

Concise Annual Report 2016

Making healthy happen



hbf

Making healthy happen

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This document provides a summary of the performance of HBF Health Limited and its controlled entities ('HBF Group'). The commentary by the Chairman and Managing Director, and the concise financials themselves, relate mainly to the performance of HBF Health Limited, reflecting the relative importance of our main health insurance business within the HBF Group. Further details relating to subsidiary elements of the HBF Group can be found in the section Corporate Governance.

Cover image: Western Australian paratriathlete, Brant Garvey appeared in several HBF campaigns during the year.

Your Health Partner

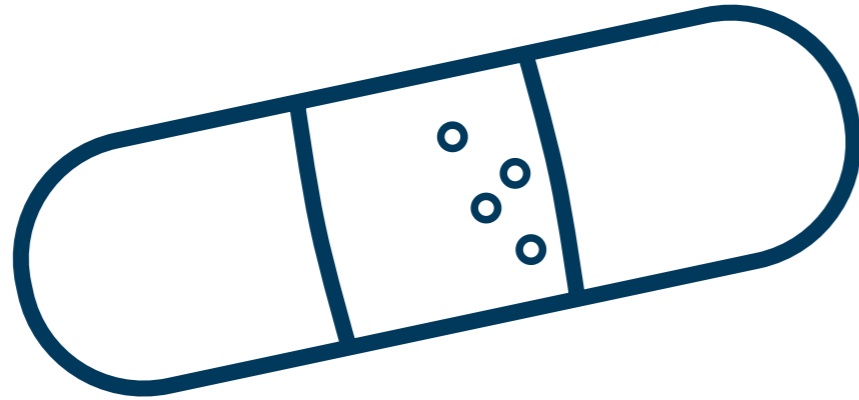
We're Western Australia's leading health insurer and one of the nation's last major not-for-profit health funds. We're here for our members not for shareholders. For people, not for profit.

Our goal is simple.

To help our members live the healthiest, happiest lives possible.



For people, not profit
 How more than \$4 million
 in benefits was returned to our
 members, every day



HBF Health Hospital benefits

\$1080.7M



HBF Health General Treatment benefits

\$381.3M

Major areas of Hospital Benefits (excluding Gap Saver)

	2015/16 Benefits	Increase %
Private Hospitals	\$915.0M	7.5%
Public Hospitals	\$61.5M	5.9%
Licensed Day Surgeries	\$55.5M	11.5%

Major areas of General Treatment Benefits (excluding Gap Saver)

Dental	\$230.2M	8.1%
Optical	\$46.8M	4.6%
Physiotherapy	\$25.4M	4.1%
Chiropractic	\$17.1M	3.4%
Health Programs and Appliances	\$7.8M	8.8%
Podiatry	\$7.8M	2.0%

Ambulance Benefits

\$22.8M 4.1%

Gap Saver Benefits

\$29.1M 22.4%

Figures above are based on both HBF and GMF benefits for 2014/15 and 2015/16

Biggest areas of growth in Hospital Benefits

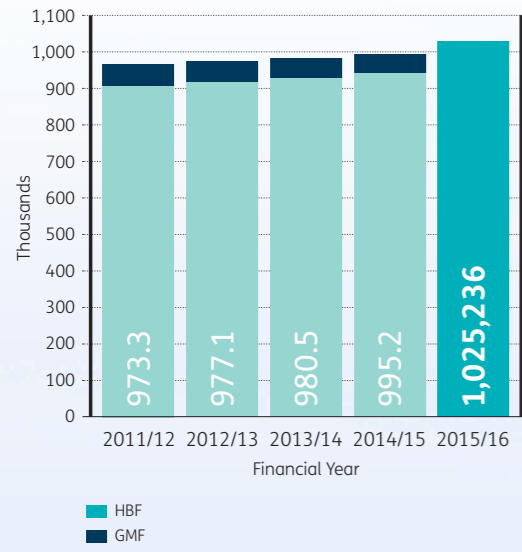
The 4 groups below made up 67.5% (\$49.1m) of the \$72.7m increase over the previous year

	2015/16 Yr on Yr \$ increase	2015/16 Yr on Yr % change
Orthopaedic Knee Replacement benefits increased by \$5.7m (12.1%) reflecting a 10.1% increase in episodes and a 1.8% increase in benefit average. Hip Replacement benefits increased by \$3.6m (10.2%) reflecting an 8.5% increase in episodes and a 1.6% increase in benefit average.	\$25.7M	12.4%
Cardiovascular Coronary Bypass benefits increased by \$2.3m (28.2%) reflecting a 22.5% increase in episodes and a 4.7% increase in benefit average. Vascular Procedure benefits increased by \$2.0m (15.4%) reflecting an 8.2% increase in episodes and a 6.6% increase in benefit average.	\$13.4M	12.5%
Digestive Colonoscopy benefits increased by \$1.2m (8.7%) reflecting a 5.3% increase in episodes and a 3.3% increase in benefit average. Complex Gastroscopy benefits increased by \$1.0m (9.2%) reflecting a 9.3% increase in episodes and a 0.1% decrease in benefit average.	\$6.0M	8.4%
Nervous System Stroke benefits increased by \$0.7m (50%) reflecting a 68.6% increase in episodes and 11.0% decrease in benefit average. Nervous system disorders (e.g. parkinsons, motor neuron disease, muscular dystrophy) benefits increased by \$0.6m (45%) reflecting a 32.6% increase in episodes and 9.0% increase in benefit average.	\$4.1M	17.0%

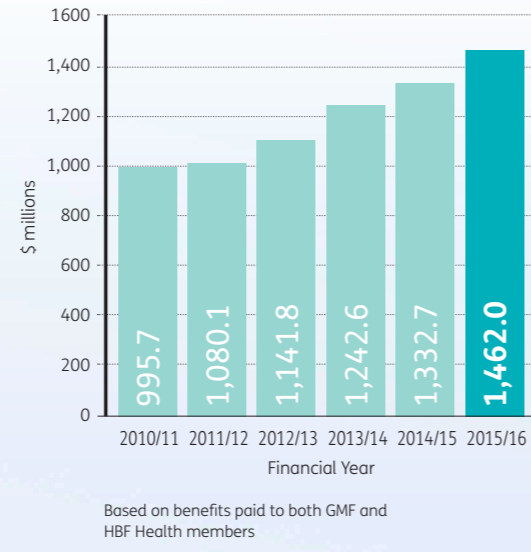
Figures above are based on HBF benefit increases only (excludes GMF)

Highlights of the Year 2015-2016

Number of HBF Health members

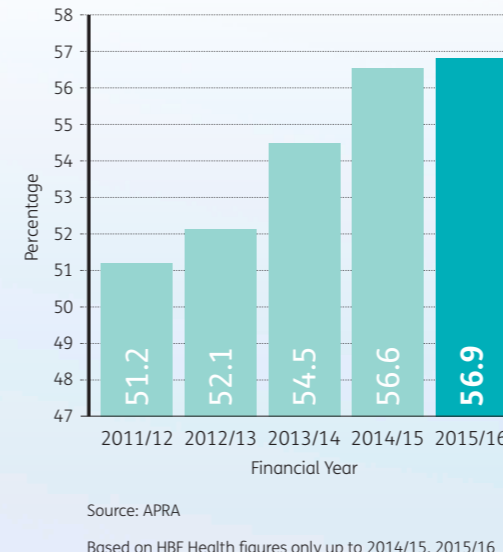


Benefits paid to HBF Health members



Based on benefits paid to both GMF and HBF Health members

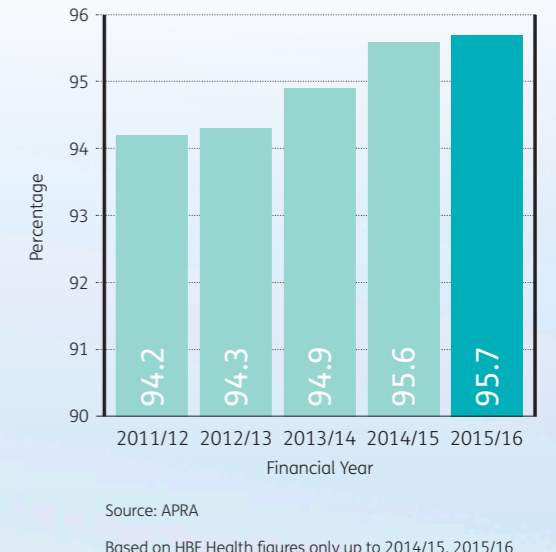
Percentage of General Treatment covered for HBF members in Australia



Source: APRA

Based on HBF Health figures only up to 2014/15. 2015/16 figures are based on HBF Health and GMF combined.

Percentage of Hospital related charges covered for HBF members in Australia



Source: APRA

Based on HBF Health figures only up to 2014/15. 2015/16 figures are based on HBF Health and GMF combined.



Highlights of the Year 2015-2016

A record 1,462.0 million in health insurance benefits was provided to HBF Health members.



Our members

We now provide more than \$4.0 million in health insurance benefits, every day.

On average, benefits received per member were 8.1% more than for 2014/15.

We kept our average premium increase below the national average, for the fourth consecutive year.

We ranked well ahead of all other major funds for customer satisfaction (IPSOS, June 2016).

We top scored in the Australian Medical Association's Private Health Insurance Report Card for keeping members' out-of-pocket costs as low as possible. HBF paid the highest benefit for nine of 22 common medical procedures reviewed.

We achieved industry leading member retention rates (91.54% at June 2016).

The Private Health Insurance Ombudsman received significantly fewer complaints from HBF members than from other major funds, relative to market share.

Our Health Partner offering

We increased our Friendlies Pharmacies footprint in WA by more than 50%, growing to 24 pharmacies.

Friendlies East Victoria Park, which is co-located with Perth Diabetes Care, opened. It's the first centre of its kind in WA that offers patients one-stop access to pharmacists, diabetes educators, dietitians, exercise physiologists, podiatrists and counselling services.

Friendlies pharmacists administered 17,237 flu vaccinations, up from 10,500 last year.

Our Health Partner offering

Almost 34,000 HBF members received discounted membership and entry to fitness facilities and classes at HBF Stadium and HBF Arena.

HBF Fitness attracted record registrations with 18,607 people registering for the spring and summer series.

A record 33,744 people participated in the HBF Run for a Reason.

HBF Run for a Reason participants raised \$1.3 million for 170 WA health charities.

The number of HBF members enrolled in our chronic disease management programs almost doubled, and benefits provided to our members for those programs more than doubled.

Our national expansion

Nationally, our membership grew by 3% to 1,025,236 members.

We grew market share in every Australian state and territory.

Our national market share grew to 8.0%, up from 7.4%.

HBF sales outside of WA increased by 570%.

We enjoyed a successful first year in partnership with iSelect.

We signed an agreement with a second intermediary, Compare the Market, to sell our products beyond the Western Australian border.

We were listed on Members Own Health Funds' online comparison tool which launched in November 2015.

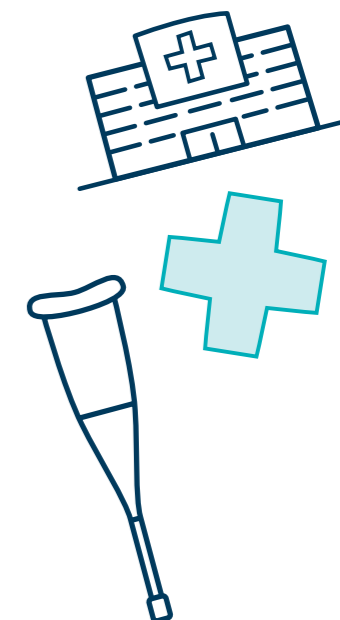
Our people

Almost 800 HBF employees moved in to our new head office at Perth's Kings Square, and now benefit from sit-stand desks, collaboration spaces that encourage more movement, and a central staircase that makes using the stairs (instead of lifts) the norm.

Three in five employees participated in our corporate wellness program, HBF Balance.

249 HBF employees participated in our Workplace Giving Program.

Our employees spent 195 days volunteering in the community, and 240 volunteered at HBF Run for a Reason.



Chairman's and Managing Director's Report

2016 marked HBF's 75th anniversary and this report underscores that while the health insurance sector has changed dramatically over three quarters of a century, HBF's core values, including our commitment to being a member-focused, not-for-profit fund, remain as strong as they were in 1941.

Image: HBF Run for a Reason 2016.





Chairman's and Managing Director's Report



*Left: Barry Honey
Chairman*

*Right: Rob Bransby
Managing Director*

Member experience

The HBF Group provided a record \$1,462.0 million in benefits to HBF members in 2015/16 – an increase of almost 10% on the previous year.

We provided our members \$1,080.7 million in Hospital benefits (up 10% on last year) and \$381.3 million in General Treatment benefits (up 8% on last year).

On average, benefits received per member were 8.1% more than for 2014/15 and we now provide more than \$4.0 million in health insurance benefits, every day.

This was achieved while keeping our average premium increase below the national average, for the fourth consecutive year.

Independent analysis confirms that we continue to lead the way in the quality of the experience we deliver to our members. The 2015 State of the Health Funds Report showed the Commonwealth Ombudsman received significantly fewer complaints from HBF members than from other major funds, relative to market share. The same report showed that on average we covered more hospital related charges in WA than our major competitors.

The latest IPSOS Healthcare and Insurance report also confirmed that HBF members were the most satisfied members of all the major funds. At June 2016, 70.1% of our members classified themselves as somewhat or completely satisfied. The industry average was just 63.6%.

Keeping members' out-of-pocket costs as low as possible remains one of our highest priorities. It was extremely satisfying to be acknowledged for this in the Australian Medical Association's inaugural Private Health Insurance Report Card issued during the year. The national report card compared the benefits each health fund provides for common medical procedures, for example delivery of a baby, coronary artery bypass and tonsil surgery. HBF emerged as the fund that paid the highest benefit for nine of 22 procedures reviewed – far more than any other fund.

The report card evidences our stance against 'junk policies.' We firmly believe health insurance should not let members down when they need to use it. 'Junk policies' – cheap policies with many exclusions – take advantage of people seeking to reduce their premium but leave buyers with large out-of-pocket costs when they claim. We support the Federal Government's stance against such policies which, we believe, have no place in our industry.

Performance overview

The HBF Group delivered a relatively modest 2015/16 net surplus of \$35.4 million which reflects our not-for-profit business model, and highlights our significant difference from the profit-driven health insurers. After enjoying an extended period of market growth for the health insurance sector, in 2015/16 the percentage of the Australian population with health insurance plateaued.

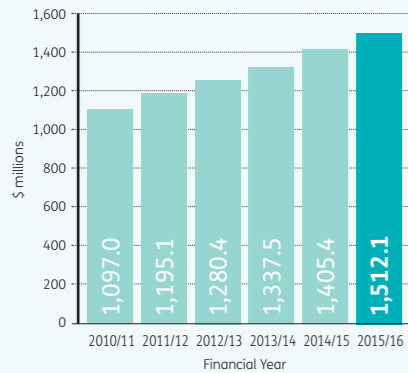


The year has seen continuing weakness in the national economy and an unprecedented scrutiny of the health insurance sector on the part of Government, commentators and consumers. Issues of affordability, transparency and value for money have been widely reported and have undoubtedly contributed to a particularly challenging year.

Despite this environment, HBF sales of core hospital and ancillary products remained steady. An increased proportion of sales came from outside WA, with non-WA sales up 570% on last year. Nationally, we grew market share in every state and territory. Our membership grew by 3% to 1,025,236 members and premium contributions were up 7.6 per cent on last year.

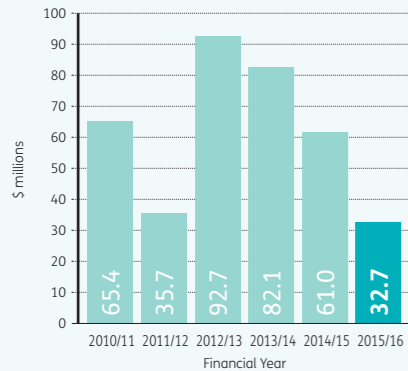
It should be noted that in this report HBF Health Limited figures include GMF figures, following our successful merger on 1 July 2015 of the private health

Premium contributions

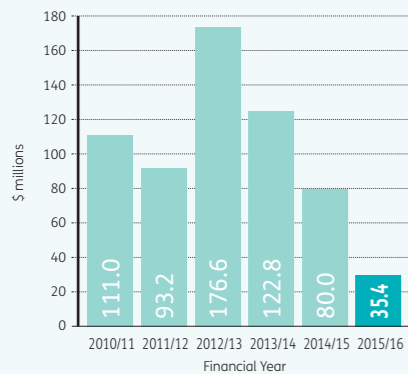


Based on HBF Health and GMF premium contributions combined.

Group investment income



Group net surplus



insurance activities of HealthGuard Health Benefits Fund Limited (operated under the GMF brand) with HBF Health Limited. The HBF and GMF brands are now solely operated by HBF Health Limited.

Our membership was bolstered by another year of industry leading member retention rates which reflects our member focus. The proportion of members choosing to stay with us (91.54%, at June 2016) was significantly higher than all other major funds.

This year we continued to see a shift in the type of hospital products our members are holding. The proportion of our members with Top Hospital cover (which historically was the most common hospital cover option for our members) continued to decrease, while the proportion with low to mid-level hospital cover increased. The proportion of our members with zero excess on their hospital policies continued to decrease (70% had zero excess in 2012/13, compared with 54% in 2015/16). Conversely, 2% had a \$500 excess in 2012/13. This grew to 10% last year. These trends reflect the growing concern of consumers, sector-wide, that private health insurance is becoming unaffordable. We are working hard to address this issue, and detail our efforts in this report.

During the year we sold our full advice life insurance offering, but maintained our base cover option. Agency income from life and general insurance totalled \$14.5 million.

HBF Group's investment income totalled \$32.7 million, helping to ensure that we were able to operate responsibly while minimising the increases in our members' premiums.

We continued to invest in initiatives that improve efficiency and member experience and member health and wellness. Pleasingly the HBF Group's administration ratio decreased slightly to 11% for the year.

Private health insurance reform and a changing landscape

The WA economy continued to feel the impact of a resources industry downturn and pressure mounted on State and Federal Governments to reduce budget deficits and restore credit ratings.

Re-elected Federal Health Minister, Sussan Ley has embarked on reforms

that promote efficiencies and cost savings and make healthcare more affordable. Several health sector reviews were commissioned, including reviews of the Medicare Benefits Schedule (MBS), Pharmaceutical Benefits Schedule (PBS), Federal hospital funding, primary healthcare and chronic disease management, aged care, and mental healthcare.

In November 2015 Minister Ley commissioned a review of private health insurance, including a consumer survey, which over 40,000 Australians completed.

The survey confirmed that affordability of health insurance is a serious concern for many Australians. Value for money and transparency also emerged as areas of concern.

Subsequently, in February this year, for the first time since the Federal Government assumed responsibility for regulating premium increases, the Health Minister declined all health funds' submissions for premium increases for 2016/17, issuing a blanket instruction to all funds to resubmit a lower increase for Government approval.

HBF's proposed increase was not an ambit one - we take the premium review process very seriously and work hard to keep premium increases to a minimum. Our request was based on retrospective claims data and the benefits we knew our members would claim in the coming year.

We stood firm by our original submission and publically voiced our concern that forcing funds to reduce their premium increases to unsustainable levels would ultimately lead to poorer quality products and greater out-of-pockets for members.

What followed was a healthy conversation about the factors driving increasing premiums, over which health funds have little control. One glaring example is the inflated pricing for prostheses which funds are forced to pay providers under the current Government controlled Prosthesis List (PL) arrangement. It is well documented that these prices are significantly higher - and in some cases twice or three times the price - than those paid for the same items in the public system. An analysis by Private Healthcare Australia found that reforming the PL so that prices are comparable to those in the public system would provide a saving to the sector of \$800 million per annum which we, like other funds, have promised to pass

on to our members in lower premiums (approximately \$150 per policy).

The Minister made a public commitment to address prostheses pricing and in good faith we agreed to reduce our premium increase submission correspondingly. This reform has yet to be delivered and we continue to argue that this must be one of the first reforms to address the pressing issue of the growing unaffordability of private health insurance.

HBF's average premium increase on 1 April 2016 was 4.94% compared with an average sector increase of 5.59%. This was the fourth consecutive year that our increase was below the industry average, evidencing our policy of keeping premium increases to the minimum needed to cover increases in benefits. We forecast that our benefits will increase by more than our premium increase during the 2016/17 year.

Prostheses pricing is just one of the reforms we stand ready to work with Government on, to reduce pressure on our members' premiums. We have identified other potential areas of savings that will ease the pressure on premiums, such as addressing cost shifting from the public to private sectors and outdated and wasteful clinical practices. We support the Federal Government's review of the MBS, which has the potential to ensure that medical procedures for which health insurers pay are based on best contemporary clinical evidence.

We also welcome the Federal Government's determination to address issues of transparency, making comparison of products and funds easier. We have contributed to the preparatory work for the introduction of a standard gold-silver-bronze product categorisation for private health insurance products.

HBF's average premium increase on 1 April 2016 was **4.94%** compared with an average sector increase of **5.59%**



Chairman's and Managing Director's Report

The Government's unprecedented focus on health over the past 12 months has fuelled regular media coverage of rising healthcare costs, including the declining affordability of private health insurance. The increased media scrutiny has been a double-edged sword. It has encouraged Government and industry action on health reform (a positive for our members), but has also amplified public concern about the value of private health insurance.

Health funds have continued to see an increased number of members downgrade their cover, as they seek more affordable health insurance. Data collated by Private Healthcare Australia shows there were 442,936 policy downgrades this financial year and the Australian Prudential Regulation Authority reported 699,294 lapsed policies.

If this trend continues, we are deeply concerned that our most financially vulnerable members will be the ones most likely to experience large out-of-pocket costs due to inadequate cover.

In this environment, we believe it is important for HBF to participate in leading change that must occur.

The Managing Director's leadership role with Private Healthcare Australia continues to give HBF considerable influence in the work to reform health insurance and the broader health system.

During the year the Managing Director was a member of the Federal Government's Primary Health Care Advisory Group. The Government adopted the advisory group's recommendation to trial 'Health Care Homes,' coordinating the medical, allied health and out-of-hospital services required as part of a chronically ill patient's tailored care plan.

The Managing Director was also appointed to the Board of the Australian Digital Health Agency, which is responsible for the roll-out of My Health Record.

National growth

Last year we recognised that our greatest opportunity for growth existed in markets we had not previously targeted. The merger of HBF with HealthGuard signalled our intent to secure our base of Western Australia, while also looking to grow our business beyond our home state, including through intermediaries. Our first full year in partnership with

iSelect has been encouraging and has played an important part in the growth in our national market share (8.0%, up from 7.4% the previous year). More recently, we signed a partnership agreement with a second intermediary, Compare the Market, which commenced selling our products into eastern states in July 2016.

We also remain committed to the grouping of not-for-profit health funds, Members Own Health Funds, which in November 2015 launched an online comparison tool. Almost 18 months since its inception, public awareness of the Members Own Health Funds brand has improved. In the past financial year, prompted awareness improved by 21%, now sitting at 35%. Improving brand awareness (prompted and unprompted) remains a core focus of Members Own Health Funds in the coming year.

Compared to last year, HBF achieved a substantial uplift in sales to non-WA members through our own website and member contact centre. We attribute this to our presence on iSelect, our participation in Members Own Health Funds and positive national publicity such as that generated by the AMA's Health Insurance Report Card.

hbf run
FOR A REASON

#HBFRun
trended number
one in Perth and
number five
nationally

33,744
participants

\$1.4M
raised for 170
health charities





Making healthy happen

Our commitment to be a valued health partner for our members remains and we made significant progress in several areas this year.

Many preventative health services were delivered through Friendlies Pharmacies and this year we increased our Friendlies Pharmacies footprint in WA by more than 50%, growing to 24 pharmacies (from 15 last year).

A highlight was the opening of Friendlies East Victoria Park, which is co-located with Perth Diabetes Care. This fully integrated allied health centre, which offers patients one-stop access to pharmacists, diabetes educators, dietitians, exercise physiologists, podiatrists and counselling services, is the first of its kind in WA. It is an excellent example of personalised, coordinated primary care, designed to keep people healthy and out of hospital.

We again increased the uptake of health services including flu vaccinations, health checks and diabetes management programs at Friendlies Pharmacies this year. Friendlies pharmacists administered 17,237 flu vaccinations in private consulting rooms, up from 10,500 last year. For most HBF members these vaccinations were fully covered and HBF members accounted for 83% of those vaccinated, up from 80% last year.

The number of people that took advantage of HBF member discounts at HBF Stadium and HBF Arena also grew, by 65% compared to 2014/15.

This year almost 34,000 HBF members received discounted membership and entry to fitness facilities and classes at both venues.

HBF Fitness, our free group exercise sessions for members, attracted record registrations with 18,607 people registering for the spring and summer series, a 28% increase on the same period last year.

In the lead-up to our seventh HBF Run for a Reason, 5,719 participants registered for HBF Run training - an eight-week block of HBF Fitness classes designed to prepare participants for whichever distance they chose to tackle on the big day.

The HBF Run for a Reason, itself, surpassed all expectations again this year. We retained the mantle, which we took last year, of staging WA's largest running and walking event.

2000 more people ran or walked, compared to last year, totalling a record 33,744 participants. The event's popularity was reflected in social media too, with our hashtag #HBFRun trending number one in Perth and number five, nationally on event day.

A record 802 volunteers helped the event run smoothly and contributed to the event's signature upbeat atmosphere on the day (240 volunteers were HBF employees). Participants raised \$1.3 million for 170 WA health charities, taking the event's total fundraising tally over the years to \$6.8 million.

Our chronic care support

We saw a steep increase (almost double) in the number of HBF members enrolled in our chronic disease management programs, including HBF Coach, HBF Heart Care and our Health Support Program with residential aged care provider, Bethanie. 1,858 HBF members enrolled this year, compared to 960 in 2014/15, and benefits to our members for chronic disease management programs more than doubled (\$2.3 million this year, compared to \$0.9 million last year).

Early outcomes of the CarePoint trial, which we have jointly funded with WA Department of Health and Medibank Private, have been promising. Under the program, clinical care coordinators in participating GP practices work with GPs to coordinate holistic and evidence-based care plans for patients. The program is designed to help patients manage chronic health conditions, thereby reducing hospital admissions.

Early figures indicate there has been a reduction in hospital admissions among the 1,231 patients enrolled in the trial. Of those enrolled, 469 are public non-insured inpatients, 506 are HBF members and 256 are Medibank Private members.

The trial will be evaluated by the University of WA, and final outcomes will be reported in December 2017.

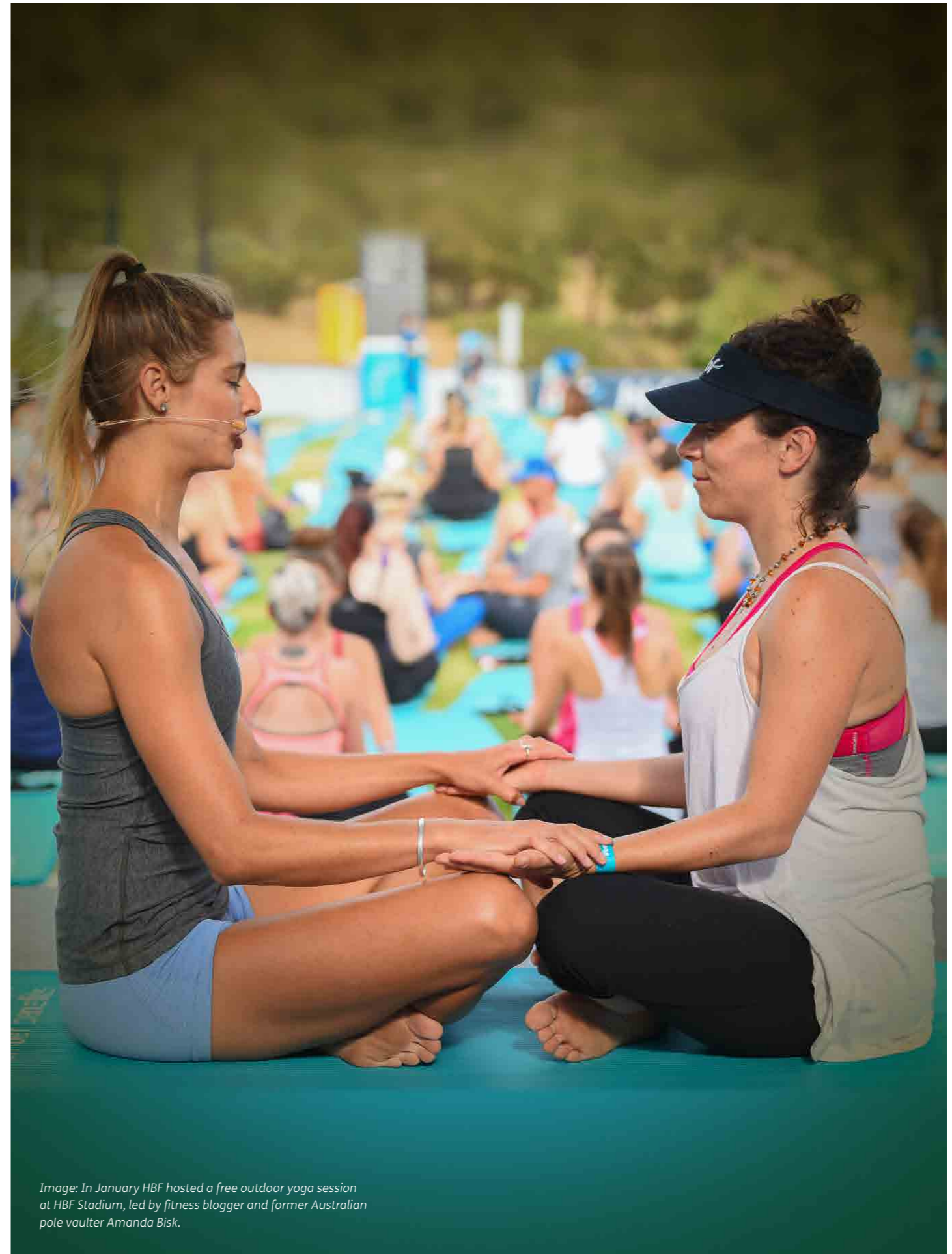


Image: In January HBF hosted a free outdoor yoga session at HBF Stadium, led by fitness blogger and former Australian pole vaulter Amanda Bisk.

Chairman's and Managing Director's Report

Our people

The relocation of our head office to Perth's Kings Square precinct in April 2016 was a highlight for our employees.

Our former Murray Street building had served us well for more than 35 years, but the design of our new building has undoubtedly elevated the health, happiness, productivity and creativity of our people.

National Guidelines for Physical Activity and Sedentary Behaviour tells us that sitting for long periods can negate the benefits of exercise, and significantly increase the risk of obesity and developing type 2 diabetes and cardiovascular disease. Workplace design plays a huge role in peoples' health and wellbeing.

Our almost 800 employees, who made the move in April this year, now benefit from sit-stand desks, collaboration spaces that encourage more movement, and a central staircase that makes using the stairs (instead of lifts) the norm.

A pre and post move survey of employees has confirmed the positive impact the new building has had on both mental wellbeing and physical activity.

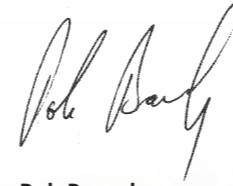
Working in tandem with our new surroundings, our internal corporate wellness program, HBF Balance, continued to support our employees to live happy and healthy lives, at work and at home. Last year three in five employees participated in HBF Balance's physical, career, community, financial, emotional and social support programs.

Each week about 100 employees participated in on-site fitness classes, 342 employees were part of our social club, employees spent 195 days volunteering in the community and 249 employees participated in our Workplace Giving Program.

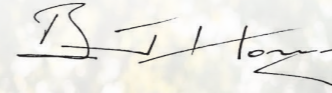
We are proud to report on a year when we made significant progress with our Health Partner strategy, continued to lead member retention and satisfaction ratings among the major funds and maintained the highest standard in health insurance products for our members. We achieved this, and more, despite a challenging economic and political environment.

We take this opportunity to thank our Board colleagues, HBF Councillors and HBF employees for their part in the achievements reported above.

To all of our colleagues, Councillors and members, we wish you continued success in the year ahead.



Rob Bransby
Managing Director



Barry Honey
Chairman



Corporate Governance

HBF is committed to good corporate governance and our approach reflects the principles set out in contemporary Australian standards, such as the Australian Stock Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations.

We apply these principles in a manner consistent with our status as a not-for-profit membership organisation in order to lay solid foundations for management and oversight, promoting ethical and responsible decision-making, structuring the Board to add value and recognising and managing risk.

We monitor best practice developments and regularly review and strive to improve our corporate governance.

We have posted a copy of this statement on our website, hbf.com.au

Council

HBF is a membership based organisation operating under mutual principles and councillors are elected as the "formal members" of the company.

Council meets twice each year and its role is to ensure suitable persons are elected to Board positions, that director remuneration is appropriate and to act as guardians of the Constitution of HBF.

To qualify for election, councillors must be independent of hospitals and other providers of services to HBF and our policy holders. There are six Elected Councillors who are nominated and elected by long term HBF Hospital Policy holders, 12 General Councillors who are nominated and elected by existing General Councillors and the Chairman and five longest serving directors who are appointed by the Board as Board Councillors.

HBF Board

The HBF Board has overall responsibility for corporate governance of HBF and its subsidiaries. This includes authority to determine, review and approve policy, practices, management performance and financial operations. The HBF Board has direct governance oversight of the health fund operated by HBF, the Group's main health insurance business, and responsibilities include compliance with requirements of the regulator, the Australian Prudential Regulation Authority (APRA).

The Board also oversees compliance with the Department of Human Services (DHS), the Department of Health (DOH), the Australian Competition and Consumer Commission (ACCC), and the Australian Securities and Investments Commission (ASIC) requirements and general corporate operations, as well as requirements for distribution of our general insurance products that are underwritten by CGU and life risk insurance products that were provided by Charter Financial Services Pty Ltd until 31 May 2016 and from 1 July 2016 by Zurich Financial Services Australia Ltd.

The Board has delegated responsibility for the operation and administration of HBF to the Managing Director and has processes in place to monitor progress and assess his performance.

Senior executives are appointed by the Managing Director who is responsible for assessing their performance.

The Board ensures that members of the management team are appropriately qualified and experienced to carry out their responsibilities.

To ensure management objectives and activities are aligned with HBF expectations and risks, the HBF Board has:

- Reviewed the strategic plan to ensure it continues to meet stakeholder needs;
- Approved initiatives and strategies designed to ensure the growth of HBF;
- Established financial and non-financial key performance indicators;
- Adopted business plans, budgets and capital management plans aligned to the strategy;
- Ensured significant risks are identified, managed and monitored;
- Maintained relationships with APRA, DOH, DHS, ACCC and ASIC;
- Considered the social, ethical and environmental impact of HBF activities.

Our current Board comprises eight non-executive directors (including the Chairman) and the Managing Director.

Emphasis is placed on appointing independent directors who, working together, have the range of experience, skills and knowledge required for the Board as a whole to effectively govern HBF's strategic direction and business activities. A profile of directors is shown in the Directors' Report.

The Nomination and Remuneration Committee recommends candidates for HBF and subsidiary board positions.

The Committee assesses, with the assistance of external advice as appropriate, the Board's requirements and the qualifications, skills, experience and value which a person may bring to the Board and his or her ability to make a contribution to the Board's strategy, policy and effectiveness.

The Board has eight scheduled meetings each year and also meets when necessary to deal with specific matters requiring attention. The Board holds an annual planning day to review HBF's strategic direction and set the context for development of the annual business plan. Senior managers attend Board meetings on a rotation basis and the Board meets



without executive management every quarter. Minutes are reviewed by the Chairman and Secretary, retained in a register and approved by the Board at the next meeting.

Committees

The directors execute their responsibilities directly and via participation in Board committees. Each committee has a charter approved by the HBF Board that details its purpose, focus, powers and authority. Charters are also approved by subsidiary boards where relevant. These charters are reviewed regularly for relevance. There are currently two committees appointed by the HBF and subsidiary boards to deal with specific areas of responsibility, these being the Audit and Risk Management and Nomination and Remuneration Committees.

Membership of committees is determined by the Board on advice from the Nomination and Remuneration Committee. Appointments are approved by subsidiary boards where this is required for regulatory purposes.

Chairpersons of the Boards, senior managers and external professionals are invited to attend meetings as required to contribute to, and support, the work of committees. Minutes of committee meetings are provided to the HBF Board, and where relevant subsidiary boards, and the HBF Board is given an oral report from the Chairman of each committee. Performance is reviewed annually against the committee charter and strengths and opportunities for improvement are discussed by committee members. The Board reviews committee performance and performance of committee members is evaluated as part of the annual director performance review.

Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is to assist the HBF and subsidiary boards in fulfilling their responsibilities relating to financial reporting practices, accounting policies, audit and assurance, compliance with both legal and ethical requirements and the risk management framework.

The Committee is also responsible for making recommendations to the Board regarding the appointment of the actuary and external auditors, ratifying the appointment of internal auditors and reviewing the adequacy and independence of audit arrangements, the performance of the actuary and both the internal and external audit functions.

The Committee currently comprises five non-executive directors. At least two committee members are to have practical business experience in financial reporting, application of accounting standards and audit requirements and all members must be financially literate. The Managing Director, senior managers, internal and external auditors as well as appointed actuaries attend meetings upon invitation.

During the past financial year, members of the Committee were Barry Honey (Chairman until September 2015), Richard England (Chairman from October 2015), Peter Wallace (until October 2015), Mary Woodford, Rod Moore, Tony Crawford (from September 2015) and Brent Stewart (from December 2015). The Committee meets at least four times per year.

The internal and external auditors, as well as actuaries, meet independently with the Committee on a regular basis, and have access to the Chairman if required.

From January 2016 Fiona Drummond replaced Greg Meyerowitz as EY's lead audit partner for HBF Health Limited.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is to assist the HBF and subsidiary boards in fulfilling their responsibilities relating to the appointment and remuneration of directors and senior executives.

The Committee reviews and advises on HBF and subsidiary board composition (including succession planning and

renewal), director selection and removal, Board and director performance and director skills, training and development. The Committee also assesses and reviews the appropriateness of performance based arrangements and contractual terms and remuneration arrangements for all senior executive employees.

The Nomination and Remuneration Committee currently comprises four non-executive directors. The Managing Director attends by invitation. During the year, the members of the Nomination and Remuneration Committee were Tony Iannello (Chairman until September 2015), Barry Honey (Chairman from October 2015), Valerie Davies, Mary Woodford (from September 2015) and Tony Crawford (from December 2015). The Committee meets approximately four times per year and as required.

Board Policies

The HBF Board has a Board Governance Policy Framework and Manual, which establishes a robust structure for defining outcome objectives for the organisation, governance of the HBF and subsidiary boards' own processes, Board and management relationships and limitations on management decision-making discretion.

The manual includes policies on independence, conflict of interest, fitness and propriety, Board composition and renewal, director selection, induction and development, remuneration arrangements, diversity and auditor independence. The Board reviews all policies over a two-year cycle and as required.

Ethical standards and corporate social responsibility

HBF has a Code of Conduct, which sets out the expected standards of behaviour for all employees, including directors. It outlines the principles of honesty and integrity, equity and fairness, confidentiality, impartiality, respectfulness and courtesy, which are to be demonstrated in all relationships with members, colleagues, suppliers, competitors and the general public.

Open and honest behaviour is one of our core values. The Code of Conduct is aligned with employment legislation and the obligations this places on HBF and our employees.

The organisation also has policies on whistleblowing, conflicts of interest, fitness and propriety, social media, privacy, health and safety and the prevention of discrimination, harassment and workplace bullying.

The HBF Board has adopted a Code of Conduct for directors recommended by the Australian Institute of Company Directors. Amongst other things, the Code of Conduct requires high standards of personal integrity and honesty in all dealings and observance of the law. HBF also complies with a range of industry codes including the Private Healthcare Australia Voluntary Code of Conduct for Private Health Insurers.

We actively support the community by donating to selected charitable causes, encouraging employees to volunteer their time and energies through special 'community spirit days' and, most of all, by supporting and staging events which promote healthy lifestyles and behaviours. Details of our community health activities are provided in the Chairman's and Managing Director's Report.

Independent professional advice

The directors of the HBF and subsidiary boards and their committees are empowered to seek external professional advice as considered necessary at HBF's expense, subject to prior consultation with the Chairman. If appropriate, any advice received will be made available to all directors.

Performance evaluation

The HBF and subsidiary boards and their committees have established processes to assess their composition, performance, individual member performance and to identify areas where improvements can be made. Annual reviews by survey and one on one meetings are coordinated by the Chairman of the relevant board or committee and external advisors assist with the evaluation of the HBF Board every three years. The process is forward-focused and directed at ensuring the boards and committees are equipped with appropriate skills to meet future challenges.

Directors whose performance is consistently unsatisfactory may be asked to retire.

Performance of the Managing Director is assessed by the Board against key corporate, strategic and operational

objectives set by the Board in its annual planning and review cycle.

Audit and risk management

We have a comprehensive enterprise-wide risk management framework that ensures areas of significant business risk are identified and appropriately managed. This framework is tailored to meet regulatory requirements on risk management and is reviewed annually.

The framework takes into account the Australian and international standards on risk management and includes a system for identifying, assessing, monitoring and managing material risk.

The framework ensures a consistent approach across HBF for meeting compliance obligations and reporting. We always strive for transparency in dealing with regulators on compliance issues and report breaches of our compliance obligations.

Our Board plays a key role in risk management, which is embedded in our strategic and business planning and monitoring of organisational performance. Our internal auditors review the effectiveness of the risk management process and the internal compliance control system.

Our Audit and Risk Management Committee considers audit scope, areas of significant risk, the effectiveness of risk management and internal controls, the quality of the internal and external audit processes, effectiveness of the annual audit and auditor performance, fees and auditor independence.

In addition, the Managing Director and Chief Financial Officer provide written certification that the financial statements present a true and fair view, in all material respects, of HBF's financial condition and operational results and that HBF's risk management, internal compliance and controls are operating efficiently and effectively in all material aspects.

Remuneration

We seek to retain a high-quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to industry standards and benchmarks. The remuneration pool for non-executive directors is subject to approval by councillors at the Annual General Meeting.

Conflict of interest

Directors must disclose to the HBF and subsidiary boards actual or potential conflicts of interest that might or might reasonably be thought to exist, where some or all of the directors' interests may be inconsistent with, or divergent from, some or all of HBF's interests.

Commitment

Each director is committed to spending sufficient time to enable them to carry out their functions as a director.

Confidentiality

In accordance with legal requirements and agreed ethical standards, directors and key senior managers have agreed to keep information received in the course of the exercise of their duties confidential and to not disclose non-public information except where the disclosure is authorised or legally mandated.

Board access to information and advice

All directors have unrestricted access to organisation records and information. Each director enters into an access and indemnity deed with HBF allowing them access to relevant documents after retirement for the longer of 7 years or the completion of any action, enquiry or hearing in which they are involved. The non-executive directors regularly consult with and request information from management.

Education and induction

New directors undergo an induction process in which they are given a full briefing on the organisation. This includes meetings with key executives, tours of the premises and an induction package.

In order to achieve continuous improvement in Board performance, all directors are required to undertake continuing professional development in keeping with the minimum membership requirements of the Australian Institute of Company Directors and are provided with resources and training to address skill gaps when identified.

Diversity

The HBF Board embraces the benefits of diversity in enriching the range of available perspectives and enhancing organisational performance. The Board has a diversity policy that reflects this principle and we have appropriate gender diversity at Board, senior management and management levels as well as a

culture that supports diversity throughout the organisation.

The proportion of females at the different levels as reported in HBF's EOWA Report at 31 March 2016 was:

CEO/Head of Business	0%
Key Management Personnel	84%
Other Executives/General Managers	31%
Senior Managers	54%
Other Managers	57%
Total employees	73%

43% of the non executive directors on the HBF Board are also females.

Secretary

Julie Keene is the Secretary of HBF. Responsibilities of the secretarial function include preparation and distribution of Board agendas and papers, taking of Board minutes, providing advice to directors and officers on corporate governance developments and regulatory matters, implementing and maintaining HBF's Board governance policy and giving practical effect to Board decisions. Directors have access to advice from the Secretary.

Subsidiary Boards

HealthGuard Health Benefits Fund Limited

HealthGuard the company, was formally deregistered by ASIC on 11 May 2016.

Minor operating and non operating entities

There are a number of minor operational and non operating entities in the HBF Group. The Managing Director is a member of the Board of each along with other senior executives.

Directors' Report

Year ended 30 June 2016

Your directors submit their report for HBF Health Limited (HBF) and its controlled entities (HBF Group) for the year ended 30 June 2016.



Directors' Report Year ended 30 June 2016

Directors

Details of the directors of the consolidated entity during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Barry Honey

(Chairman from November 2015)
BBus, FCA, MAICD

Mr Honey was appointed a Director in October 2007 and appointed Chair of the Board in November 2015. He is Chair of the Nomination and Remuneration Committee and previously Chair of the HBF Group Audit and Risk Management Committee. He was a member of the Finance and Investment Committee until June 2011 and a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business.

Mr Honey is a Chartered Accountant and from 1985 to 2004 was a partner with KPMG. He developed his specialist expertise in advising stakeholders in companies on financial performance and solvency issues whilst working on major engagements in Australia and South East Asia.

In 2004, Mr Honey retired from KPMG to establish the boutique accounting and advisory firm, Honey & Honey. He is currently Chair of The Bethanie Group Inc. and its subsidiary Bethanie Housing Limited and also serves on the Group's Audit and Risk Management Committee and Nominations, Remuneration and Governance Committee.

From time to time Mr Honey is also engaged as an independent expert witness to assist the Court in relation to complex financial issues.



AM (Tony) Iannello

(Chairman until October 2015)
BCom, FCPA, SF Fin, FAICD

Mr Iannello was appointed Chair of the Board in November 2009 and was a Director from November 2006 until his retirement in October 2015. He was Chair of the Nomination and Remuneration Committee and previously served as a member of HBF Group Audit and Risk Management Committee, chaired the Finance and Investment Committee until June 2009 and the Board of HBF Insurance Pty Ltd until September 2009.

At the time of his retirement from the HBF Board in October 2015, Mr Iannello was a Director of Water Corporation, ERM Power Limited and Chair of Empire Oil & Gas and D'Orsogna Foods. Until October 2014 he was Chair of Energia Minerals Limited, a member of the Murdoch University Senate until May 2015 and a Director of Ausnet Services Limited until July 2015. He was previously the Managing Director of Western Power and prior to that held a number of senior executive roles at BankWest.

Mr Iannello is a graduate of the Advanced Management Program at Harvard Business School, Boston, USA.



Rob Bransby

(Managing Director)
SF Fin, FAIM

Mr Bransby has been Managing Director of HBF Health Limited since January 2008 having been appointed Chief Executive Officer in 2007 and Group General Manager in 2005. He is a Director of all of HBF's subsidiary companies and was a Director of HBF Insurance Pty Limited prior to the sale of the general insurance business in 2011.

Mr Bransby's term has coincided with a period of unprecedented competition within the health insurance sector, during which HBF has consolidated its position as Western Australia's leading health fund, reaffirmed its focus on member health and embarked on an ambitious strategy to become a valued health partner to HBF members. Mr Bransby is well known as an outspoken advocate for health fund members.

Prior to working at HBF, Mr Bransby enjoyed a successful career in banking, holding positions including Corporate Finance Manager, Corporate Banking Western Australia and Head of Business Financial Services in New South Wales during twenty-five years at the National Australia Bank Limited (NAB).



In 2001, Mr Bransby left NAB to take up the position of Chief Executive Officer of Chantec Group and over the next three years gained experience as head of a diverse group of companies. He then returned to the NAB Group as Chief Executive Officer of Medfin Aust Pty Ltd.

Mr Bransby is President of Private Healthcare Australia (PHA), a Director of Synergy and Pioneer Credit Limited. He is a Director of CBA Board of Advice Companies, a Commissioner of the Insurance Commission of WA and a Board Member of the Department of Health's Australian Digital Health Agency (ADHA). Until May 2016 he was a member of the International Federation of Health Plans' (iFHP) Council of Management and a Director of Goldfields Money Limited and until June 2016 a Director of Members Own Health Funds.

Tony Crawford

(Deputy Chairman)
LLB, BA, GAICD

Mr Crawford was appointed a Director to HBF Health Limited in August 2014 and was a Director of HealthGuard Health Benefits Fund Limited from 2013 until June 2015. He is a member of the HBF Group Audit and Risk Management Committee and the Nomination and Remuneration Committee. Currently he serves as Chair of Grant Thornton Australia Limited and Heart Research Australia and is a non-executive Director of a number of other public and private companies and not for profit organisations.

Mr Crawford practiced as a solicitor for 30 years, specialising in insurance law and commercial dispute resolution. From 1996 to 2010, he held a number of senior leadership and executive positions at national law firm Phillips Fox (now DLA Piper), including CEO from 2000 until his retirement from the Firm in 2010.

Mr Crawford is a graduate of the OPM Program at Harvard Business School and of the Australian Institute of Company Directors and is an associate member of Chartered Accountants Australia & New Zealand and the Law Society of NSW.



Valerie Davies

FAICD

Ms Davies was appointed a Director in October 2005 and was Chair of subsidiary HealthGuard Health Benefits Fund Limited from 2012 until its formal deregistration in May 2016. She is a member of the Nomination and Remuneration Committee and also served on the Board of HBF Financial Services Pty Limited until March 2009.

Ms Davies is the Managing Director of One.2.One Communications Pty Ltd, a consultancy specialising in strategic communication and issues management across diverse sectors and industries. Ms Davies is a past winner of the Telstra Businesswoman of the Year Award for Western Australia, and a past Vice President of the Australian Institute of Company Directors WA Division.

Currently Ms Davies serves on the Board of Event Hospitality & Entertainment Ltd and Cedar Woods Properties Limited and is also a Commissioner of Tourism Western Australia. She has previously served as a non-executive Director of Iluka Resources Limited, Tourism Australia, Integrated Group Limited, Gold Corporation, Asia Research Institute - Murdoch University, Totalisator Agency Board (TAB) WA, ScreenWest, the Board of Management of Fremantle Hospital and Health Service, Relationships Australia and Youth Focus.



Richard England
FCA, MAICD

Mr England was appointed a Director in February 2015 and in October 2015 was appointed to Chair of the HBF Group Audit and Risk Management Committee. For the past 20 years, he has served as a non-executive Director and Chair of listed and unlisted companies as well as not for profit organisations. Currently he is a non-executive Director of Japara Healthcare Limited, Macquarie Atlas Roads Limited, Nanosonics Limited and QANTM Intellectual Property Limited. Until September 2016 he was a director and Chair of Ruralco Holdings Limited.

Prior to embarking on his career as a Director, Mr England was a Chartered Accountant in Public Practice. He is a former partner of Peat Marwick and Ernst & Young where he practiced principally in the fields of Insolvency and Reconstruction.

Mr England is a Fellow of Chartered Accountants Australia & New Zealand and a member of the Australian Institute of Company Directors.



Helen Kurincic
MBA, FAICD

Ms Kurincic was appointed a Director in February 2016. She is currently the Chair of Integral Diagnostics Limited (ASX:IDX) and formerly the Chief Operating Officer and Director of Genesis Care, from its earliest inception creating and developing the first and largest radiation oncology and cardiology services network across Australia.

Prior to that Ms Kurincic held various executive and non-executive healthcare sector roles including non-executive Director of DCA Group Limited, non-executive Director of AMP Capital Investors Domain Principal Group, CEO of Benetas, non-executive Director of Melbourne Health and Orygen Research Centre.

Ms Kurincic has also been actively involved in healthcare government policy reform including appointments by Health Ministers as Chair of the Professional Programs and Services Committee for the Fourth Community Pharmacy Agreement and Member of the Minister's Implementation Taskforce and Minister's Reference Group for the Long Term Reform of Aged Care.

Ms Kurincic was awarded the 2002 Telstra Victorian Businesswoman of the Year, is a Fellow of the Australian Institute of Company Directors and is passionate about transforming healthcare.



Dr Rod Moore
MBBS, Grad Dip Sp Med, GAICD

Dr Moore was appointed a Director in October 2012 and to the HBF Group Audit and Risk Management Committee in February 2014. He is a Graduate of the Australian Institute of Company Directors and since 2014 the Chair of MDA National (a major Australian medical indemnity provider). Dr Moore was a Councillor of MDA National from 1998, appointed as a Director of the Mutual Board of MDA National in 2011 and MDA National Insurance Pty Ltd in 2007.

Dr Moore has previously served as a Member of the Physiotherapy Registration Board, as a Member of the AMA-Law Society Medico Legal Committee and served on the WA Chamber of Commerce and Industry Primary Health Care Committee. He was also a Director of Calico Global Pty Ltd until October 2012.

As a Graduate of the UWA Medical School, Dr Moore began his career in General Practice and has been in specialist sports medicine and musculoskeletal practice since 1995. He is the founding principal of two of Western Australia's leading multi-disciplinary sports medicine centres.



Brent Stewart
BPsych, BSc, FAICD

Mr Stewart was appointed a Director of HBF Health Limited in November 2015 and is a member of the HBF Group Audit and Risk Management Committee. He is currently executive Chair of Waveride Capital Limited, non-executive Chair of Surgical Specialties Pty Ltd and a non-executive Director of Argonaut Limited and has occupied a variety of Board roles in both the public and private sector.

Mr Stewart was founder and Chief Executive of Market Equity Pty Ltd from 1992 until 2005 at which time the business was acquired by Aegis PLC and merged into its global market research business, Synovate. He continued as a global CEO of Synovate until retiring from executive life in 2011.

Mr Stewart has served on numerous West Australian government committees and working groups and has occupied national Board roles for industry based organisations. He has been a regular guest speaker for many industry associations and universities on the subject of strategy, marketing and market research.



Peter Wallace (until October 2015)
SF Fin, FAICD, AFAIM

Mr Wallace was appointed a Director of HBF Financial Services Pty Ltd in 2004, a Director of the HBF Board from October 2005 and a member of the HBF Group Audit and Risk Management Committee until his retirement in October 2015. He was Chair of HBF Financial Services Pty Ltd until June 2009, the Finance and Investment Committee until June 2011 and a Director of HealthGuard Health Benefits Fund Limited from March 2012 until June 2015.

Mr Wallace worked with National Australia Bank between 1967 and 1989, where he had extensive involvement in corporate financing activities for major Australian and Japanese companies.

From 1989 until his retirement from banking in 2001, Mr Wallace held senior positions with Challenge Bank Limited (later Westpac Banking Corporation) and was a member of its executive management team, holding positions including Chief Operating Officer and Chief Credit Officer.

From 2001 to 2006 Mr Wallace was the Head of Corporate (WA) for Bell Potter Securities Limited, directing the provision of corporate advisory services, including capital raisings, for both large and small public and private entities.

Mr Wallace is currently a non-executive Director of a number of public and private companies.



Mary Woodford
LLB, MPH, BA (Hons), FAICD

Ms Woodford was appointed a Director in August 2007 and is a member of the HBF Group Audit and Risk Management Committee and the Nomination and Remuneration Committee. She was a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business, a Director of HBF Financial Services Pty Ltd until 2009 and a member of HBF's Finance and Investment Committee until June 2011. She is General Manager, Advocacy, with the Law Society of Western Australia, having previously held the roles of Senior Legal Counsel at UWA and of Consultant, Corporate & Commercial with Jackson McDonald Lawyers.

Ms Woodford has served as a member of a number of committees for legislative reviews and reform and in recent years has focused on providing corporate and commercial legal advice to clients in the private sector, including statutory authorities, health and education institutions and not-for-profit organisations.

Ms Woodford also has experience as a Company Secretary and Chair for not-for-profit organisations. She is currently Chair of Mercycare Limited and Chair of Central Regional TAFE.



Principal activities

The principal activities of the Group during the year involved the underwriting of health insurance risk, the distribution of general insurance and life insurance products, and related investment activities.

Objectives

As a not-for-profit organisation and Western Australia's leading health fund, our ultimate objective is to improve the health of our members. Our vision is to become Australia's third pillar, not-for-profit health fund, with healthier, happier members.

Our role as a national health insurer is to ensure members have ready access to the highest quality healthcare at an affordable price. As we look for opportunities to grow our business nationally, we are determined to remain the leading provider of health insurance in Western Australia. We recognise that our health insurance products must reflect the changing needs and expectations of our members who choose to insure their health.

In our home state of Western Australia we are determined to earn our place as a valued health partner for our members, not simply be their health insurer. To this end we have a growing range of services that help our members live healthier, happier lives. Amongst these are services that encourage members at risk of developing chronic health conditions to adopt healthier lifestyles as well as services that help members manage existing health issues. This includes providing access to a range of appropriate healthcare options outside the hospital environment for members needing complex care.

Our health partner services are delivered through a range of channels, including through HBF's personal health coaching program, partnerships with other out-of-hospital health providers, our community physical activity program, and through Friendlies Pharmacies.

Performance measures

The Group assesses its performance by measuring and monitoring key performance indicators relating to specific objectives regarding People, Financial results, Members and Processes and Systems on a quarterly and annual basis.

Operating and financial result

HBF Group achieved a surplus for the year after tax of \$35.4m (2015:\$80.0m) as a result of sound operating performance from all group companies and strong investment returns despite the volatile market conditions.

Health insurance

Membership growth, helped by strong retention of members has underpinned an increase in contributions of 7.6% (\$106.8m) to over \$1.5 billion. This increase took place during a year when the private health insurance industry witnessed a significant number of policy downgrades and HBF's premium increase was below the national average for the fourth consecutive year.

Across the Group, benefits provided to members increased 9.7% from the prior year to \$1.46 billion (2015: \$1.33 billion). The amount of benefits paid as a percentage of contributions received has also increased for the Group from 94.8% last year to 96.7% this year.

Expenses increased by \$3.4m reflecting increases in labour costs and continuing investment in infrastructure and process improvements to enhance efficiency and the member experience.

General and life insurance

During the current financial year the Group earned commission income of \$14.5m (2015: \$14.6m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products from a selection of underwriters.

Investments

Gains from financial assets at fair value for the group were \$32.7m (2015: \$61.0m), equivalent to an overall investment return for the year of 2.4% (2015: 4.4%). When compared to last year, the performance of equities (which was only slightly positive) and the lower interest rate environment (which reduced the returns available on the cash investments) contributed to this result.

Dividends

The entity's constitution states that the entity shall not make distributions to members by way of dividends and no such payments have been made during the financial year and up to the date of this signed report.

Share options

The company is limited by guarantee and accordingly no options for shares in the company were issued during the financial year and no options remain unexercised.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated group during the year.

Significant events after reporting date

There have been no significant events since the reporting date.

Likely developments and expected results

In 2016/17 we anticipate growth in our health insurance membership and related premium revenue and expect to remain Western Australia's market leader in health insurance.

We expect to maintain our market share in Western Australia but increase our market share in other states, so that our national market share will increase. Our national growth strategy will continue to utilise intermediaries rather than through large scale marketing of our products and services outside Western Australia.

We expect the sector's growth overall will continue to be modest, reflecting lower levels of growth of the national economy and the marked slowdown in the resources sector which continues to be felt particularly in Western Australia. As affordability remains an issue for more health fund members we expect the industry-wide trend of policy downgrades will continue.

In the coming year competition between the largest health funds for market share will be as fierce as ever and, as large funds seek to grow market share, we expect to see further consolidation within the sector.

HBF will continue to add value to our membership beyond just health insurance, investing in preventative health services, such as those provided through Friendlies Pharmacies and our HBF Fitness program. We will continue to expand our Friendlies network beyond the Perth metropolitan area, and will explore ways to offer health partner services outside Western Australia.

To address the budget deficit and the steep growth in health expenditure, we expect the Federal Government will continue to seek cost savings and improved efficiencies in health. In the health insurance sector we expect the Government to implement reforms that address issues of transparency, affordability and quality highlighted in reviews undertaken in 2015/16. We will continue to play an active role in national healthcare reform, particularly through Managing Director, Rob Bransby's role as President of Private Healthcare Australia and as a Board member of the Australian Digital Health Agency.

Indemnification and insurance of directors and officers

Having regard to section 199B of the Corporations Act, 2001 during the year the entity has paid part of the premiums in respect of a contract insuring all the directors and executive officers of HBF Health Limited and its subsidiaries against costs incurred in defending proceedings for conduct other than involving a wilful breach of duty or a contravention of sections 182 or 183 of the Corporations Act, 2001. Details of the premium paid and nature of the liability is not disclosed as this is prohibited by the insurance contract.

Number of Meetings	Directors' meetings		Meetings of Committees			
	Attended	Eligible to Attend	Group Audit & Risk Management		Group Nomination & Remuneration	
	9		4		4	
Bransby RE	9	9	4	4	4	4
Crawford AF	8	9	4	4	2	2
Davies VA	7	9			4	4
England RAF	8	9	4	4		
Honey BJ	9	9	1	1	4	4
Iannello AM	4	4			1	1
Kurincic H	3	4				
Moore R	8	9	2	4		
Stewart B	5	5	2	2		
Wallace P	3	4	1	1		
Woodford M	9	9	4	4	3	3

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' benefits

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit in connection with the management of the affairs of the entity, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the accounts, by reason of a contract entered into by the entity or a related corporation with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Director's Report) Instrument 2016/191. The Company is an entity to which the instrument applies.

Auditor's independence and non-audit services

The directors know of no reason that the auditor's independence could be partially or fully impaired.

The non-audit services provided by the entity's auditor, Ernst & Young, are reported in the accounts. The directors are satisfied that the provision of non-audit services by Ernst & Young is compatible with the general standard of independence for auditors imposed by the Corporations Act, 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The auditors have provided their independence declaration and forms part of this report.

Signed in accordance with a resolution of the directors:



Director, HBF Health Limited
Perth, 20th day of September 2016



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Independent auditor's report to the members of HBF Health Limited

Report on the concise financial report

We have audited the accompanying concise financial report of HBF Health Limited which comprises the balance sheet as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and related notes, derived from the audited financial report of HBF Health Limited for the year ended 30 June 2016. The concise financial report also includes discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Report* ("AASB 1039"), the *Corporations Act 2001*, and for such internal controls as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of HBF Health Limited for the year ended 30 June 2016. We expressed an unmodified audit opinion on the financial report in our report dated 20 September 2016. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 and whether the discussion and analysis complies with the requirements laid down in AASB 1039.

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*.

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FD:JHBF:014



Opinion

In our opinion, the concise financial report, including the discussion and analysis of HBF Health Limited for the year ended 30 June 2016 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Ernst & Young

F Drummond
Partner
Perth
20 September 2016



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Auditor's Independence Declaration to the Directors of HBF Health Limited

As lead auditor for the audit of HBF Health Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of HBF Health Limited and the entities it controlled during the financial year.

Ernst & Young

F Drummond
Partner
Perth
20 September 2016

HBF Health Limited
Consolidated Statement of Comprehensive Income
Year ended 30 June 2016

	2016 \$'000	2015 \$'000
Results from underwriting		
Contributions / premiums	1,512,147	1,405,386
Benefits / claims expenses	(1,461,959)	(1,332,710)
Risk equalisation	103,473	92,690
Claims handling expenses	(29,235)	(25,839)
Net benefits / claims	(1,387,721)	(1,265,859)
Acquisition costs	(28,172)	(32,183)
Other underwriting costs	(97,020)	(93,285)
Underwriting (loss) / result	(766)	14,059
Other activities		
Commission income	14,478	14,636
Other revenue	3,112	3,939
Net gain from financial assets at fair value through profit or loss	32,703	61,038
Other operating and administration expenses	(14,135)	(13,811)
	36,158	65,802
Surplus before income tax	35,392	79,861
Income tax benefit	—	132
Surplus after income tax	35,392	79,993
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax	—	—
Other comprehensive income, net of tax		
Revaluation of land and buildings	16,458	—
Total comprehensive income for the period	51,850	79,993
Total comprehensive income for the period is attributable to:		
HBF Health Limited	51,850	73,125
HealthGuard Health Benefits Fund Limited	—	6,868
	51,850	79,993

Trends in underwriting result

Contributions / premiums increased by \$106.8m compared to prior year due to growth in both policies and the number of members covered. This increase took place during a year when the private health insurance industry witnessed a significant amount of policy downgrades and HBF's annual premium increase was below the national average for the fourth consecutive year.

Benefits / claims increased by \$129.2m reflecting growth in payments to members for both hospital and general treatment.

Monies received from the Risk Equalisation Special Account grew by \$10.8m over the prior year due to an increase in eligible benefits relative to the industry and an increase in total claims paid.

Acquisition costs decreased by \$4.0m as a result of the significant reduction in marketing expenditure in relation to the GMF brand following the merger of HealthGuard Health Benefits Fund Limited with HBF Health Limited. The \$3.7m increase in other underwriting costs reflects increased labour costs and expenditure on infrastructure and process improvements to enhance member experience.

Trends in other activities

Net gains from financial assets at fair value through profit or loss were \$32.7m (2015: \$61.0m). This reflects the lower interest rate environment and moderate performance of equity investments.

During the current financial year the Group earned Commission income of \$14.5m (2015: \$14.6m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products from a selection of underwriters.

HBF Health Limited
Consolidated Statement of Financial Position
At 30 June 2016

	2016 \$'000	2015 \$'000
Assets		
Current assets		
Cash and cash equivalents	56,243	54,686
Receivables	104,742	100,442
Financial assets at fair value through profit or loss	1,337,665	1,377,466
Current tax assets	432	432
Deferred acquisition costs	2,927	95
Non-current assets classified as held for sale	7,150	7,150
Total current assets	1,509,159	1,540,271
Non-current assets		
Receivables	4,043	3,979
Other financial assets	—	10,247
Property, plant and equipment	150,745	18,647
Intangible assets	20,329	22,783
Deferred acquisition costs	10,282	—
Total non-current assets	185,399	55,656
Total assets	1,694,558	1,595,927
Liabilities		
Current liabilities		
Trade payables and financial liabilities	16,741	14,168
Insurance liabilities	390,814	351,259
Employee benefits	11,228	10,031
Total current liabilities	418,783	375,458
Non-current liabilities		
Insurance liabilities	45,102	41,493
Employee benefits	2,328	2,481
Total non-current liabilities	47,430	43,974
Total liabilities	466,213	419,432
Net assets	1,228,345	1,176,495
Equity		
General reserve	111,513	111,513
Retained earnings	1,100,374	1,064,982
Asset revaluation reserve	16,458	—
Total equity	1,228,345	1,176,495

Significant movements in assets and liabilities

Net assets have increased from \$1,176.5m as at 30 June 2015 to \$1,228.3m as at 30 June 2016 reflecting the net surplus after tax of \$35.4m and revaluation of land and buildings of \$16.5m.

Growth in total assets of \$98.6m is reflected by the increase in property, plant and equipment (\$132.1m) partially offset by a decrease in financial assets at fair value (\$39.8m).

Total liabilities by contrast have only increased by \$46.8m due mainly to an increase in insurance liabilities of \$43.2m, as a result of an increase in outstanding claims and unearned premium liabilities.

HBF Health Limited
Consolidated Statement of Changes in Equity
Year ended 30 June 2016

	General reserve \$'000	Retained earnings \$'000	Asset revaluation reserve \$'000	Total \$'000
At 30 June 2014	8,784	1,087,718	—	1,096,502
Surplus after income tax	—	79,993	—	79,993
Total comprehensive income	—	79,993	—	79,993
Net assets recognised on merger of HealthGuard Health Benefits Fund Limited with HBF Health Limited	102,729	(102,729)	—	—
At 30 June 2015	111,513	1,064,982	—	1,176,495
Surplus after income tax	—	35,392	—	35,392
Other comprehensive income	—	—	16,458	16,458
Total comprehensive income	—	35,392	16,458	51,850
At 30 June 2016	111,513	1,100,374	16,458	1,228,345

The composition of the components of equity has changed to incorporate the asset revaluation reserve which is used to record increments and decrements on revaluation of non-current assets.

HBF Health Limited
Consolidated Statement of Cash Flows
Year ended 30 June 2016

	2016 \$'000	2015 \$'000
Cash flows from operating activities		
Receipt of contributions / premiums	1,537,005	1,425,124
Receipt of commission income	14,290	15,167
Receipt of other income	3,112	3,939
Payments of benefits / claims	(1,445,275)	(1,333,140)
Risk equalisation receipts	97,302	88,738
Payments to suppliers & employees	(137,985)	(128,675)
Acquisition costs paid	(41,286)	(28,481)
Distributions received	44,224	24,068
Interest received	36,208	36,770
Income tax paid	—	3
Goods and services tax received (net)	19,097	6,139
Net cash flows from operating activities	126,692	109,652
Cash flows used in investing activities		
Cash paid for acquisition of property, plant and equipment	(123,204)	(6,323)
Cash paid for acquisition of intangible assets	(8,436)	(17,327)
Cash proceeds from sales of property, plant and equipment	13	—
Cash received from escrow	10,247	—
Cash proceeds from sales of financial assets	600,328	774,153
Cash paid for purchases of financial assets	(604,083)	(911,056)
Net cash flows used in investing activities	(125,135)	(160,553)
Net increase / (decrease) in cash and cash equivalents	1,557	(50,901)
Cash and cash equivalents at beginning of year	54,686	105,587
Cash and cash equivalents at end of year	56,243	54,686

Changes in cash flows from operations

Net cash inflow from operations was \$126.7m compared with \$109.7m for the previous year, represented by:

- A net increase of \$111.9m in receipts for contributions / premiums as a result of the growth in policies, annual premium increase and a rise in prepayments in advance of the 1 April 2016 rate increase.
- A \$112.1m net increase in benefits paid for both Hospital and General Treatment as a result of policy growth, annual hospital cost increases and higher utilisation of general treatment benefits.
- A \$12.8m increase in acquisition costs paid as a result of broker costs incurred as part of the national expansion strategy.
- A \$20.2m increase in distributions received through the investment portfolio.
- A \$13.0m increase in goods and services tax received as a result of an increase in the purchases of tangible and intangible fixed assets.

Changes in cash flows from investing activities

The net cash outflow for the year was \$125.1m, compared with \$160.6m in 2015. This difference is largely due to a reduction in the net cash outflow in relation to financial assets offset by an increase in the acquisition of property, plant and equipment.

Basis of preparation of the concise financial report

The concise financial report has been prepared in accordance with the requirements of Australian Accounting Standard AASB 1039 'Concise Financial Reports'.

The financial report is presented in Australian Dollars and all values have been rounded to the nearest thousand dollars under the option available under ASIC Corporations (Rounding in Financial/Director's Report) Instrument 2016/191.



