase in membership growth of 6.5% and rate increase of 4.97%.

Net claims incurred

Net claims increased by 12.1% with benefits paid to members reaching \$495.1m (2015: \$441.8m) this year as a result of membership, cost and utilisation growth. This translates to 91 cents paid back to members in benefits for every dollar Teachers Health Fund received in premiums.

Underwriting result

Teachers Health Fund achieved an underwriting result of \$13.4m (2015: \$14.0m) 4.4% decrease from last year.

Assets

Total assets increased to \$408.9m (2015: \$369.0m) derived from the increase in members' contributions and rebate receivable from Medicare.

Liabilities

Total liabilities reached \$128.5m (2015: \$111.4m) brought about by the increase in provision for outstanding claims and an increase in contributions received in advance for 2016.

Equity

Equity of \$280.4m (2015: \$257.6m) increased due to 2016 surplus of \$22.8m.

Cash flow

Cash and cash equivalents balance of \$45.3m (2015: \$47.3) which is a decrease by 4.2% with net cash inflows from operating activities being utilised primarily in the placement of fixed interest rate securities.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
Premium revenue	3	543,814,107	485,701,931
Claims expense		(469,545,329)	(415,881,642)
Risk equalisation trust fund expense		(14,484,957)	(15,769,333)
State levies		(11,048,456)	(10,162,114)
Net claims incurred		(495,078,742)	(441,813,089)
Unexpired risk liability decrease		511,886	3,551,906
Claims handling expenses	4	(17,179,039)	(16,822,697)
Other underwriting expenses	4	(18,650,158)	(16,583,403)
Underwriting expenses		(35,317,311)	(29,852,194)
Underwriting result		13,418,054	14,036,648
Investment revenue	3	9,082,234	13,204,026
Other revenues	3	11,590,821	12,515,929
Cost of goods sold	4	(2,353,409)	(2,350,492)
Other expenses	4	(8,498,240)	(14,620,417)
Finance costs	4	(439,922)	(430,283)
Surplus before income tax		22,799,538	22,355,411
Income tax expense	1c	-	-
Surplus for the year after income tax		22,799,538	22,355,411
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		22,799,538	22,355,411

Consolidated statement of financial position

As at 30 June 2016

	Note	2016	2015
		\$	\$
Current assets			
Cash and cash equivalents	7	45,333,810	47,342,306
Trade and other receivables	8	24,498,225	20,120,423
Inventories	9	350,559	321,839
Financial assets	10	178,829,801	132,005,969
Other current assets	11	1,842,309	1,829,497
Total current assets		250,854,704	201,620,033
Non-current assets			
Financial assets	10	144,613,877	152,762,525
Property, plant and equipment	12	12,079,060	13,653,938
Intangible assets	13	1,319,981	1,004,540
Total non-current assets		158,012,918	167,421,003
Total assets		408,867,622	369,041,036
Current liabilities			
Trade and other payables	14	25,134,503	21,891,748
Other current liabilities	15	53,183,845	46,860,176
Provisions	16	49,133,652	41,702,662
Total current liabilities		127,452,000	110,454,586
Non-current liabilities			
Provisions	16	1,004,684	975,050
Total non-current liabilities		1,004,684	975,050
Total liabilities		128,456,684	111,429,636
Net assets		280,410,938	257,611,400
Equity			
Reserves	17	3,281,059	3,281,059
Retained earnings		277,129,879	254,330,341
Total equity		280,410,938	257,611,400

Consolidated statement of changes in equity

For year ended 30 June 2016

	Share Capital	Asset Revaluation Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2014	-	3,281,059	231,974,930	235,255,989
Profit for the year	-	-	22,355,411	22,355,411
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	22,355,411	22,355,411
Balance at 30 June 2015	-	3,281,059	254,330,341	257,611,400
Profit for the year	-	-	22,799,538	22,799,538
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	22,799,538	22,799,538
Balance at 30 June 2016	-	3,281,059	277,129,879	280,410,938

Consolidated statement of cash flows

For year ended 30 June 2016

	Note	2016	2015
		\$	\$
Cash flows from operating activities			
Receipts from members' premiums		547,182,063	492,904,891
Benefits paid to members		(488,666,943)	(440,727,220)
Receipts from customers		11,496,014	12,075,704
Payments to suppliers and employees		(40,284,128)	(43,579,909)
Interest received		11,024,559	10,940,918
Finance costs		(405,331)	(430,283)
Net cash provided by operating activities	20a	40,346,234	31,184,102
Cash flows from investing activities			
Proceeds from sale of investments		12,114,293	89,252,304
Purchase of intangibles		(743,488)	(1,217,735)
Purchase of property, plant and equipment		(825,535)	(559,119)
Purchase of investments		(52,900,000)	(117,500,000)
Net cash used in investing activities		(42,354,730)	(30,024,550)
Net change in cash and cash equivalents held		(2,008,496)	1,159,552
Cash and cash equivalents at beginning of financial year		47,342,306	46,182,753
Cash and cash equivalents at end of financial year	7	45,333,810	47,342,306



Notes to the financial statements

For year ended 30 June 2016

1. Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

Statement of compliance

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

The financial statements were authorised for issue by the directors on 22nd September 2016.

Basis of preparation

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

Significant accounting policies

a. Principles of consolidation:

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'. Further details of the Company's subsidiaries and other entities are set out in Note 24.

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

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

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

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

b. Parent entity information

Information relating to Teachers Federation Health Limited

	2016	2015
	\$	\$
Statement of financial position		
Current assets	250,714,773	201,620,033
Total assets	408,727,691	369,041,036
Current liabilities	127,452,000	110,454,586
Total liabilities	128,220,491	111,429,636
Reserves	3,281,059	3,281,059
Retained earnings	277,226,141	254,330,341
Total equity	280,507,200	257,611,400
Statement of profit or loss or other comprehensive income		
Profit for the year	22,895,800	22,355,411
Other comprehensive income	-	-
Total comprehensive income	22,895,800	22,355,411

c. Income tax

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

d. Property, plant and equipment

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

Property

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

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

e. Leases

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

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

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

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

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

f. Financial instruments

Initial recognition and measurement

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

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

Notes to the financial statements

1. Statement of significant accounting policies (cont'd)

Effective interest rate method

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

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

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss in accordance with AASB1023 General Insurance Contracts, or realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

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

Impairment of financial assets

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

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

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

Financial guarantees

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

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

- the likelihood of the guaranteed party defaulting in a 12-month period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

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

g. Impairment of non-financial assets

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

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

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

h. Intangibles

Computer software

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

Licences

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

Amortisation

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

Class of intangible	Amortisation rate
Computer software	33%
Licences	25%

i. Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds (2014: government bonds) that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

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

Post-employment benefits plans

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

Defined contribution plans

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

j. Provisions

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

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

k. Cash and cash equivalents

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

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

l. Revenue

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

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

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

Notes to the financial statements

1. Statement of significant accounting policies (cont'd)

m. Claims

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

In addition to the provision for unpresented and outstanding claims, an unearned premium liability is also provided for to meet the costs, including claims handling costs that will arise under current insurance contracts.

n. Risk equalisation

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

o. Inventories – eyecare

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

p. Goods and Services Tax (GST)

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

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

q. Outstanding claims liability

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

r. Unexpired risk liability

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

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

s. Financial liabilities

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

Fair value

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

Impairment

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

t. Accounting for joint ventures

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

u. Assets backing private health insurance liabilities

As part of the investment strategy, the Group actively manages its investment portfolio to ensure that a portion of its investments mature in accordance with the expected pattern of future cash flows arising from private health insurance liabilities. The Board has adopted a conservative approach to maintain 75% of the investment portfolio in Cash and Interest Rate Securities and a maximum of 15% in Equities.

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

v. Comparative figures

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

w. Critical accounting estimates and judgments

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

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

Outstanding claims provision

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

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

The calculation was determined taking into account benefits paid as at 31 July 2015.

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

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

Unexpired risk liability

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

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

x. Adoption of new and revised accounting standards

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

AASB 2015-2 Amendments to Australian Accounting Standards Arising from the Withdrawal of AASB 1031 Materiality

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

There is no impact on the Group's financial statements when the amendment took effect on 01 July 2015.

Notes to the financial statements

1. Statement of significant accounting policies (cont'd)

y. New accounting standards for application in future periods

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

Standard	Impact
AASB 9 Financial Instruments (applicable for reporting periods beginning on or after 1 January 2018)	<p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:</p> <ul style="list-style-type: none"> (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> • The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and • The remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>The Group has yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.</p>
AASB 15 Revenue from Contracts with Customers (applicable for reporting periods beginning on or after 1 January 2018)	<p>AASB15 replaces AASB118 Revenue, AASB 111 Construction Contracts and some revenue-related interpretations:</p> <ul style="list-style-type: none"> • Establishes a new revenue recognition model • Changes the basis for deciding whether revenue is to be recognised over time or at a point in time • Expands and improves disclosures about revenue <p>The Group has yet to undertake a detailed assessment of the impact of AASB15. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.</p>

Standard	Impact
<p>AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative: Amendments to AASB 101 (applicable for reporting periods beginning on or after 1 January 2016)</p>	<p>The amendments:</p> <ul style="list-style-type: none"> • clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information • clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated • add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position • clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order • remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy. <p>When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.</p>

Notes to the financial statements

2. Actuarial assumptions and methods

Actuarial methods

The outstanding claims estimate is derived based on four valuation classes, namely Hospital-Eclipse, Hospital-other, Medical and General Treatment services.

In calculating the estimated cost of unpaid claims a chain ladder method is used. This assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

Actuarial assumptions

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

Variables	2016 Hospital	2016 Medical	2016 General Treatment	2015 Hospital	2015 Medical	2015 General Treatment
	%	%	%	%	%	%
Assumed portion paid to date	89	91	95	91	91	96
Expense rate	1.14	1.14	1.14	1.34	1.34	1.34
Discount rate	-	-	-	-	-	-
Risk equalisation rate	5.12	5.12	-	4.90	4.90	-
Risk margin	6.00	6.00	6.00	3.50	3.50	3.50

The risk margin in 2016 is 6.0% reflecting the use of no hindsight in the calculation of the provision (2015: 3.5% margin utilising one month's hindsight).

Process used to determine assumptions

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

i. Assumed proportion paid to date

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

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

ii. Discount rate

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

iii. Expense rate

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

iv. Risk equalisation allowance

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

v. Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 75% (2015: 75%). An increase or decrease in this margin would have a corresponding effect on the claims expense.

Sensitivity analysis – insurance contracts

Summary

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

Impact on key variables:

Variables	Movement in Variable	Adjustments on Surplus	Impact on Statement of Profit or Loss	Adjustments on Equity	Impact on Statement of Financial Position
		\$'000	\$'000	\$'000	\$'000
Assumed portion paid to date	+10%	42,676	(35,065)	42,676	1,787
	-10%	(38,797)	46,409	(38,797)	83,260
Expense rate	+10%	(47)	7,659	(47)	44,510
	-10%	43	7,569	43	44,420
Discount rate	-	-	-	N/A	N/A
	-	-	-	N/A	N/A
Risk equalisation rate	+10%	(167)	7,779	(167)	44,630
	-10%	152	7,460	152	44,311
Risk margin	+10%	(252)	7,863	(252)	44,715
	-10%	229	7,383	229	44,234

Notes to the financial statements

3. Revenue

	2016	2015
	\$	\$
Premium revenue	543,814,107	485,701,931
Investment revenue	9,082,234	13,204,026
Other revenue		
Eyecare centres	6,181,692	8,075,966
Dental centres	2,767,191	2,907,676
Travel insurance	814,989	839,137
Healthcare services	571,888	-
Other revenue	1,255,062	693,150
Total other income	11,590,821	12,515,929

4. Expenses

Expenses by function

	Note	2016	2015
		\$	\$
Claims handling expenses		(17,179,039)	(16,822,697)
Other underwriting expenses		(18,650,158)	(16,581,405)
Cost of goods sold – eyecare centres		(1,951,569)	(1,889,322)
Cost of goods sold – dental centres		(401,840)	(461,168)
Donation to Teachers Health Foundation		-	(5,000,000)
Finance costs		(439,922)	(430,283)
Other operating expenses			
Eyecare centres		(4,128,734)	(6,161,502)
Dental centres		(2,504,274)	(2,333,455)
Travel insurance		(450,870)	(457,241)
Healthcare services		(668,149)	-
Other		(746,213)	(668,219)
Total expenses (excluding direct claims expenses)		(47,120,768)	(50,805,292)

Expenses by nature

	2016	2015
	\$	\$
Employee benefits	(22,452,717)	(21,297,721)
Depreciation and amortisation	(3,408,310)	(2,905,554)
Finance costs	(439,922)	(430,283)
Changes in inventories - eyecare centres	(1,951,569)	(1,889,322)
Changes in inventories – dental centres	(401,840)	(461,169)
Donation to Teachers Health Foundation	-	(5,000,000)
Commission	(2,211,651)	(2,342,095)
Electronic claims processing fee	(1,148,017)	(967,222)
Software and licences	(1,886,067)	(1,641,149)
Marketing and publicity	(1,894,022)	(2,679,061)
Consulting	(3,692,703)	(1,862,962)
Printing and stationery	(438,838)	(457,413)
Postages	(491,317)	(559,837)
Rental and outgoings	(2,776,976)	(3,177,871)
Insurance	(175,024)	(179,663)
Motor vehicle and travel	(495,274)	(475,470)
Telephones	(377,222)	(297,988)
Investment expense	(625,566)	(622,674)
Other	(2,253,733)	(3,557,838)
Total expenses (excluding direct claims expenses)	(47,120,768)	(50,805,292)

Notes to the financial statements

5. Key management personnel compensation

The key management personnel compensation included within employee expenses is:

	2016	2015
	\$	\$
Short-term employee benefits		
Salary and fees	2,730,935	2,450,843
Other benefits	90,000	85,000
	2,820,935	2,535,843
Post-employment benefits		
Superannuation	189,258	160,783
Total key management personnel compensation	3,010,193	2,696,626

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

6. Auditors' remuneration

	2016	2015
	\$	\$
Grant Thornton audit services:		
Audit of the financial report	125,000	122,000
Audit of APRA 2 return	7,750	7,500
Audit of APRA 1 returns	15,500	15,000
Audit of Medicare premium reduction scheme	7,750	7,500
	156,000	152,000
Grant Thornton non-audit services:		
Tax compliance and advisory service	31,566	3,500
Risk advisory services	1,750	-
	33,316	3,500
Total auditor's remuneration	189,316	155,500

7. Cash and cash equivalents

	2015	2014
	\$	\$
Cash on hand	5,350	5,050
Cash at bank	45,328,460	47,337,256
Total cash and cash equivalents	45,333,810	47,342,306

8. Trade and other receivables

	2016	2015
	\$	\$
Current		
Trade receivables	237,747	208,278
Allowance for impairment of receivables	-	-
	237,747	208,278
Premiums in arrears	2,384,561	4,182,512
Medicare rebate	17,003,953	12,250,289
Investment income receivable	2,001,022	1,832,822
Other receivables	2,870,942	1,646,521
Total current trade and other receivables	24,498,225	20,120,423

The carrying value of short-term receivables is considered a reasonable approximation to fair value. All of the trade and other receivables have been reviewed for indicators of impairment, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	Within trade terms	Past due but not impaired (days overdue)			Past due and impaired	Gross amount
		< 30	31-60	> 60		
2016						
Trade receivables	237,747	-	-	-	-	237,747
Premiums in arrears	2,243,617	80,053	29,458	31,433	-	2,384,561
Medicare rebate	17,003,953	-	-	-	-	17,003,953
Investment income receivable	2,001,022	-	-	-	-	2,001,022
Other receivables	2,870,942	-	-	-	-	2,870,942
	24,357,281	80,053	29,458	31,433	-	24,498,225

	Within trade terms	Past due but not impaired (days overdue)			Past due and impaired	Gross amount
		< 30	31-60	> 60		
2015						
Trade receivables	208,278	-	-	-	-	208,278
Premiums in arrears	3,989,112	82,859	51,523	59,018	-	4,182,512
Medicare rebate	12,250,289	-	-	-	-	12,250,289
Investment income receivable	1,832,822	-	-	-	-	1,832,822
Other receivables	1,646,521	-	-	-	-	1,646,521
	19,927,022	82,859	51,523	59,018	-	20,120,423

Notes to the financial statements

9. Inventories

	2016	2015
	\$	\$
Finished goods – Eyecare Centres, at cost	350,559	321,839

10. Financial assets

	2016	2015
	\$	\$
Current		
Fixed interest rate securities, at fair value	167,900,000	120,000,000
Bills of exchange and promissory notes, at fair value	10,929,801	12,005,969
	178,829,801	132,005,969
Non-current		
Fixed interest rate securities, at fair value	5,000,000	-
Bills of exchange and promissory notes, at fair value	-	10,617,655
Equity trusts, at fair value	26,256,502	28,992,591
Debt trusts, at fair value	113,357,375	113,152,278
Other	-	-
	144,613,877	152,762,525

11. Other assets

	2016	2015
	\$	\$
Prepayments	42,675	29,863
Bond	1,799,634	1,799,634
	1,842,309	1,829,497

12. Property, plant and equipment

	Note	2016	2015
		\$	\$
Property in use			
At fair value	(a)	8,714,017	8,714,017
Accumulated depreciation		(422,002)	(247,721)
Total property in use		8,292,015	8,466,296
Computer equipment			
At cost		1,418,541	1,582,021
Accumulated depreciation		(1,136,120)	(1,108,658)
Total computer equipment		282,421	473,363
Motor vehicles			
At cost		581,483	476,993
Accumulated depreciation		(222,915)	(199,687)
Total Motor Vehicles		358,568	277,306
Office furniture and equipment			
At cost		12,452,096	11,968,857
Accumulated depreciation		(9,306,040)	(7,531,883)
Total office furniture and equipment		3,146,056	4,436,974
Total property, plant and equipment		12,079,060	13,653,938

(a) The fair value of the property were estimated using observable data on recent transactions and rental yields for similar properties.

Notes to the financial statements

12. Property, plant and equipment (cont'd)

Movements in carrying amounts

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

	Property in use	Computer Equipment	Motor Vehicles	Office Furniture and Equipment	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2014	8,640,576	597,434	261,113	6,409,694	15,908,817
Additions	-	289,270	138,767	131,081	559,118
Disposals	-	(19,446)	(124,219)	-	(143,665)
Depreciation expense	(174,280)	(408,116)	(94,280)	(2,103,802)	(2,780,478)
Accumulated depreciation written back on disposal	-	14,221	95,925	-	110,146
Accumulated depreciation written back on revaluation	-	-	-	-	-
Revaluation	-	-	-	-	-
Balance at 30 June 2015	8,466,296	473,363	277,306	4,436,973	13,653,938
Additions	-	141,866	196,742	486,927	825,535
Disposals	-	(305,345)	(92,252)	(3,688)	(401,285)
Depreciation expense	(174,281)	(332,224)	(97,413)	(1,777,845)	(2,381,763)
Accumulated depreciation written back on disposal	-	304,762	74,185	3,688	382,635
Accumulated depreciation written back on revaluation	-	-	-	-	-
Revaluation	-	-	-	-	-
Carrying amount at 30 June 2016	8,292,015	282,422	358,568	3,146,055	12,079,060

13. Intangible assets

	2016	2015
	\$	\$
Computer software		
Cost	595,397	441,409
Accumulated impairment losses	-	-
Accumulated amortisation	(279,197)	(125,454)
Net carrying value	316,200	315,956
Licences		
Cost	1,876,584	688,584
Accumulated impairment losses	-	-
Accumulated amortisation	(872,803)	-
Net carrying value	1,003,781	688,584
Total Intangible Assets	1,391,981	1,004,540

Movements in carrying amounts

	Computer software	Licences	Total
	\$	\$	\$
Balance at 1 July 2014	197,308	-	197,308
Additions	529,151	688,584	1,217,735
Disposals	(402,430)	-	(402,430)
Amortisation charge	(125,075)	-	(125,075)
Accumulated amortisation	-	-	-
Written back on disposal	117,002	-	117,002
Balance at 30 June 2015	315,956	688,584	1,004,540
Additions	153,987	1,188,000	1,341,987
Disposals	-	-	-
Amortisation charge	(153,743)	(872,803)	(1,026,546)
Accumulated amortisation	-	-	-
Written back on disposal	-	-	-
Carrying amount at 30 June 2016	316,200	1,003,781	1,319,981

Notes to the financial statements

14. Trade and other payables

	2016	2015
	\$	\$
Trade creditors	1,695,648	1,283,402
Sundry payables and accrued expenses	18,938,855	14,908,347
Health Benefit Reinsurance Trust Fund payable	4,500,000	5,700,000
	25,134,503	21,891,748

15. Other current liabilities

	2016	2015
	\$	\$
Contributions in advance (earned unclosed business)	51,794,409	44,711,253
Unearned unclosed business	1,389,436	2,148,923
	53,183,845	46,860,176

16. Provisions

	Note	2016	2015
		\$	\$
Current			
Employee benefits	(a)	4,670,606	4,339,529
Outstanding claims	(b)	44,463,046	36,851,247
Unexpired risk liability	(c)	-	511,886
		49,133,652	41,702,662
Non-current			
Employee benefits	(a)	1,004,684	975,050
		1,004,684	975,050

	Employee Benefits	Outstanding claims	Unexpired risk liability	Total
	\$	\$	\$	\$
Movements in provisions				
Balance at 1 July 2015	5,314,579	36,851,247	511,886	42,677,712
Net amounts recognised/(used) during the year	360,711	7,611,799	-	7,972,510
Amounts reversed during the period	-	-	(511,886)	(511,886)
Balance at 30 June 2016	5,675,290	44,463,046	-	50,138,336

(a) Provision for employee benefits

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

(b) Provision for outstanding claims

	2016	2015
	\$	\$
Outstanding claims – central estimate of the expected future payment for claims incurred	39,803,953	33,768,262
Claims handling expense	472,510	469,640
Gross outstanding claims liability	40,276,463	34,237,901
Outstanding claims – expected payments to the RETF in relation to the central estimate	1,669,807	1,367,168
Risk margin	2,516,776	1,246,177
Net outstanding claims liability	44,463,046	36,851,247

(i) Risk margin

The risk margin of 6.0% (2015: 3.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2015: 75%). This risk margin has increased due to the use of no hindsight in preparing the estimate of the outstanding claims provision this year, compared to last year where an additional month's hindsight was used, thereby reducing the associated uncertainty. The risk margin with no hindsight increased from 5% to 6% over the year, reflecting increased volatility in claims receipt and processing patterns.

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

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2015: actual claims as at one month after the balance date).

Notes to the financial statements

16. Provisions (cont'd)

As claims for health Groups are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balances. Changes in the gross outstanding claims can be analysed as follows:

	2016	2015
	\$	\$
Gross outstanding claims at beginning of period	34,237,901	35,022,512
Administration component	(469,640)	(546,981)
Central estimate at beginning of period	33,768,262	34,475,531
Change in claims incurred for the prior year	(852,034)	2,219,469
Claims paid in respect of the prior year	(35,172,338)	(33,824,150)
Claims incurred during the year (expected)	504,595,628	419,460,370
Claims paid during the year (expected)	(462,535,565)	(388,562,957)
Central estimate at end of period	39,803,953	33,768,262
Administration component	472,510	469,640
Gross outstanding claims at end of period	40,276,463	34,237,901

(c) Provision for unexpired risk liability

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2016	\$	\$	\$	\$
Hospital and General Treatment Combined Premium	51,794,409	1,389,436	378,300,809	431,484,654
Outflows				
Central estimate of future benefits	46,696,239	1,256,448	344,488,783	392,441,470
Central estimate of future management expenses	3,037,742	81,491	22,187,342	25,306,575
Risk margin	1,492,019	40,138	11,000,284	12,532,441
Total outflows	51,226,000	1,378,077	377,676,409	430,280,486
Total deficiency	(568,409)	(11,359)	(624,400)	(1,204,168)
Total unexpired risk liability	-	-	-	-

	Unearned premium	Unearned unclosed business	Constructive obligation	Total
2015	\$	\$	\$	\$
Hospital and General Treatment Combined Premium	44,711,253	2,148,923	341,018,499	387,878,674
Outflows				
Central estimate of future benefits	40,178,401	1,930,056	310,728,736	352,837,193
Central estimate of future management expenses	2,584,310	124,208	19,710,869	22,419,387
Risk margin	1,496,695	71,899	11,565,386	13,133,980
Total outflows	44,259,406	2,126,163	342,004,991	388,390,561
Total deficiency	(451,846)	(22,760)	986,493	511,886
Total unexpired risk liability	(451,846)	(22,760)	986,493	511,886

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

The risk margin of 3.0% (2015: 3.5%) that is applied to the benefits, risk equalisation, state levies and claims related expenses cashflows has been estimated to equate to a probability of adequacy of approximately 75% (2015: 75%).

17. Reserves

Asset revaluation reserve

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

Notes to the financial statements

18. Capital and leasing commitments

(a) Operating lease commitments

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

	2016	2015
	\$	\$
Payable – minimum lease payments		
- not later than 12 months	1,509,769	1,637,351
- between 12 months and five years	4,237,475	5,747,244
- greater than five years	-	-
	5,747,244	7,384,595

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

19. Segment reporting

The Group operates predominantly in one business segment, being the provision of health benefits, and in one geographical segment, being Australia.

20. Cash flow information

	2016	2015
	\$	\$
(a) Reconciliation of Cash Flow from Operations with Surplus after Income Tax		
Surplus after income tax	22,799,538	22,355,412
Non-cash flows in surplus:		
- Depreciation	2,381,763	2,905,554
- Amortisation	1,026,547	-
- Net loss on disposal of property, plant and equipment	18,650	318,947
- Fair value losses/(gain) on investment trusts	2,110,524	(1,905,522)
Changes in assets and liabilities		
- Decrease/(increase) in trade and term debtors	(4,377,802)	(1,260,119)
- Decrease/(increase) in inventories – eyecare centres	(28,720)	(23,020)
- Decrease/(increase) in other assets	(12,812)	9,176
- Decrease/(increase) in non-current trade receivables	-	-
- Increase/(decrease) in payables	2,644,254	5,342,409
- Increase/(decrease) in other liabilities	6,323,669	8,322,249
- Increase/(decrease) in provisions	7,460,623	(4,880,984)
Cash flow from operations	40,346,234	31,184,102

21. Events after the balance sheet date

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

22. Related party transactions

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

	Note	2016	2015
		\$	\$
Teachers Dental	(a)	219,127	216,533

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

23. Financial instruments

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases, preference shares and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2016	2015
Financial assets	\$	\$
Cash and cash equivalents	45,333,810	47,342,306
Financial assets at fair value through profit or loss		
- Equity trusts	26,256,502	28,992,591
- Debt trusts	113,357,375	113,152,278
- Fixed interest rate securities	172,900,000	120,000,000
- Bills of exchange and promissory notes	10,929,801	22,623,625
Loans and receivables	24,498,225	20,120,423
	393,275,713	352,231,223

	2016	2015
Financial liabilities	\$	\$
Financial liabilities at amortised cost		
- Trade and other payables	25,134,503	21,891,748
- Other Liabilities	53,183,845	46,860,176
	78,318,348	68,751,924

Notes to the financial statements

23. Financial instruments (cont'd)

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

The Group does not have any derivative instruments at 30 June 2016 (2015: nil).

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

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

Market risks

Interest rate risk

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

	Weighted average effective interest rate	Within 1 year	Fixed interest rate maturing 1 to 5 years	Greater than 5 years	Total
	%	\$	\$	\$	\$
2016					
Financial assets					
Cash and cash equivalents	1.67%	45,333,810	-	-	45,333,810
Fixed interest rate securities	2.95%	167,900,000	5,000,000	-	172,900,000
Debt trusts	1.70%	-	113,357,375	-	113,357,375
Bills of exchange and promissory notes	3.69%	10,929,801	-	-	10,929,801
Total interest bearing financial assets		224,163,611	118,357,375	-	342,520,986
2015					
Financial Assets					
Cash and cash equivalents	2.04%	47,342,506	-	-	47,342,306
Fixed interest rate securities	3.49%	120,000,000	-	-	120,000,000
Debt trusts	4.70%	-	113,152,278	-	113,152,278
Bills of exchange and promissory notes	5.38%	12,005,969	10,617,656	-	22,623,625
Total interest bearing financial assets		179,348,275	123,769,934	-	303,118,209

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

	2016		2015	
	\$	\$	\$	\$
Interest rate movement	+2.00%	+2.00%	+2.00%	-2.00%
Impact on net result for the year	6,849,170	(6,849,170)	6,062,364	(6,062,364)
Impact on equity	6,849,170	(6,849,170)	6,062,364	(6,062,364)

Equity price risk

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

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

	2016		2015	
	\$	\$	\$	\$
Equity price movement	+5.00%	-5.00%	+5.00%	-5.00%
Impact on net result for the year	1,312,825	(1,312,825)	1,449,630	(1,449,630)
Impact on equity	1,312,825	(1,312,825)	1,449,630	(1,449,630)

Foreign currency risk

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

Commodity price risk

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

Liquidity risk

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

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

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

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

Notes to the financial statements

23. Financial instruments (cont'd)

Financial liability and financial asset maturity analysis

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2016	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	25,134,503	-	-	25,134,503
Other Liabilities	53,183,845	-	-	53,183,845
Total contractual outflows	78,318,348	-	-	78,318,348
Total expected outflows	78,318,348	-	-	78,318,348
Financial assets – cash flows realisable				
Cash and cash equivalents	45,333,810	-	-	45,333,810
Loans and receivables	24,498,225	-	-	24,498,225
Fixed interest rate securities	167,900,000	5,000,000	-	172,900,000
Equity trusts	-	-	26,256,502	26,256,502
Debt trusts	-	113,357,375	-	113,357,375
Bills of exchange and promissory notes	10,929,801	-	-	10,929,801
Total Anticipated Inflows	248,661,836	118,357,375	26,256,502	393,275,713
Net inflow on financial instruments	170,343,488	118,357,375	26,256,502	314,957,365

	Due < 1yr	Due 1 – 5yrs	Due > 5yrs	Total
2015	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	21,891,748	-	-	21,891,748
Other Liabilities	46,860,176	-	-	46,860,176
Total contractual outflows	68,751,924	-	-	68,751,924
Total expected outflows	68,751,924	-	-	68,751,924
Financial assets – cash flows realisable				
Cash and cash equivalents	47,342,306	-	-	47,342,306
Loans and receivables	20,120,423	-	-	20,120,423
Fixed interest rate securities	120,000,000	-	-	120,000,000
Equity trusts	-	-	28,992,591	28,992,591
Debt trusts	-	113,152,278	-	113,152,278
Bills of exchange and promissory notes	12,005,969	10,617,656	-	22,623,625
Total Anticipated Inflows	199,468,698	123,769,934	28,992,591	352,231,223
Net inflow on financial instruments	130,716,774	123,769,934	28,992,591	283,479,299

Credit risk

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

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

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

Analysis of Standard & Poor's Ratings:

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

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

Notes to the financial statements

23. Financial instruments (cont'd)

	APRA Grading				Unrated	Total
	1	2	3	4		
2016						
Cash and cash equivalents	45,328,460	-	-	-	5,350	45,333,810
Loans and receivables	-	-	-	-	24,498,224	24,498,225
Fixed interest rate securities	128,000,000	44,900,000	-	-	-	172,900,000
Equity trusts	-	-	-	-	26,256,502	26,256,502
Debt trusts	66,654,137	44,776,163	453,430	-	1,473,646	113,357,375
Bills of exchange and promissory notes	-	10,929,801	-	-	-	10,929,801
Total	239,898,260	100,605,964	453,430	-	52,233,721	393,275,713
% of total	61.02%	25.58%	0.12%	0.0%	13.28%	
Maximum allowable per investment policy	100%	50%	2%	2%	20%	

	APRA Grading				Unrated	Total
	1	2	3	4		
2015						
Cash and cash equivalents	47,337,256	-	-	-	5,050	47,342,306
Loans and receivables	-	-	-	-	20,120,423	20,120,423
Fixed interest rate securities	110,000,000	10,000,000	-	-	-	120,000,000
Equity trusts	-	-	-	-	28,992,591	28,992,591
Debt trusts	72,672,573	38,375,584	918,791	5,238	1,180,092	113,152,278
Bills of exchange and promissory notes	-	22,623,625	-	-	-	22,623,625
Total	230,009,829	70,999,209	918,791	5,238	50,298,156	352,231,223
% of total	65.30%	20.16%	.26%	0.0%	14.28%	
Maximum allowable per investment policy	100%	50%	20%	2%	20%	

24. Interest in subsidiaries and other entities

Name of entity	Note	Country of incorporation and principal place of business	Principal activity	Group's proportionate of ownership	
				2016	2015
Nurses & Midwives Health Pty Ltd*	1a	Australia	Providing private health insurance	100%	-
Teachers Healthcare Services Pty Ltd	1a	Australia	Broader health cover services of care coordination	100%	-
Teachers Federation Health Foundation Pty Ltd*	1a	Australia	Trustee for foundation, funding or promoting medical research	100%	100%
Teachers Dental (Surry Hills) **	1t	Australia	Dental services	51%	51%

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

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

25. Group details

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

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

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 26 to 61, are in accordance with the Corporations Act 2001 and:
 - i. comply with Accounting Standards and the Corporations Regulations 2001; and
 - ii. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Group.
2. In the directors' opinion there are reasonable grounds to believe that 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 Board of Directors.

H M MacGregor



Dated this 22nd day of September 2016
Sydney, NSW

Independent Auditor's Report



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W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEACHERS FEDERATION HEALTH LIMITED

We have audited the accompanying financial report of Teachers Federation Health Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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

Independence

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

Auditor's Opinion

In our opinion the financial report of Teachers Federation Health Limited is in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*

A handwritten signature in dark ink, appearing to read "Grant Thornton", written in a cursive style.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in dark ink, consisting of a stylized loop followed by a horizontal line, likely belonging to M A Adam-Smith.

M A Adam-Smith
Partner - Audit & Assurance

Sydney, 22 September 2016



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

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

