2019 Annual Report

hbf get well

Contents

2019 at a glance

We returned
90 cents in every dollar
we received in premiums back to members as benefits

Source: Commonwealth Ombudsman 2018 State of the Health Funds Report, published March 2019.

5 HBF members claimed over
$200,000
each in Hospital related services

A 63 year old member claimed
$238,000
for surgery of the large intestine

A 70 year old member claimed
$225,000
for a major ear, nose and throat related transplant

A 20 year old member claimed
$65,000
for psychiatric services

Source: HBF episode data, 1 April 2018 - 31 March 2019.

Major areas of Hospital claims
(excluding Gap Saver)

Gap Saver	$42.1M
Ambulance	$22.3M
Private hospitals	$745.3M
Medical	$184.4M
Prostheses	$158.3M
Public Hospitals	$58.0M
Licensed Day Surgeries	$39.0M

Source: HBF claims data, 1 April 2018 - 31 March 2019.

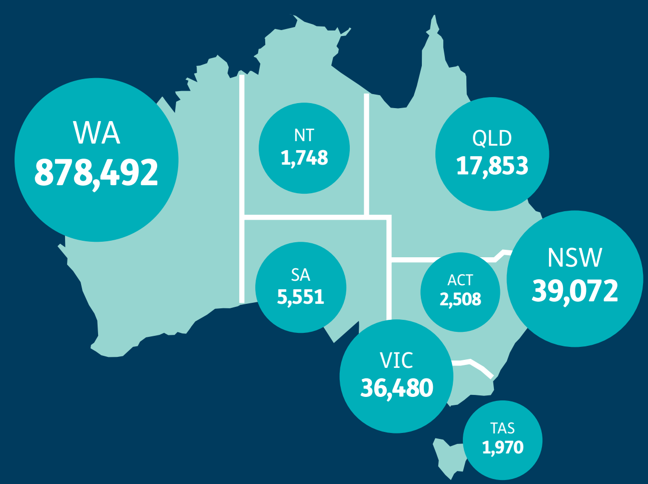
Major areas of General Treatment claims
(excluding Gap Saver)

Dental	Optical	Physiotherapy	Chiropractic	Health Programs & Appliances	Podiatry
$250.0M	$48.0M	$28.4M	$19.8M	$9.0M	$7.9M

Source: HBF claims data, 1 April 2018 - 31 March 2019.

HBF Run for a Reason has raised
$10 million
in 10 years for WA health charities

HBF membership, as at July 2019:



Chairman's Report

I am pleased to present HBF's annual report in a year where we have worked hard to deliver for our members in the moments that matter and to prepare for the transformation of our business.

> "HBF has had a very strong year of financial performance which was achieved largely by an uplift in our underwriting result for health insurance and favourable investment returns.
>
> **Tony Crawford**
> *Chairman*

This year the Board endorsed HBF's new purpose, vision and values, which are featured later in this report. While they have evolved to reflect the transformative nature of our new strategy, our new purpose, vision and values reaffirm HBF's unwavering commitment to put our members' interests ahead of all others.

HBF has had a very strong year of financial performance which was achieved largely by an uplift in our underwriting result for health insurance and favourable investment returns.

During the year HBF also applied greater commercial rigour to its fraud processes and hospital contracting with proven outcomes including a 3.7 per cent reduction in claims costs.

The improvement in our underwriting result over the past two years is significant given the challenging environment for all health insurers and, most importantly, has enabled us to directly relieve pressure on our members' health insurance premiums. For the past two years we have delivered below industry-average premium increases, and our average premium increase this year (1.94 per cent) was our lowest in more than 15 years. It was also the lowest, by far, of Australia's five major health insurers. Our improved financial position enabled us to deliver this low increase, despite national health inflation of around 4 per cent.

Independent sources confirm, our members experience industry-leading value from their health insurance.

The Commonwealth Ombudsman's *2018 State of the Health Funds Report* showed, of the five major health insurers, HBF covered the greatest percentage of hospital treatments in WA (96.1%) and provided the greatest percentage of medical services covered with no or known gaps (99.7%) in WA.

We also covered the greatest average percentage of dental treatments, nationally (60.8%).

The same report also showed HBF returned 90 cents in every dollar we received in premiums back to members as benefits.

Improving member service remained a focus this year and Ombudsman data confirms, of the major funds, HBF maintains the lowest percentage of complaints, relative to market share.

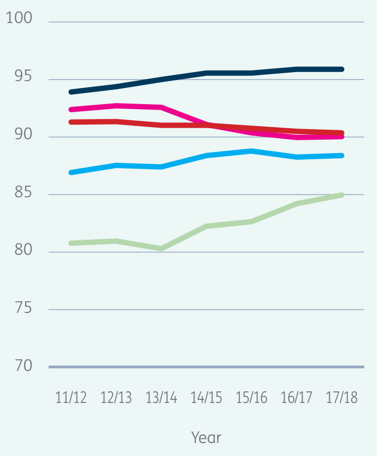
The governance and behaviour of financial services organisations has never been more in the spotlight. HBF is very focussed on its processes and the way it delivers on its commitments to its members and will continue to work very hard to meet best practice governance and the increasing prudential requirements of APRA and ASIC.

During the year Mary Woodford and Lisa Palmer retired from the HBF Board, in Mary's case after 11 years of service to HBF. I would like to place on record my sincere thanks to Mary and Lisa for their valued contribution to HBF. In May we welcomed Gai McGrath to the Board. Gai has more than 30 years' experience as a senior executive in financial services organisations across Australia and New Zealand and has served on a diverse range of boards in that sector.

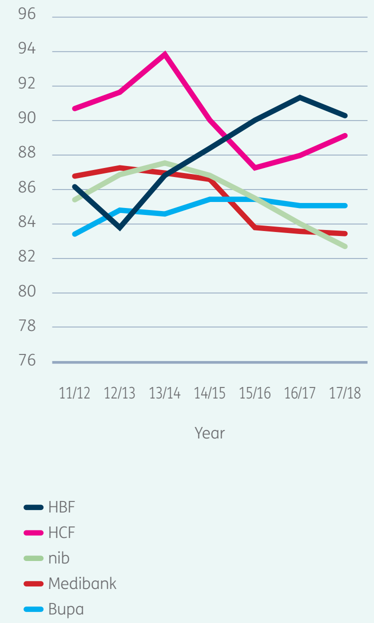
Improving member experience and delivering excellent value in health insurance have been the overriding drivers for all that HBF has undertaken during the year and will continue to motivate us in the year ahead. I would like to thank my fellow Non-Executive Directors, John Van Der Wielen, his Executive team and all HBF employees for their hard work and commitment to HBF's purpose on behalf of our one million members.

Tony Crawford
Chairman

% of Hospital related charges covered in WA



% of members' contributions returned in Australia



Source: Commonwealth Ombudsman 2018 State of the Health Funds Report, published March 2019.

CEO's Report

> **"Federal Government reforms to private health insurance, including the introduction of the Gold, Silver, Bronze and Basic categories of cover, provided an opportunity for us to review and refine our product portfolio.**
>
> **John Van Der Wielen**
> *Managing Director*
> *& Chief Executive Officer*

Insurer	Average Premium Increase
nib	3.38%
Medibank	3.30%
HCF	3.20%
Bupa	2.99%
HBF	1.94%

Average premium increase, 1 April 2019

In our Annual Report last year, the HBF Board decided to adopt a higher level of disclosure than required by not-for-profit organisations. We have maintained this approach this year, because we believe it is the right thing to do by our members and stakeholders, and we take pride in holding ourselves to high standards of governance.

Our pleasing results this year are a direct result of the rigorous financial discipline that the new Executive team is instilling. The results include a combination of contained internal costs, improved efficiencies and a greater focus on fraud and overcharging. The performance of our investments was also very strong, with investment revenue driving more than 50 per cent of the surplus.

With affordability the major challenge facing all private health insurers, we continued to focus on minimising premium increases for our members. Of the five major health funds, we delivered the nation's lowest average premium increase through a number of strategies, including our continued withdrawal from costly broker sites and by ending short-term incentives to acquire new members. We also sharpened our focus on fraudulent claims reduction and hospital contracting, and improved the management of our investments.

Federal Government reforms to private health insurance, including the introduction of the Gold, Silver, Bronze and Basic categories of cover, provided an opportunity for us to review and refine our product portfolio. In January we launched a new product suite and work continues this year to achieve a reform-compliant, high quality, affordable and sustainable product range.

This year the Board approved a major investment to fund new technology and future business growth. In practice, this major investment in technology will pay for itself in the medium term. It will enhance HBF's competitiveness, ensure we remain fully compliant with APRA requirements, and provide an enhanced level of cyber security. It will facilitate a major improvement in our digital interface with members and, will help identify and reduce fraudulent claims.

While HBF is a not-for-profit health fund, we realise that to compete effectively, meet the new APRA standards, and successfully implement our growth and technology plans, we require the best people. Our strengthened Executive team is detailed on pages 6-7.

Leadership is all about people. It is not about organisations. It is not about plans. It is not about the strategy. It is all about people motivating people to get the job done. At HBF we have the people focussed on getting the job done for our members.

I was also very pleased this year to confirm the appointment of Mark Barnaba, current Board member of the Reserve Bank of Australia, as Chair of our new Investment Committee – a specialised committee established this year to manage the Group's investment portfolio.

HBF is determined to be a force for good and, outside our core business, contributes many millions of dollars to the West Australian community. Our annual HBF Run for a Reason has now raised more than $10 million for charity. HBF also provides free outdoor fitness sessions, free flu vaccinations and health checks for our members. Delivering more than 50,000 free vaccinations across WA this flu season was a genuine contribution to the ongoing health of our community.

This year we also launched a new Community Engagement Program which includes employee workplace giving, volunteering, fundraising, blood donations to the Red Cross Blood Service and quarterly donations to local good causes. It also includes a new annual Community Partnerships Program, whereby HBF will provide funding over three years to an organisation significantly improving the health of West Australians.

In the coming year HBF will enact a variety of strategies to ultimately deliver better outcomes for our members. Our intention is to optimise and grow our existing private health insurance business, diversify the Group's revenue streams and services, and further enhance the capabilities of our people and operations.

We need some more time to deliver our plans, but we will become the health insurer of the future and a fund our members can be even more proud of.

Although our sector faces significant challenges, including maintaining the affordability of health insurance while health inflation outstrips wages growth, HBF is well positioned for the future. The work we have undertaken during the year, our planned investment and transformation and the Group's strong capital position will ensure that in a testing environment HBF will be a highly competitive fund, committed to delivering for members in the moments that matter.

John Van Der Wielen
Managing Director &
Chief Executive Officer

Executive Team

John Van Der Wielen
Managing Director and CEO

MBA, FAICD

Prior to HBF:

CEO, Friends Life UK & International

Managing Director Wealth, ANZ Bank

CEO, Clerical Medical and Halifax Life, UK

Selina Torrance-Duncalf
Executive General Manager, Member Experience

BBus, PGradDipHRM, MBA, GAICD

Prior to HBF:

General Manager Member Experience, P&N Bank

Chief Operating Officer, P&N Bank

Prasad Arav
Chief Digital and Transformation Officer

B.Eng, MMSc

Appointed 4 February2019

Prior to HBF:

Partner, McKinsey & Company

Head of Transformation, Westpac Banking Corporation

Warren Linnell
Chief Financial Officer

BCom, CA, GAICD

Until 27 September 2019

Prior to HBF:

Chief Financial Officer, DJ Carmichael

Group Financial Controller, Anite Telecoms (UK)

Simon Walsh
Executive General Manager, Strategy & Ventures

B.Eng (electronic), MBA, GAICD

Prior to HBF:

Executive Manager Customer & Corporate Services, Western Power

Chief Information Officer, P&N Bank

Pascal Kasimba
Chief Governance Officer

LL.B(Hons), LLM, DipLP, GAICD

Until 5 August 2019

Prior to HBF:

Head of Legal, Commonwealth Bank of Australia

Senior Legal Counsel & Head of Legal, Westpac Banking Corporation

Adam Stock
Executive General Manager, Governance and Risk

MSc, PMIIA

Appointed 8 August 2019

Prior to HBF:

Partner, Deloitte

Head of Internal Audit, UK Government

Donna Carrington
Chief Financial Officer

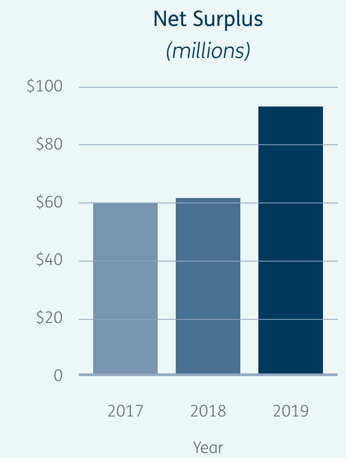
BCom, CA

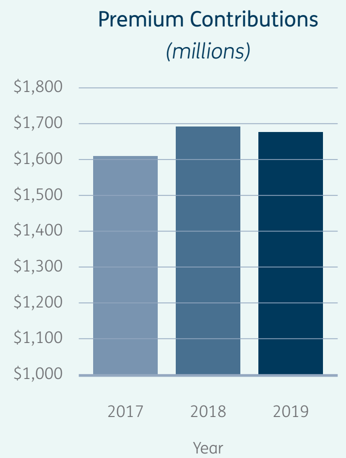
Appointed 16 September 2019

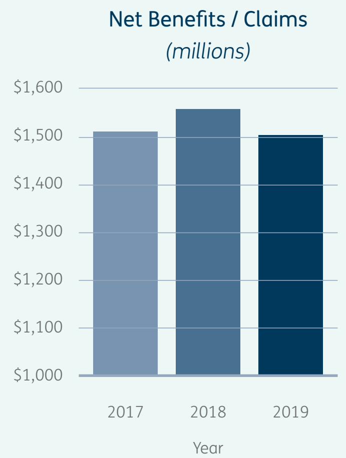
Prior to HBF:

Partner, Deloitte

Financial Performance & Strategic Overview







About HBF

HBF is a not-for-profit organisation incorporated under the *Corporations Act 2001 (Cth)*, and a Private Health Insurer under the *Private Health Insurance Act 2007*.

Founded in Perth in 1941, HBF has provided private health insurance to generations of Western Australians. Today, HBF is Australia's second-largest not-for-profit health fund, providing hospital, ancillary and general insurance to more than one million members nationwide.

Summary Group income statement

	2019 $'000	2018 $'000	Change %
Contributions / premiums	1,685,583	1,695,002	(0.6%)
Net benefits / claims	(1,503,068)	(1,560,437)	3.7%
Underwriting expenses	(154,366)	(133,417)	(15.7%)
Underwriting result / (loss)	**28,149**	**1,148**	**2,352.1%**
Commission income	15,285	14,956	2.2%
Other revenue	5,437	3,659	48.6%
Net investment income	65,939	56,664	16.4%
Other operating and administration expenses	(21,129)	(15,185)	(39.1%)
Surplus before income tax	**93,681**	**61,242**	**53.0%**
Income tax expense	–	(432)	100.0%
Surplus after income tax	**93,681**	**60,810**	**54.1%**

In 2019, HBF's surplus after income tax increased by $32.9 million (54.1 per cent) from the $60.8 million achieved in 2018. This was primarily due to an improved underwriting margin for the Health Insurance business and an increase in net investment income.

Premium revenue decreased by $9.4 million (0.6 per cent), due largely to:

- Decreased membership and member downgrades amid growing affordability concerns industry-wide, and a conscious decision by HBF to cease aggressive incentives on new business which were ultimately unprofitable; and
- A decrease in the average premium paid by HBF members as a result of membership downgrades and changes to HBF's health insurance products.

HBF's membership base reduced during the first half of 2019, before stabilising in the second six months.

Nationally, the health insurance market grew marginally (0.4 per cent), while HBF's West Australian and national market share dropped to 51.7 per cent (-1.36 per cent) and 7.5 per cent (-0.32 per cent) at 30 June 2019.

During the year, HBF delivered on its promise to keep premium increases to an absolute minimum. HBF's Government-approved premium increase of 1.94 per cent in 2019 was well below the industry average, the lowest of all major funds, and achieved despite national health inflation of around 4 per cent.

HBF's health insurance business contributed 99.1 per cent to the Group's total revenue (excluding net investment income) in 2019, with almost all revenue generated from health insurance policies sold to Australian residents and only a small amount generated from overseas visitors' health cover policies.

Net claims incurred by HBF members represented 89.2 per cent of contributions in 2019, down $57.4 million (3.7 per cent) on 2018 to $1.5 billion.

The key drivers behind the decrease in incurred claims were:

- A decreased utilisation of both hospital and general treatment benefits;
- Changes in product mixes with some services being removed from entry and mid-range products; and
- A concerted focus on reducing claims fraud and overcharging.

Underwriting expenses increased by 15.7 per cent reflecting the investment in HBF's strategic objectives under the pillars of Value, Simplicity and Transparency.

Commission income earned by HBF relates to the sale of general and life insurance products to its members. HBF general insurance products are underwritten by Insurance Australia Group Limited (IAG), while the life insurance products are provided by Zurich Australia Limited. Commission income for 2019 was relatively unchanged from last year, as a highly competitive market put pressure on new sales, and affordability issues resulted in members downgrading to lower-priced products.

Other revenue grew by $1.8 million, primarily due to the profit on sale of the Group's investment in Whitecoat Operating Pty Limited.

Net investment income increased by $9.3 million (16.4 per cent) in 2019 primarily due to higher returns from equity markets while low interest rates continued to affect term deposit returns. The overall investment return for the year was 4.3 per cent (2018: 3.9 per cent).

Operating and administration expenses increased as a result of costs associated with remediation activities under the Member Promises Review and an increased allocation to Corporate Social Responsibility activities.

Group financial position and capital management

	2019 $'000	2018 $'000	Change %
Assets			
Cash and cash equivalents	57,642	50,593	13.9%
Receivables	103,062	110,443	(6.7%)
Financial assets at fair value through profit or loss	1,635,783	1,514,378	8.0%
Property, plant and equipment	26,147	134,682	(80.6%)
Intangible assets	3,380	7,883	(57.1%)
Non-current assets classified as held for sale	105,488	7,150	1,375.4%
Deferred acquisition costs	11,804	20,694	(43.0%)
Investments	-	500	(100.0%)
Total assets	**1,943,306**	**1,846,323**	**5.3%**
Liabilities			
Insurance liabilities	450,156	462,468	(2.7%)
Trade and other payables	39,016	16,160	141.4%
Employee benefits	12,633	12,545	0.7%
Total liabilities	**501,805**	**491,173**	**2.2%**
Net assets	**1,441,501**	**1,355,150**	**6.4%**
Equity			
General reserve	111,513	111,513	0.0%
Retained earnings	1,314,408	1,220,727	7.7%
Asset revaluation reserve	15,580	22,910	(32.0%)
Total equity	**1,441,501**	**1,355,150**	**6.4%**

During the 2019 financial year, HBF's net assets increased by $86.4 million (6.4 per cent). The major balance sheet movements during the year were:

- A $121.4 million increase in financial assets at fair value through profit or loss, primarily due to the strong performance of investments in domestic and international equities.
- A $108.5 million decrease in property, plant and equipment primarily as a result of the 570 Wellington Street property being treated as asset held for sale as at 30 June 2019. The Group is in final stages of negotiations of selling and leasing back its Head Office.
- The $98.3 million increase in assets held for sale relates to the currently negotiated sale and leaseback of 570 Wellington Street, proposed disposal of future trail commissions (commission income accrued) back to Zurich and the sale of HBF Pharmacy Pty Ltd in August 2019.
- An increase in trade and other payables of $22.9 million primarily due to the commitment to pay members remediation costs and outstanding payments for our investment in new technology.

HBF is well capitalised and in a strong financial position. At 30 June 2019, assets exceed both the amount required by the Australian Prudential Regulation Authority (APRA) and HBF's internal capital requirement. As a not-for-profit health fund HBF does not have access to capital markets and consequently holds a higher level of capital to ensure members' needs are protected in the short and long term. In doing this, HBF looks to maintain a balance between providing value to members and maintaining the financial strength of the fund.

Financial Performance & Strategic Overview

Strategy

HBF's purpose, vision and values were reset during the financial year, reaffirming the Group's clear commitment to put members' interests ahead of all others.

The foundations of HBF's strategy – Our purpose, vision and values

This year we have continued to prioritise activities that will deliver better outcomes for our members, particularly in areas where we know many have concerns, such as: rising premiums; declining confidence in the value of private health insurance; health insurance complexity; and transparency of communications between insurers and members. Below is a summary of key activities HBF has undertaken during the year to address these concerns.

Affordability

Making health insurance more affordable is the major challenge facing all private health insurers. In 2019, we were determined to minimise our members' premium increases. This is evidenced by HBF's 1.94 per cent average premium increase this year – the lowest of all the major insurers, and well below the industry average of 3.25 per cent. To achieve this, we continued to improve our efficiency and reduce expenditure as summarised below:

Hospital contracting

Addressing the disparity in fees charged by hospitals to health insurers was a high priority during the year. We continue to work hard to negotiate more competitive accommodation rates with the major hospital groups, which will help keep member premium increases as low as possible.

Fraud reduction

A priority for HBF's Business Integrity division has been the review and improvement of internal systems and processes to ensure HBF only pays benefits on legitimate claims, and to identify and take appropriate action in cases of fraudulent claiming. The division's efforts this year resulted in $20 million in fraud and overcharging recoveries, an increase of $5 million over last year. Notably, 18 criminal prosecutions were completed during the year.

Product refinement

Following a comprehensive review, benefits and limits for some Extras services were reduced, to ensure the sustainability of some products and to bring down the cost of those products for most members. Under the same review, benefits also increased for some services including physiotherapy, chiropractic, osteopathy and podiatry.

HBF is also on track to ensure our Hospital insurance products comply with the Federal Government's new Gold, Silver, Bronze and Basic categorisation by April 2020. The five Hospital products we sell are now compliant with the new tiers, and work is underway to ensure our products no longer for sale also comply.

The result will be a more affordable and sustainable product range which is attractive to price-conscious consumers seeking affordable health insurance.

Investment management

HBF's ability to keep premium increases low is inextricably linked to the performance of our investments. HBF this year enlisted the expertise of Reserve Bank of Australia Board member, Mark Barnaba. Mr Barnaba was appointed Chair of a new specialised Investment Committee to manage HBF's investment portfolio.

Property divestment

HBF's rationalisation of property holdings included the sale of our William Street premises and relocation of our Perth branch to the ground floor of HBF head office at Kings Square. The sale and relocation is expected to deliver a materially better return on members' capital.

Broker sites withdrawal and new member incentives removal

We continued our commitment to our existing members to cease costly activities previously adopted to acquire new members. This included our continued withdrawal from comparison sites such as iSelect and Compare the Market, which involved paying high commissions to gain new members. We also continued our policy of not offering short-term incentives to attract new members, instead focusing on delivering value and retaining the loyalty of our existing membership.

Financial Performance & Strategic Overview

Value

We continually look for opportunities to offer our members greater value.

Out of pocket costs
The Commonwealth Ombudsman's *2018 State of the Health Funds Report* confirmed, that in many cases, HBF members experienced lower out of pocket costs, compared to members of the four other major insurers. In WA hospitals, HBF covered the greatest percentage (96.1 per cent) of hospital treatment costs and had the greatest percentage (99.7 per cent) of medical services covered with no or known gaps. Of the majors for dental treatment nationally, HBF covered the greatest average percentage of dental services (60.8 per cent).

Pharmacy growth
Members are known to value the preventative health services delivered through HBF's pharmacy franchise, Friendlies. These services grew significantly during the year, with 50,732 free flu vaccinations delivered to members in 2019, compared to 27,956 in 2018.

In August 2019, HBF sold the Friendlies Pharmacy master franchise, under which 31 WA pharmacies currently operate, to leading West Australian pharmacy group, Pharmacy 777. The sale marked the beginning of an alliance, which combines the Pharmacy 777 and Friendlies Pharmacy networks under the Pharmacy 777 brand to expand the reach of preventative health services provided to HBF members in pharmacies. Uniting the two pharmacy networks under the Pharmacy 777 brand will approximately double the number of pharmacies providing services such as free flu vaccinations and health checks to HBF members, which will result in thousands more HBF members having ready access to the health services that come with HBF membership.

Simplicity

We are determined to make health insurance simpler for our members.

Product rationalisation
Before the Government's reforms to private health insurance were finalised, we were already well advanced in a review of our products to make them simpler and more affordable. In January 2019 we launched a consolidated product range (five Hospital products and five Extras products, compared to 28 products previously). We encourage our members to regularly review their policies, to ensure they are suitable for their current health needs. So when it's time to adjust their policy, it's now far simpler for members to compare their options.

Technology investment
In January 2019 HBF established a dedicated division within our business, charged with replacing our ageing technology platform with the latest digital technology. Following a comprehensive tender process for the $200 million upgrade, we expect to confirm our new technology partners before Christmas 2019. Our enhanced digital capabilities will enable us to provide far more intuitive and personalised service for our members.

Transparency

We take seriously our obligation to always be clear and honest with members. And if we fall short, we will always correct our mistakes.

Member Promises Review

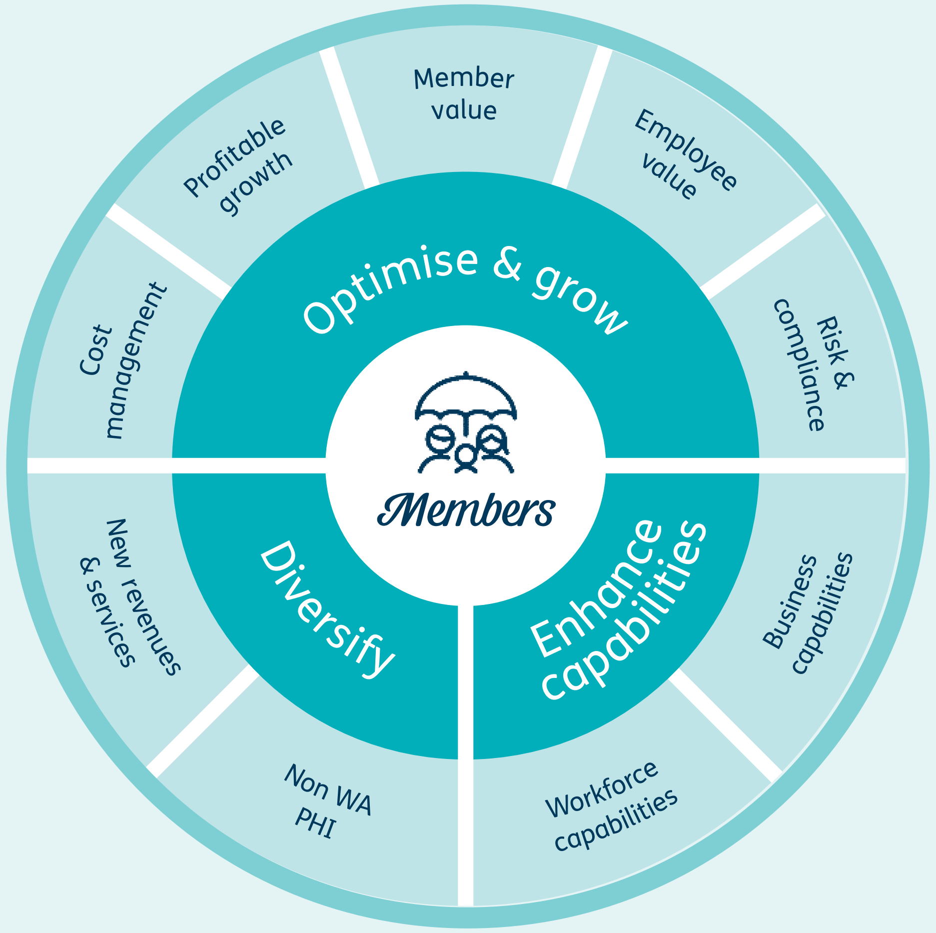
During the year, HBF undertook a thorough internal review, exploring and analysing every part of our business to ensure we are 'doing the right thing' by members, and proactively addressing any concerns.

We identified a relatively small number of errors during this process and proactively commenced a program of work to resolve them and remediate members where necessary.

This included remediation to a portion of past and current general insurance members because we had not correctly applied a discount they were entitled to.

Future focus

In the coming year HBF will enact a variety of strategies to deliver better outcomes for our members. Our intention is to optimise and grow our existing private health insurance business, diversify the Group's revenue streams and services and enhance the capabilities of our people and operations. By redeploying capital into a significant investment in technology and building our operational and employee capabilities, we will maintain the high-quality health insurance our members are accustomed to at an affordable price. We will also inject additional value for HBF members and dramatically improving their in-person and digital experience with us.



HBF strategy blueprint

Corporate social responsibility

As a trusted, not-for-profit organisation, established to improve the health of Western Australians, an important WA employer, and one of Western Australia's most prominent brands, we recognise that we must be more than just a well-managed health insurer for our members.

We are committed to the following principles:

- Placing our members' interests first in our operations and decision-making;
- Providing our people with opportunities to thrive in a safe, supportive, diverse and respectful workplace;
- Actively connecting with, and supporting, the communities in which we operate and;
- Operating as a socially responsible not-for-profit organisation.

Workforce

A happy and healthy workforce is critical to HBF 'being there for our members in the moments that matter'. So, we are committed to providing our people with a positive working environment and the support they need to live well, both at work and at home.

In addition to providing competitive remuneration, HBF encourages employees to look after their health and wellbeing by offering free preventative health benefits including annual health checks, flu vaccinations, weight loss and quit smoking programs, two paid days off each year to look after their health and access to free counselling and psychological support 24-hours a day.

Employees are encouraged to contribute to our community through blood donation drives, paid volunteering days and workplace giving programs.

Members

As a not-for-profit fund, our members' interests lie at the heart of everything we do. We continually review our business processes and member service, exemplified by our Member Promises Review this year, and if we find we have fallen short, we will always correct our mistakes.

In addition to providing quality health insurance, we also provide our members access to a range of discounts and free health services to help them live a healthier, happier life. These include preventative services like free health screenings and flu vaccinations and wellbeing incentives like discounts at gyms, HBF Stadium and HBF Arena and free outdoor fitness classes. HBF also provides members who have chronic health conditions support to stay healthy and out of hospital.

In 2019, Friendlies Pharmacies delivered 50,732 free flu vaccinations and 3,467 health checks to HBF members. Over 22,000 participated in free exercise programs and 249 received assistance via our personalised telephone health coaching program, designed to help members with heart health concerns and type 2 diabetes reduce their risk factors and achieve better health.

50,732

Free flu vaccinations

22,000

People attended free exercise programs

Community

HBF is determined to be a force for good in the community.

Since launching in 2010, HBF Run for a Reason has grown to become our State's most popular community walking and running event and the second-largest event of its type in Australia. The 33,323 participants this year helped bring our fundraising from the event over the past decade to over $10 million.

During the year HBF also launched a new Community Engagement Program which includes employee workplace giving, fundraising, quarterly donations to local good causes, volunteering and blood donations by HBF employees to the Australian Red Cross Blood Service.

As part of the Program we also launched a new Community Partnership, whereby every year we will partner with an organisation making a significant positive difference to the health of West Australians. HBF will provide up to $300,000 over three years to each community partner to help progress their important work in the WA community.

Looking forward, our strong financial results this year have enabled us to set aside $1 million per year, for the next four years, to return back to the community through initiatives such as medical research.

Sustainability

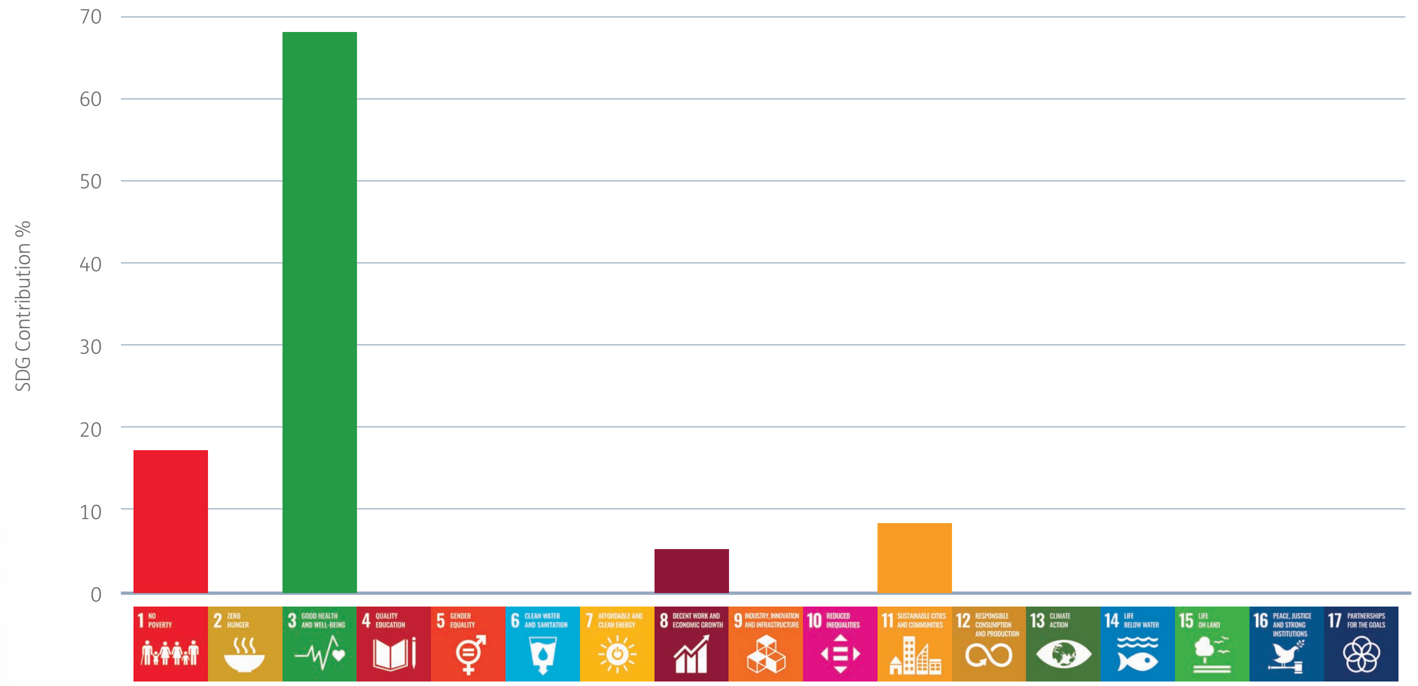
HBF is committed to the highest standards of corporate governance and adopts clear and transparent reporting to ensure we remain accountable for our actions and performance. In 2019 we commissioned sustainability consultancy, Sustainable Platform to conduct an independent assessment of HBF's sustainability position, to measure our contribution to the UN Sustainability Goals (SDGs) and benchmark us against other comparable organisations.

The findings of the assessment were encouraging and found that HBF has a highly positive impact in the areas described in the UN SDGs. The nature of our business means that we are a major contributor to UN SDG #3: Health & Wellbeing, but HBF also contributes to a lesser extent to other UN SDGs (SDG #1 - No Poverty; SDG #11 - Sustainable Cities and Communities; and SDG #8 – Decent Work and Economic Growth).

Importantly HBF also has a low negative impact in areas such as environment. Overall the report gives HBF a 'Very High' score for sustainability contribution and places HBF in the top 14 per cent of global companies for its net SDG contribution.

SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainability Goals provide a blueprint to achieve a better and more sustainable future for all. HBF's contribution to the UN Sustainable Development Goals as a proportion of business activities are shown below.



Financial Performance & Strategic Overview

Material business risks

The HBF Board is ultimately responsible for HBF's Risk Management Framework, and for the oversight of its operation by management. The Board is supported in this role by the Risk Committee and the Audit Committee.

The HBF Board is responsible for reviewing and approving the Risk Management Strategy, which describes HBF's material risks and the approach to managing them within the Board-approved risk appetite.

Material risks are categorised in a manner consistent with the Australian Prudential Regulation Authority's (APRA) Prudential Standard *CPS 220 Risk Management* as described in summary form in the table below.

Credit risk	HBF's key exposure to credit risk is via its investment portfolio. HBF manages its risk by limiting exposure to counterparties in line with Board-approved risk tolerances.
Market and investment risk	Exposure to market risk is limited to approved direct and indirect investments in asset classes as set out within the Group Investment Policy. Investment risk includes HBF failing to manage its investment portfolio to meet risk and return objectives. The Group Investment Policy sets the parameters for acceptable investment options.
Liquidity risk	In order to ensure that assets are sufficiently liquid to meet financial obligations at all times (including in a stressed environment during which there are timing and cash-flow mismatches), minimum liquidity requirements are set out within a Board-approved Liquidity Management Plan (contained with the Capital Management Policy).
Insurance risk	Insurance risk at HBF is managed within three key areas of focus, being product development risks, pricing risks and claims management risks. HBF aims to achieve sustainable profitable growth in the delivery of private health insurance to members. HBF undertakes activities that improve the private health insurance offering to ensure members choose HBF over other funds based on private health insurance value proposition (product, price, service and brand).
Strategic performance risks	
Geographic risk	Geographic concentration risk recognises that HBF currently has a majority of its policies supplied in Western Australia and derives a majority of its private health insurance revenue from WA. HBF has an approved strategy to address geographic concentration risk, which includes exploring expansion opportunities outside of WA.
Market sector risk	Market sector risk recognises that HBF currently generates 99 per cent of its revenue from private health insurance business. HBF has an approved strategy to address market sector risk, which includes exploring growth opportunities into adjacent business and product offerings.
Competitiveness risk	Competitiveness risk recognises that an erosion of market position results in a weakened negotiating ability, less competitive products, loss of members, and decline in financial performance leading to further loss of market share to competitors. HBF has an approved strategy to address its competitiveness in the market, including active portfolio and product management, contract negotiation and projects to improve its underlying cost base.
Affordability and sustainability risk	Private health insurance affordability risk recognises the growing consumer sentiment that the cost of maintaining private health insurance is becoming less affordable, and that these concerns may lead to an erosion of HBF's customer base and long-term sustainability. HBF has a strategy to address the affordability risk through its Transformation Programme.

Operational risks	
Business interruption risk	HBF recognises the potential strategic, operational, financial and reputational risks associated with service interruptions. HBF has a crisis management plan and activity-based business continuity plans, which includes redundant data processing capability. HBF is confident of maintaining critical business processes with minimum impact in the event of an emergency or major disruption.
Financial loss prevention, detection and recovery risk	Fraudulent and inappropriate benefit payments can arise from internal or external sources, and expose HBF to the risk of financial loss and reputational harm if not managed adequately. HBF has a dedicated business unit charged with preventing and identifying such activities. Where inappropriate activities are discovered, this team has the full authority of the Board to recover funds misappropriated.
Technology and cyber risk	Information technology assets are required to meet HBF's strategic and business objectives, and ultimately, provide member service. Technology operational risks, such as continuity of service, inappropriate or unauthorised systems access, system availability and disaster recovery and cyber security risks are identified and managed within Group divisional risk registers.
Health, safety and wellness risk	Health, safety and wellness risk includes a failure to provide and maintain a safe working environment that actively promotes a positive culture of safety, health and wellbeing. HBF is committed to the health, safety and wellbeing of our employees and their protection from physical or psychological harm, and has programs which actively promote safe ways of working, as well as providing an employee assistance program for all employees who may require professional assistance.
Regulatory compliance risks	There is increased regulatory compliance obligations and regulatory scrutiny being applied across the entire financial sector. HBF recognises there is a risk of not meeting legislative, regulatory and statutory license requirements in the face of such change. HBF has a regulatory compliance function which identifies regulatory change and has processes to embed these into business operations as necessary.

Governance Report

HBF is committed to aligning itself with best practice corporate governance principles such as those found in contemporary Australian and international standards, and the Australian Stock Exchange Corporate Governance Council's *Corporate Governance Principles and Recommendations.*

HBF applies these principles in a manner consistent with its governance structure and status as a not-for-profit membership organisation, to lay solid foundations for management and oversight of operational activities, promote ethical and responsible decision making, and to structure the Board to add value while identifying and managing risk.

Governance structure

HBF has established a Council of member representatives and together with the Board of Directors, Council plays an important role in the oversight and governance of the HBF Group. Corporate governance processes are detailed in the *HBF Constitution, Governance Regulations* and *Board Charter* which are available on the HBF website.

Council

HBF is a membership-based organisation operating under mutual principles. Councillors are appointed as the 'formal members' of the company. Council meets at least once each year and its role is to ensure suitable persons are elected to Board positions, Director remuneration is appropriate and to act as guardians of the *HBF Constitution.*

The HBF Council comprises:

- Elected Councillors who are elected by a ballot of Registered Policy holders
- General Councillors who are elected by General Councillors
- Board Councillors comprising the Board Chair and five longest-serving Directors.

To hold a position on the Council, all individuals must continuously meet independence requirements as outlined within the *HBF Constitution.*

The following individuals held the office of Councillor during the financial year unless otherwise stated:

Elected Councillors	General Councillors	Board Councillors
Anthony Evan	Jodie Hede	Rod Moore
David Brown	Steven Cole	Tony Crawford
Michael Gurry	Jeff Dowling	Richard England
Moira Watson	Fiona Kalaf	Brent Stewart
David Carvosso	Will Moncrieff	Helen Kurincic
Susan Milos	Valerie Davies	Gai McGrath
	Peter Moore	
	Wendy Newman	
	Kenneth Perry	
	Tri Suseno	
	Suzanne Ardagh*	

Ceased role of General Councillor on 5 March 2019

Board

The HBF Board has overall responsibility for corporate governance of HBF Health Limited and subsidiaries. This includes compliance with all legal and regulatory obligations including those required by the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), Department of Health (DOH), Department of Human Services (DHS) and Australian Competition and Consumer Commission (ACCC).

The Board, through the application of good governance principles, is responsible for the effective oversight of the organisation and, remains accountable to all members via the Council for the performance of the HBF Group. The Board, and Board Sub-Committees meet regularly in accordance with an annual meeting schedule while additional meetings are called as required to deal with specific matters requiring attention. The Board also holds planning days to review HBF's strategic direction and set the context for development of the annual business plan.

Roles and responsibilities of the Board and Management

The role of the Board is to provide leadership and strategic guidance to the HBF Group and oversee implementation of HBF's strategic initiatives by Management. The role, responsibilities, structure and processes of the Board are detailed in the *Board Charter.*

Without preventing the exercise of any powers by the Directors, the *HBF Constitution* permits the Board to delegate any powers exercisable by it to the Chief Executive Officer. As such, the Board has delegated responsibility for the operational and administrative management of HBF to the Chief Executive Officer as detailed in the *HBF Delegation of Authority Policy.* Specific responsibilities have been retained by the Board in the areas of strategy, governance, executive appointments, financial approvals and risk management.

Among other things, the Chair is responsible for leading the Board in relation to all corporate governance issues and providing support and guidance for individual Directors and the CEO. The Chair is also responsible for fostering a positive and constructive relationship with members and other stakeholders and representing and communicating the Board's position on relevant matters.

HBF has a written agreement with each Director setting out the terms of their appointment, remuneration, time commitment and other arrangements and obligations. Directors are expected to make effective and appropriate contributions in order to discharge their fiduciary duties and enable Board to perform its role effectively. The role of Directors is further detailed in the *Board Charter.* Directors must also comply with the duties imposed on them by the *Corporations Act 2001 (Cth)* and relevant regulations. Directors agree to be bound by the *HBF Code of Conduct* and the *Australian Institute of Company Directors Code of Conduct.*

The *Board Charter* states that the Company Secretary is directly responsible to the Board, through the Chair, for all matters relating to the proper functioning of the Board.

Structure and composition of the Board

The *HBF Constitution* requires the Board to have a minimum of six and no more than nine members of whom a majority must be independent. As of the date of this report, the Board comprised an independent Non-Executive Chair, five independent Non-Executive Directors and one Executive Director. Professional biographies for each Director including their length of service can be found in the Directors' Report.

Governance Report

The Board regularly reviews its composition to ensure optimal skills mix and diversity, including diversity of thought, exist on the Board, which contributes to the continued flow of new ideas and fresh thinking.

Independence

When carrying out their responsibilities, Directors are required to ensure they are free from any interest or other relationship which could or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the organisation. Directors must ensure they understand the business risks facing the HBF Group and the frameworks and processes employed to mitigate and manage these risks. The Board assesses the independence of Directors on appointment and annually by an attestation by each Director. When reviewing the independence of Directors on an annual basis, the Board applies best practice principles and relevant criteria prescribed by APRA and other regulators.

Appointment and re-election of Directors

Directors are appointed, reappointed and removed from the Board of HBF in accordance with the *HBF Constitution*. Where a vacancy arises, the Board may appoint an individual as a Director by ordinary resolution for a term that expires on commencement of the next Annual General Meeting. At the conclusion of the casual vacancy term, the individual remains eligible for election to membership of the Board.

When a Board vacancy does arise, the Nomination and Remuneration Committee identifies and assesses competencies that maintain the skills, experience and expertise required for the continued effective operation of the Board. When recruiting new Directors, and before recommending a candidate for appointment, appropriate checks are performed to confirm eligibility criteria, including independence, are met.

Director induction, education and access to information

The Board requires all newly-appointed Directors to complete a formal induction program which includes meetings with Executives, tour of facilities and reading materials. Directors are expected to undertake continuing professional development in keeping with the minimum membership requirements of the Australian Institute of Company Directors. Where required, Directors are provided with resources and training to further improve their knowledge and skills in specific areas.

All Directors have unrestricted access to organisation records and information. Each Director enters into an access and indemnity deed with HBF allowing them to access relevant documents after retirement for the longer of seven years or the completion of any action, enquiry or hearing in which they are involved. Directors regularly consult with and request information from management. They may also source external professional advice, as considered necessary, at the expense of HBF subject to prior consultation with the Chair.

Board skills mix

The *HBF Constitution* requires the Board to have the necessary skills, experience and knowledge to guide the business of the HBF Group and in meeting its legal and prudential obligations. This may include collective skills, experience and knowledge in the areas of health services, insurance, commerce, finance, accounting, corporate and general management, marketing and law.

Board performance evaluation

The Board has established a process to regularly assess and review its composition and performance and its Sub-Committees, while seeking opportunities for continuous improvement.

This process includes annual surveys, one-on-one meetings coordinated by the Board Chair and an external review conducted every three years. Processes are forward-focused and directed at ensuring the Board and its Sub-Committees are equipped with appropriate skills to deliver on the strategic plan and address future challenges.

The Board assesses the performance of the CEO and Executives against key corporate, strategic and operational objectives as determined in its annual planning and review cycle.

Sub-Committees of the Board

The Board has established four standing Sub-Committees to assist it to fulfil its obligations.

The Charter for each committee is available on the HBF website. Each committee comprises Non-Executive Directors and has an independent Chair. The Committees meet approximately four times per year and additionally as required.

Audit Committee
Role: Oversight of financial reporting, internal and external audits and actuarial performance.

Members: Richard England (Chair), Helen Kurincic, Dr Rod Moore, Lisa Palmer (retired January 2019)

Nomination and Remuneration Committee
Role: Oversight of Board and Director performance, Director and CEO appointments, and the remuneration framework.

Members: Tony Crawford (Chair), Richard England, Helen Kurincic, Mary Woodford (retired October 2018)

Risk Committee
Role: Oversight of risk management, internal control, compliance and insurance.

Members: Helen Kurincic (Chair), Brent Stewart, Richard England, Gai McGrath, Mary Woodford (retired October 2018), Lisa Palmer (retired January 2019)

Transformation Committee
Role: Oversight of the adequacy and effectiveness of the Business Transformation Programme.

Members: Brent Stewart (Chair), Tony Crawford, Gai McGrath, Dr Rod Moore (until May 2019)

The individual attendance of Directors at the various standing committee meetings held during the year is set out on page 31 of the Annual Report.

Executive Leadership Team

The following individuals were senior Executives at 30 June 2019:

Mr John Van Der Wielen
Chief Executive Officer

Ms Selina Torrance-Duncalf
Executive General Manager – Member Experience

Mr Prasad Arav
Chief Digital & Transformation Officer

Mr Warren Linnell
Chief Financial Officer

Mr Simon Walsh
Executive General Manager – Strategy & Ventures

Mr Pascal Kasimba
Chief Governance Officer

New appointments to the Executive post 30 June 2019 are:

Mr Adam Stock
Executive General Manager Governance & Risk

Ms Donna Carrington
Chief Financial Officer

Ethical standards

All Board members, Executives and employees are required to observe the highest standards of ethical, moral and legal business conduct. The Board requires Directors to comply with the principles set out in the *Australian Institute of Company Directors Code of Conduct* and the *HBF Code of Conduct*. The Board also requires Directors to properly manage any actual, potential or perceived conflicts of interest.

A Director who has a material personal interest in a matter which relates to the affairs of the HBF Group must give the other Directors notice of such interest. The Company Secretary maintains a register of standing Director declarations of interest and reports these to the Board. A Director who has a material personal interest in a matter being considered at a meeting of the Directors is not permitted to be present at the meeting while the matter is being considered or vote on the matter except as permitted by the *Corporations Act 2001 (Cth)*.

Executives and employees are required to act with honesty and integrity at all times and in accordance with the *HBF Code of Conduct*, HBF policies and procedures and any applicable laws, regulations and industry codes of practice. Executives and employees are required to report any actual, potential or perceived conflicts of interest between their duties and responsibilities to the HBF Group and personal interests. These include personal relationships, other employment, membership of social or sporting groups or ownership of shares or companies. Where there is a conflict of interest, HBF may remove the individual from the decision-making process or put in additional steps to ensure impartiality is maintained.

All Board members, Executives and employees are required to comply with legal, ethical and other obligations related to privacy and confidentiality.

Executives and employees undertake not to disclose or make use of confidential information, unless expressly authorised or required by law. They must also maintain proper and secure custody of all confidential information.

Diversity

HBF values diversity, where everyone – including colleagues, members, suppliers or other third parties – are treated with respect, equality and dignity. By valuing diversity internally and acknowledging the differences individuals bring to the workplace, HBF can better understand and meet our members' needs.

Our commitment to equality is documented in organisation-wide policies related to recruitment and retention of employees, promotion, talent identification and provision of training and development.

HBF employees must provide individuals equal opportunity regardless of ethnicity, nationality, pregnancy or family responsibilities, race, religion, gender, age, sexual orientation or preference, physical or mental impairment, political stance or any other prohibited attribute. HBF does not tolerate behaviours that could be considered harassment (sexual or otherwise), bullying (including cyber bullying), direct or indirect discrimination or other inappropriate behaviour that causes offence to another individual.

HBF's Gender Equality Indicators are reported to the Workplace Gender Equality Agency annually in accordance with the *Workplace Gender Equality Act 2012*. As of 12 September 2019, females accounted for:

- 66% of the workforce
- 32% of executives
- 28% of senior managers
- 52% of all manager promotions
- 77% of all non-manager promotions

At the date of this report, two out of seven Board members are female.

Governance Report

Integrity of financial reporting

The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for financial risk management, compliance and internal control.

The Audit Committee provides a non-executive review of the effectiveness of HBF's financial reporting framework, and assists the Board in carrying out its accounting, auditing, and financial reporting responsibilities.

Audit Committee members are appointed based on their qualifications and experience to ensure the Committee can adequately discharge its duties. At least one Audit Committee member is also a member of the Risk Committee. Any Director may attend committee meetings. Representatives of management, the internal auditor, the Appointed Actuary, and external Appointed Auditors are invited to attend Audit Committee meetings.

Financial reporting assurances

The preparation of the full year financial statements is subject to a detailed process of review and approval by the Board supported by the Audit Committee.

In line with good governance practice, HBF seeks to align its financial governance practices with those detailed in the *Corporations Act 2001 (Cth)* in relation to financial reporting assurance, specifically section 295A. The Chief Executive Officer and Chief Financial Officer provide the Board with a declaration confirming the financial records of HBF have been properly maintained, and the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. The declaration indicates the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the full year ended 30 June 2019.

HBF's external auditor is Ernst & Young (EY). EY attends HBF's Annual General Meeting and is available to answer any questions Councillors may have in relation to the audit and financial statements.

Internal audit

HBF's internal audit function was performed by KPMG and PwC.
The internal auditor provides an independent and objective review of the adequacy and effectiveness of HBF's risk management framework and related internal control systems. In order to maintain independence of the function, the annual Internal Audit Plan and scope of individual audits are reviewed and approved by the Audit Committee. The annual Internal Audit Plan is developed using a risk-based approach and is informed by HBF's strategic and risk profiles. The internal auditor has full access to all records, properties and personnel of HBF and reports to the Audit Committee.

Risk management framework

Material business risks are identified and appropriately managed in accordance with an enterprise-wide risk management framework. This framework is in place throughout the organisation including in strategic and business planning and performance reporting, ensuring a consistent approach.

The framework complies with all HBF Group regulatory obligations including the Australian Prudential Regulation Authority (APRA) Prudential Standard *CPS 220 Risk Management (CPS 220)* and is aligned to *AS/NZS ISO 31000:2018 Risk management*.

The Risk Management Framework, reviewed on an annual basis, includes the *Risk Appetite Statement*, the *Risk Management Strategy*, the *Capital Management Policy* and the policies, procedures and resources required for the management of HBF's material risks. The Board sets the HBF Group's risk appetite including risk tolerance, risk limits and triggers to be actioned by management.

The *Risk Management Strategy* facilitates successful delivery of the HBF Group's strategic and operational business objectives.

The strategy is reviewed annually as part of strategic and business planning to ensure material risks and actions to treat or control the risks are identified. The strategy also sets out risk culture objectives designed to guide operational activities to continuously improve risk culture.

HBF's material business risks are provided in the Material Business Risks section of the Operating and Financial Review in the Annual Report.

The Risk Committee assists the Board through the regular review of the risk management framework, confirming the appropriateness of, and effectiveness of the implementation and internal control systems, to adequately identify, assess, manage and report on the risks that could prevent the Group from achieving its objectives and have a material impact on the business.

Risk Committee members are appointed based on their qualifications and experience to ensure the committee can adequately discharge its duties. At least one Risk Committee member is also a member of the Audit Committee. Any Director may attend committee meetings. Representatives of management, the internal auditor, the Appointed Actuary, and the external Appointed Auditors are invited to Risk Committee meetings as required.

"The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for financial risk management, compliance and internal control.

Board & Executive Director Remuneration Report

> "...growth on a national basis, will require HBF to have the best people.

In 2018, and for the first time in HBF's history, the Board agreed to include within the Annual Financial Report, a Remuneration Report for the Executive Director and Non-Executive Directors. As an unlisted, not-for-profit entity, HBF has no obligation to provide remuneration information for Directors. However, we believe making such a disclosure remains an important aspect of our annual reporting which informs our members and other stakeholders

Our remuneration approach

In 2019 we refined our approach to Executive remuneration to address the risks associated with the competitiveness of the health insurance and financial services sector in which HBF operates. The responsibilities associated with managing a business with revenue of $1.7 billion, returning over $1.5 billion to members, means HBF must attract and retain Executives of the highest calibre.

In the highly challenging environment faced by all Australian health insurers, our ability to deliver on our strategic objectives will depend on having an engaged, high performing workforce.

The Board recognises that the major changes associated with executing a new strategy to deliver improved affordability for our members and growth nationally will require HBF to have the best people, and that appropriate remuneration represents an investment in the company's long-term sustainable future.

The Board recognises the need to align remuneration principles with the interests of our members. These principles are taken into consideration by the Board in their determination of the *Remuneration Policy* and relevant incentive plans. We believe this approach, with a balanced scorecard including both financial and non-financial measures drives improved operational performance, satisfactory risk management, compliance to applicable prudential standards and meets the expectations of our members and stakeholders.

Tony Crawford
Chair, HBF Board and Nomination & Remuneration Committee

1. Key terms

Throughout this report, the following terms have the meanings below:

- 'Company' and 'HBF' means HBF Health Limited
- 'Executive Director' refers to the Chief Executive Officer
- 'LTI' means long-term incentive
- 'STI' means short-term incentive
- 'TFR' means total fixed remuneration which is the combination of annual base salary and superannuation

2. Remuneration governance

Nomination & Remuneration Committee

The role of the Nomination and Remuneration Committee ('Committee') is to assist the HBF Board in fulfilling their responsibilities relating to the remuneration of the Non-Executive Directors and the Executive Director. These responsibilities include, to:

a) Review, advise and make recommendations on the remuneration of Directors of the Board and any Director fee pool;

b) Annually review and recommend to the Board on the appropriateness of any fixed remuneration and performance-based remuneration arrangements for the Executive Director;

c) Annually review and recommend to the Board the *Remuneration Policy*, incentive plans and appropriate measures and targets associated with those plans;

d) Assess the effectiveness and alignment of the *Remuneration Policy* with the requirements of applicable prudential standards;

e) Make annual recommendations to the Board on the remuneration arrangements of the Executive Director and all other Executive roles in respect of:

   i. All fixed executive remuneration payments;

   ii. Incentive plan measures and targets;

   iii. Assessments against incentive measures and targets;

   iv. All incentive payments; and

   v. All termination payments where appropriate.

f) Ensure superannuation arrangements for the Group employees are appropriate.

In addition, the Committee makes recommendations to the Board on key elements of HBF's people strategy which includes ensuring the organisation is developing our talent, engaging our people and has robust succession plans for key talent in place. The Committee, which meets four times a year, is composed of three Non-Executive Directors. In the 2019 financial year these members were:

- Tony Crawford (Chair)
- Helen Kurincic
- Richard England
- Mary Woodford (retired October 2018)

Further information regarding the Committee members can be found in the Governance Report and the *Committee Charter* can be found on the HBF website.

Remuneration advisor

During the 2019 financial year the Board engaged an external independent remuneration advisor, regarding the development and review of incentive programs for the Executive roles and Senior Leadership Team; fixed and variable remuneration benchmarking; and preparation of the annual Remuneration Report. The external advisor has supported the Committee by providing data and reports on various remuneration matters without undue influence from HBF management.

3. Remuneration framework

Remuneration policy, principles and relationship with company performance and risk management

With input from the external remuneration advisor, the Committee has developed and implemented an equitable and transparent remuneration framework which promotes desired behaviours consistent with the performance and risk management culture in HBF. This framework applies to all Directors, Executive roles and employees within HBF, and includes a *Remuneration Policy* which outlines remuneration principles and how performance within the organisation is rewarded. When developing the remuneration framework, the Committee considers both financial and non-financial objectives such as risk management, customer satisfaction and employee engagement.

The principles contained within the *Remuneration Policy* are subject to continuous review and are updated by the Committee. These principles ensure that the remuneration framework:

a) Supports the risk management framework and financial soundness of HBF;

b) Does not compromise the independence of individuals responsible for risk and financial control when carrying out their duties;

c) Enables HBF to attract and retain individuals with the required calibre, skill and experience through appropriate levels of remuneration;

d) Is drafted in an appropriate manner to ensure employees are not able to influence or approve any aspect of their own remuneration; and

e) Allows an annual external review of the Executive Director and other Executive roles to be conducted by an independent third party from time to time. The Committee may recommend changes to executive remuneration to the Board for consideration.

4. Executive Director remuneration framework

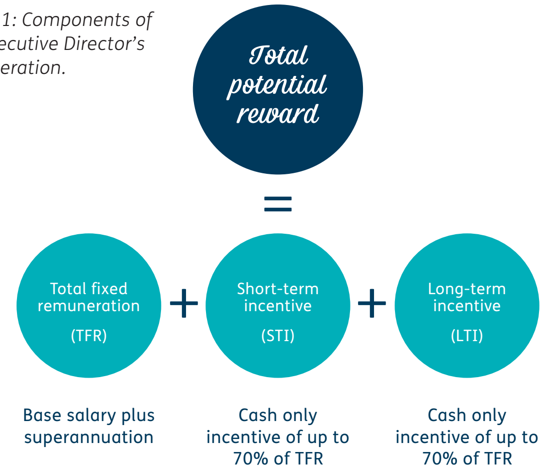
The Executive Director remuneration includes a combination of fixed and variable remuneration components as demonstrated in *Figure 1* below. This includes:

- Total fixed remuneration, comprising base salary and superannuation;
- Short-term incentives, based on predetermined Group key targets and individual targets set by the Board; and
- Long-term incentives, based on predetermined key performance indicator targets set by the Board and outlined in the LTI balanced scorecard. The LTI scheme on foot during the 2019 financial year was a three-year LTI scheme and was discontinued at the end of the second year (30 June 2019).

As a not-for-profit entity, HBF does not issue shares or options to any Director, Executive or employee, and all remuneration, fixed or variable, is cash based.

Board & Executive Director Remuneration Report

Figure 1: Components of the Executive Director's remuneration.



Total fixed remuneration
TFR for the Executive Director is regularly benchmarked against the external market and is based on the relevant responsibilities and accountabilities in addition to the skill and experience level of the individual.

The Committee annually reviews the Executive Director's remuneration to ensure it remains aligned to the *Remuneration Policy* and is competitive with external market. This review is conducted by an independent external remuneration advisor.

Variable remuneration
Variable remuneration for the Executive Director is dependent on the successful achievement of Group measures and individual measures.

The Committee may, at its full discretion, recommend the Board modifies the variable remuneration components of total potential reward downwards to zero if necessary, in response to significant unexpected/unintended events or to protect the financial soundness of the Company, and may reference previous years' outcomes in support of such a decision.

Any right to a payment under any incentive plan will end on the date the Executive Director ceases to be an employee of the Company through resignation or dismissal; however, the Committee may recommend to the Board an exception be granted in certain circumstances.

The Committee and the Board are currently reviewing the incentive plans, in light of emerging regulatory and market trends to ensure they continue to motivate and retain key employees during a period of considerable growth and expansion at HBF.

Variable remuneration – Short-term incentive (STI)
The Executive Director has the potential to receive STI payments up to 70% of TFR if the Group scorecard and individual performance measures are successfully met, as determined by the Board. The STI for the year ended 30 June 2019 was based on individual measures (10%) and corporate measures (90%), which included:

- Financial – income statement focused
- Member and stakeholders – member satisfaction, brand effectiveness and key stakeholder / regulatory interaction focus
- People and strategy – leadership and culture and strategy focus
- Risk – human resource management and organisational risk focus

The Board is ultimately responsible for setting the Group scorecard and individual targets and assessing the performance of the Executive Director against these targets. The Board has full discretion to approve STI payments following any recommendation made by the Committee in relation to the Executive Director's performance.

Any STI award approved by the Board is payable in October and relates to the Executive Director's performance in the prior financial year ending 30 June.

Variable remuneration – Long-term incentive (LTI)
The purpose of the LTI scheme, established in 2018, was to incentivise and reward the Executive Director for achievement of key performance indicators aligned to the longer-term strategy of the organisation.

As part of the LTI scheme, the Executive Director was eligible to receive up to 70% of TFR, subject to the satisfactory delivery against the performance measures at the end of the third year and following assessment and approval by the Committee and Board.

The LTI scheme performance measures for the FY2018-20 financial years focussed on:

- Efficiency - Management expense ratio
- Member value - Building market share in WA and nationally
- Financial stability - Capital or net assets per policy

The FY18 LTI scheme performance period was originally intended to run for three years (FY18-20). However, with the introduction of the organisation-wide Transformation Programme, the Board determined the LTI scheme should be discontinued at the end of the second year with a view to introduce a new approach to assess long-term performance aligned with the revised strategic plan. The Board is currently reviewing the incentive plan structure for FY20 and beyond.

Variable remuneration – malus and clawbacks
Notwithstanding any other provision of the STI or LTI Plan and regardless of whether any performance condition has been met, the Board, following a recommendation from the Committee may, in its absolute discretion, adjust any variable remuneration before delivery (malus) or reclaim after delivery (clawback) within two years if an adjustment event occurs.

Adjustment events are specified in the STI and LTI Plan rules and may include any material misstatement in the audited consolidated accounts of the Company or any member of the Group or if a participant's actions or conduct have amounted to a failure of risk management, fraud or gross misconduct.

The Board retains the right to alter the list of adjustment events in respect of all future awards.

Non-monetary benefits
The Executive Director is provided with a car parking bay at an estimated value of $4,890 per annum and, like all employees, is eligible for a reduction in HBF insurance premiums.

5. Non-Executive Director remuneration

Non-Executive Director fees
In 2007, the HBF Council approved the creation of a pool for the Non-Executive Director fees, providing the Board with the flexibility to manage the fees of the HBF Board, Committees and other subsidiary Boards.

HBF's Non-Executive Directors receive a base fee, along with an additional fee if they are members of other HBF Committees. While the Non-Executive Director fees were adjusted upward

by 2.1% in line with the national consumer price index from 1 November 2018, the HBF Council noted an external review of the Director fees would be undertaken during the 2019 calendar year.

The following table shows applicable fees (inclusive of superannuation) for HBF's Board and Committees prior to and following the adjustment effective 1 November 2018.

Position	Fee to 1 November 2018	Fee from 1 November 2018
HBF Board Director	$100,000	$103,121
HBF Board Chair	$230,000	$237,178
Subsidiary Board Director	$12,000	$12,375
Subsidiary Board Chair	$24,000	$24,749
Audit Committee member	$12,000	$12,375
Audit Committee Chair	$24,000	$24,749
N&R Committee member	$12,000	$12,375
N&R Chair	Nil (included in HBF Board Chair fee)	Nil (included in HBF Board Chair fee)
Risk Committee member	$12,000	$12,375
Risk Committee Chair	$24,000	$24,749
Transformation Committee member	-	$12,375
Transformation Committee Chair	-	$24,749
Investment Committee attendee	-	$12,375

Non-monetary benefits
The Non-Executive Directors are eligible for a reduction in HBF insurance premiums.

6. Remuneration tables

Remuneration for the year ended 30 June 2019
The actual remuneration earned by the Non-Executive Directors and the Executive Director in FY19 is presented below.

		Fixed			Variable			
Name	Year	Cash salary and fees $	Non-monetary benefits $	Superannuation contributions $	Short-term incentives $	Long-term incentives $	Total remuneration $	Variable proportion %
Non-Executive Directors								
Tony Crawford	FY19	243,221.72	–	20,347.40	–	–	263,569.12*	0
Brent Stewart	FY19	135,707.08	–	12,892.20	–	–	148,599.28*	0
Mary Woodford *(ceased 29 Oct2018)*	FY19	51,407.34	–	4,883.73	–	–	56,291.07*	0
Rod Moore	FY19	141,078.88	–	13,402.44	–	–	154,481.32*	0
Richard England	FY19	145,536.11	–	13,825.93	–	–	159,362.04*	0
Helen Kurincic	FY19	145,536.11	–	13,825.93	–	–	159,362.04*	0
Lisa Palmer *(ceased 31Jan 2019)*	FY19	81,813.62	–	7,772.34	–	–	89,585.96*	0
Gai McGrath *(appointed 1 May 2019)*	FY19	13,711.16	–	1,302.56	–	–	15,013.72	0
Sub-total Non-Executive Directors		958,012.02	0.00	88,252.53	0.00	0.00	1,046,264.55	0
Executive Director								
John Van Der Wielen, CEO	FY19	1,026,657.10	–	20,531.40	629,538.00	602,334.33	2,279,060.83	54.0
Sub-total Executive Director		1,026,657.10	0.00	20,531.40	629,538.00	602,334.33	2,279,060.83	54.0
Total		1,984,669.12	0.00	108,783.93	629,538.00	602,334.33	3,325,325.38	37.0

**Fees included for 2018 HBF-HCF Merger Sub-Committee.*

Remuneration – Short-term incentive scheme for the Executive Director
The actual STI earned by the Executive Director in FY19 is presented below.

	Short-term incentive						
Name	Incentive scheme	Date of payment	STI %	On target performance $	Maximum value $	Incentive amount paid $	Proportion of incentive paid %
John Van Der Wielen, CEO	FY19	Oct-19	70	739,893.00	813,882.30	629,538.00	85.0

Remuneration – Long-term incentive scheme for the Executive Director
The actual LTI earned by the Executive Director in FY19 as part of the FY18-20 LTI Plan is presented below. This LTI Plan was discontinued in June 2019 at the end of the second year of the performance period.

	Long-term incentive						
Name	Incentive scheme	Date of payment	LTI %	On target performance $	Maximum value $	Incentive amount paid $	Proportion of incentive paid %
John Van Der Wielen, CEO	FY18-FY19*	Oct-19	70	1,257,518.18	1,383,270.00	602,334.33	47.9

**The Long-term incentive scheme closed at the end of Year 2, so this payment is a pro-rata amount.*

Contract terms for the Executive Director
The Executive Director is a permanent employee of HBF with an employer-initiated notice period of 12 months and employee-initiated notice period of six months.

Directors' Report

The Directors of HBF Health Limited (HBF) present their report on the consolidated entity consisting of HBF and its controlled entities (HBF Group) for the year ended 30 June 2019.

Directors

The following individuals were Directors in office for the 12 months preceding the date of this report unless otherwise stated:

Mr Tony Crawford
(Chairman)

Mr John Van Der Wielen
(Managing Director)

Mr Richard England

Ms Helen Kurincic

Ms Gai McGrath
Appointed 1 May 2019

Dr Rod Moore

Mr Brent Stewart

Ms Lisa Palmer
Retired 31 January 2019

Ms Mary Woodford
Retired 31 October 2018

Tony Crawford

Chairman
LLB, BA, FAICD

Mr Crawford was appointed a Director to HBF Health Limited in August 2014 and Chair of the HBF Board in November 2016. He serves as Chair of the Nomination and Remuneration Committee, and is a member of the Transformation Committee. Previously, Mr Crawford was a member of the HBF Audit and Risk Management Committees, and was a Director of HealthGuard Health Benefits Fund Limited from 2013 until June 2015.

Currently, Mr Crawford serves as Chair of Energy and Water Ombudsman NSW and Heart Research Australia, and is a Non-Executive Director of Konekt Ltd and NSW Rugby Union. For several years, he served as Independent Chair of Grant Thornton Australia, until 2018.

Mr Crawford practiced as a solicitor for 30 years specialising in insurance law and commercial dispute resolution. From 1996 to 2010, he held 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, a Fellow of the Australian Institute of Company Directors and is an associate member of the Law Society of NSW.

John Van Der Wielen

Chief Executive Officer and Managing Director
MBA, FAICD

Mr Van Der Wielen was appointed Chief Executive Officer and Managing Director of HBF in May 2017. He is a Director of all HBF subsidiary companies.

Mr Van Der Wielen has over 30 years' experience in insurance, wealth management, private banking and investments including executive positions within several global financial services groups.

Prior to HBF, Mr Van Der Wielen was CEO of Friends Life UK and International in London and prior to this he served as Managing Director Wealth at ANZ Bank in Sydney and CEO of Clerical Medical and Halifax Life in the UK. Most recently, Mr Van Der Wielen was a Senior Adviser for Blackstone in the financial services arena and an independent non-executive on several boards. He is Non-Executive Director of KYCKR, an Irish based technology company specialising in anti money laundering and fraud detection, which is listed on the ASX. He has recently been appointed to the Board of the University of Western Australia's Business School.

Mr Van Der Wielen holds an MBA from the University of Western Australia and has studied at London Business School and Oxford University. He is a Fellow of the Australian Institute of Company Directors.

Richard England

FCA, MAICD

Mr England was appointed as a Director of HBF Health Limited in February 2015, has served as Chair to HBF Audit since October 2015, and is a member of the Nomination and Remuneration, and Risk Committees. For the past 25 years, he has served as a Non-Executive Director and Chair of listed and unlisted companies, as well as not-for-profit organisations.

Currently Mr England is Chair of Automotive Holdings Group Limited and QANTM Intellectual Property Limited, and is a Non-Executive Director of Japara Healthcare Limited and Bingo Industries Limited. Previously, Mr England was Chair of Ruralco Holdings Limited and a Director of Atlas Arteria Limited and Nanosonics 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 of HBF Health Limited in February 2016, Chair of the HBF Risk Committee in 2017, and is a member of the Audit, and Nomination and Remuneration Committees.

She currently serves as Chair of Integral Diagnostics Limited (ASX:IDX), and Non-Executive Director of Estia Health Limited (ASX:EHE), McMillan Shakespeare (ASX:MMS), and the Victorian Clinical Genetics Service. Ms Kurincic is also a senior advisor to global and local investment funds in the health care sector.

Previously, Ms Kurincic held various executive and non-executive healthcare sector roles including Non-Executive Director of DCA Group Limited, AMP Capital Investors Domain Principal Group, Melbourne Health and Orygen Research Centre, and CEO of Benetas. She was 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.

Ms Kurincic has 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 is a Fellow of the Australian Institute of Company Directors, holds an MBA from Victoria University and has studied at Harvard Business School.

Gai McGrath

BA LLM, GAICD

Ms McGrath was appointed a Director of HBF Health Limited in May 2019. She is an experienced non-executive director with 30 years' experience as a senior executive across Australia and New Zealand including in retail banking, superannuation, investments, life and general insurance and wealth management. In 2015 Ms McGrath left Westpac and has since built a diverse Board portfolio with directorships across banking, financial services and insurance businesses and not-for-profit organisations.

Ms McGrath is a highly respected executive as demonstrated by being awarded Australia's Corporate Lawyer of the Year (2003), Customer Service Executive of the Year (2009) and Best Retail Banker of the Year - Asia Pacific (2015).

Ms McGrath holds a Bachelor of Laws (Hons) and Bachelor of Arts from the University of Sydney, a Master of Laws (Distinction) from the London School of Economics and Political Science, University of London, and is a Graduate of the Australian Institute of Company Directors.

Dr Rod Moore

MBBS, GradDipSpMed, FAICD

Dr Moore was appointed a Director of HBF Health Limited in October 2012, serves as Chair to HBF Wellness Holdings, and is a member of the HBF Audit and Transformation Committees. He is a Fellow 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.

As a Graduate of the University of Western Australia 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

BSc, BPsych, FAICD

Mr Stewart was appointed a Director of HBF Health Limited in November 2015, is Chair of the HBF Transformation Committee, and serves as a member of the Risk and Investment Committees. He is currently Executive Chair of Waveride Capital Limited and Etherington Inc, and a Non-Executive Director of Paragon Care Limited (ASX: PGC) and Argonaut Limited.

Previously, Mr Stewart has occupied a variety of Board roles in both the public and private sector. He was founder and Chief Executive of Market Equity Pty Limited 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 strategy, marketing and market research.

Directors' Report

Company Secretary

The following individuals were in office as HBF Company Secretary during the financial year and until the date of this report, unless otherwise stated:

Adam Simpson

LLB, FGIA
appointed 29 October 2018

Mr Simpson was appointed as Company Secretary of HBF Health Limited from October 2018 and was appointed as Company Secretary for the HBF subsidiary companies from January 2019. He has over 10 years corporate governance experience in both the financial and utilities sector. Mr Simpson holds a Bachelor of Law from the University of Canterbury and is a Fellow of the Governance Institute. Mr Simpson is a practicing lawyer in Western Australia.

Nadia Mansour

LLB, BCom (Acc & Fin), ADipCom
appointed 28 August 2019

Ms Mansour was appointed as a Company Secretary of HBF Health Limited on 28 August 2019. She is an experienced lawyer with more than 20 years' legal experience. She was formerly the Managing Director of Elisian and the Head of Contracts & Retail Legal at HBOS Australia and Bankwest. Nadia was also the Company Secretary of Haslegrove Wines (as then owned by Bankwest). Nadia holds a Bachelor of Laws, Bachelor of Commerce (Accounting & Finance) and an Associate Diploma in Commerce. She is a current member of the Law Society of Western Australia and a Committee Member of the Law Society's Intellectual Property and Technology Committee. She is also a member of the Australian Information Security Association.

Pascal Kasimba

LLB(Hons), LLM, DLP
appointed 29 January 2018, until 5 August 2019

Mr Kasimba, Group Governance Officer, was appointed Company Secretary of HBF Health Limited on 29 January 2018. He has over 24 years of combined legal and company secretarial experience. Prior to HBF, Mr Kasimba worked at Commonwealth Bank of Australia and Halifax, Bank of Scotland and Westpac Banking Corporation. He holds a Bachelor Laws (with Honours), a Master of Laws, and a graduate Diploma in Legal Practice. Mr Kasimba is a member of the Law Society of New South Wales and a practising lawyer in Western Australia.

Warwick Faulkner LLB

appointed 22 May 2018, until 5 September 2018

Principal activities

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

Objectives

As a not-for-profit health insurer, HBF's core objective is to deliver value to its members through high quality, affordable health insurance products which provide access to the highest quality healthcare. HBF looks for opportunities to grow its membership nationally, while remaining the leading provider of health insurance in Western Australia.

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.

Review of operations

Information on the operations and financial position of the HBF Group and its strategy and future prospects is set out in the Operating and Financial Review on pages 8-17 of this Annual Report.

Dividends

The *HBF 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

HBF is limited by guarantee and accordingly no options for shares in the entity 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 HBF Group during the year.

Significant events after reporting date

In August 2019 the HBF Group formed an alliance with pharmacy group, Pharmacy 777. Under the alliance the HBF Group sold HBF Pharmacy Pty Ltd including the Friendlies master franchise to Pharmacy 777 as disclosed in Note 14. There have been no other significant events since the reporting date.

Indemnification and insurance of Directors and officers

During the financial year, the entity paid a premium in respect of a contract insuring the Directors and officers of HBF Health Limited and its subsidiaries against liability incurred for conduct, other than conduct involving a wilful breach of duty, to the extent permitted by 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.

Indemnification of auditors

To the extent permitted by law, HBF 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 shown in the accounts in Note 23, and their eligibility for a reduction in insurance premiums, 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

Attendance at scheduled Board and Committee meetings held during the financial year, including additional meetings called, are noted below for each Director during their respective term of office:

	Board Meetings		Audit Committee Meetings		Nomination & Remuneration Committee Meetings		Risk Committee Meetings		Transformation Committee Meetings *(Est. April 2019)*
	Scheduled (12)	Additional (4)	Scheduled (5)	Additional (1)	Scheduled (6)	Additional (2)	Scheduled (4)	Additional (2)	Scheduled (2)
Mr T Crawford	12	4	4*	-	6	2	4*	1*	2
Mr R England	12	3	4	1	6	2	3[5]	2[5]	-
Ms H Kurincic	12	3	5	1	5[4]	2[4]	4	2	1*
Ms G McGrath[1]	1	-	1*	-	1*	-	1*	-	1*
Dr R Moore	11	4	3	1	3*	-	1*	-	1
Mr B Stewart	11	3	1*	-	1*	-	4	2	2
Mr J Van Der Wielen	12	4	5*	-	2*	-	3*	2*	2*
Ms L Palmer[2]	9	2	3	1	3*	-	2	1	-
Ms M Woodford[3]	5	-	-	-	4	-	1	-	-

1. Ms McGrath was appointed as a Non-Executive Director in May 2019.

2. Ms Palmer retired as a Non-Executive Director in January 2019.

3. Ms Woodford retired as a Non-Executive Director in October 2018.

4. Ms Kurincic attended two scheduled meetings and one additional meeting as an invitee, and three scheduled meetings and one additional meeting as a member.

5. Mr England attended one scheduled meeting as an invitee, and two scheduled meetings and two additional meetings as a member.

** Director is not a member of the stated Committee; any attendance is optional and in an ex-officio capacity.*

Environmental regulations

The HBF 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 HBF under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. HBF is an entity to which the instrument applies.

Auditor's independence and non-audit services

The non-audit services provided by HBF's auditor Ernst & Young are reported in Note 8 of the Financial Report. 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 which can be found on page 76 and forms part of this report.

This report is signed in accordance with a resolution of the Directors.

Tony Crawford
Chairman

Financial Report

For the year ended 30 June 2019

Contents

HBF Health Limited
Consolidated statement of comprehensive income
Year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Contributions / premiums	6(a)	1,685,583	1,695,002
Benefits / claims expenses	18(c)	(1,582,296)	(1,634,717)
Risk equalisation	18(c)	112,964	107,573
Claims handling expenses	7(a)	(33,736)	(33,293)
Net benefits / claims		(1,503,068)	(1,560,437)
Acquisition costs	7(a)	(33,225)	(34,918)
Other underwriting costs	7(a)	(121,141)	(98,499)
Underwriting expenses		(154,366)	(133,417)
Underwriting result		28,149	1,148
Commission income	6(b)	15,285	14,956
Other revenue	6(c)	5,437	3,659
Net gain from financial assets at fair value through profit or loss	6(d)	65,939	56,664
Other operating and administration expenses	7(a)	(21,129)	(15,185)
Other activities		65,532	60,094
Surplus before income tax		93,681	61,242
Income tax expense	9	-	(432)
Surplus after income tax		93,681	60,810
Other comprehensive income net of tax			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	16	(7,330)	3,369
Total comprehensive income for the period		86,351	64,179
Total comprehensive income for the period is attributable to:			
HBF Health Limited		86,351	64,179
		86,351	64,179

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

HBF Health Limited
Consolidated statement of financial position
At 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents	22(b)	57,642	50,593
Receivables	10	103,062	105,998
Financial assets at fair value through profit or loss	11	1,635,783	1,514,378
Deferred acquisition costs	12	4,773	5,912
Assets held for sale	14	105,488	7,150
Total current assets		1,906,748	1,684,031
Non-current assets			
Receivables	10	-	4,445
Investments	13	-	500
Intangible assets	15	3,380	7,883
Property, plant and equipment	16	26,147	134,682
Deferred acquisition costs	12	7,031	14,782
Total non-current assets		36,558	162,292
Total assets		1,943,306	1,846,323
Liabilities			
Current liabilities			
Trade and other payables	17	39,016	16,160
Insurance liabilities	18	401,977	419,462
Employee benefits	20	10,231	10,232
Total current liabilities		451,224	445,854
Non-current liabilities			
Insurance liabilities	18	48,179	43,006
Employee benefits	20	2,402	2,313
Total non-current liabilities		50,581	45,319
Total liabilities		501,805	491,173
Net assets		1,441,501	1,355,150
Equity			
General reserve	19	111,513	111,513
Retained earnings	19	1,314,408	1,220,727
Asset revaluation reserve	19	15,580	22,910
Total equity		1,441,501	1,355,150

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

HBF Health Limited
Consolidated statement of changes in equity
Year ended 30 June 2019

	Notes	General reserve $'000	Retained earnings $'000	Asset revaluation reserve $'000	Total $'000
At 30 June 2017		111,513	1,159,917	19,541	1,290,971
Surplus after income tax		-	60,810	-	60,810
Other comprehensive income		-	-	3,369	3,369
Total comprehensive income		-	60,810	3,369	64,179
At 30 June 2018	19	111,513	1,220,727	22,910	1,355,150
Surplus after income tax		-	93,681	-	93,681
Other comprehensive income		-	-	(7,330)	(7,330)
Total comprehensive income		-	93,681	(7,330)	86,351
At 30 June 2019	19	111,513	1,314,408	15,580	1,441,501

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

HBF Health Limited
Consolidated statement of cash flows
Year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipt of contributions / premiums		1,679,128	1,701,098
Receipt of commission income		15,512	14,688
Receipt of other income		3,630	3,659
Payments of benefits / claims		(1,585,071)	(1,642,438)
Risk equalisation receipts		110,760	97,841
Payments to suppliers & employees		(147,036)	(138,830)
Acquisition costs paid		(24,335)	(34,786)
Distributions received		21,206	14,821
Interest received		31,300	28,674
Goods and services tax received (net)		5,500	5,450
Net cash flows from operating activities	22(c)	110,594	50,177
Cash flows used in investing activities			
Cash paid for acquisition of property, plant and equipment		(5,601)	(1,031)
Cash proceeds from sales of property, plant and equipment		19	9,108
Cash paid for acquisition of intangible assets		(217)	(2,093)
Cash proceeds from sales of assets held for sale		7,937	-
Cash proceeds from sales of financial assets		300,219	566,751
Cash paid for purchases of financial assets		(405,659)	(615,994)
Net cash flows used in investing activities		(103,302)	(43,259)
Net increase in cash and cash equivalents		7,292	6,918
Cash and cash equivalents at beginning of year		50,593	43,675
Cash and cash equivalents at end of year	22(b)	57,885	50,593

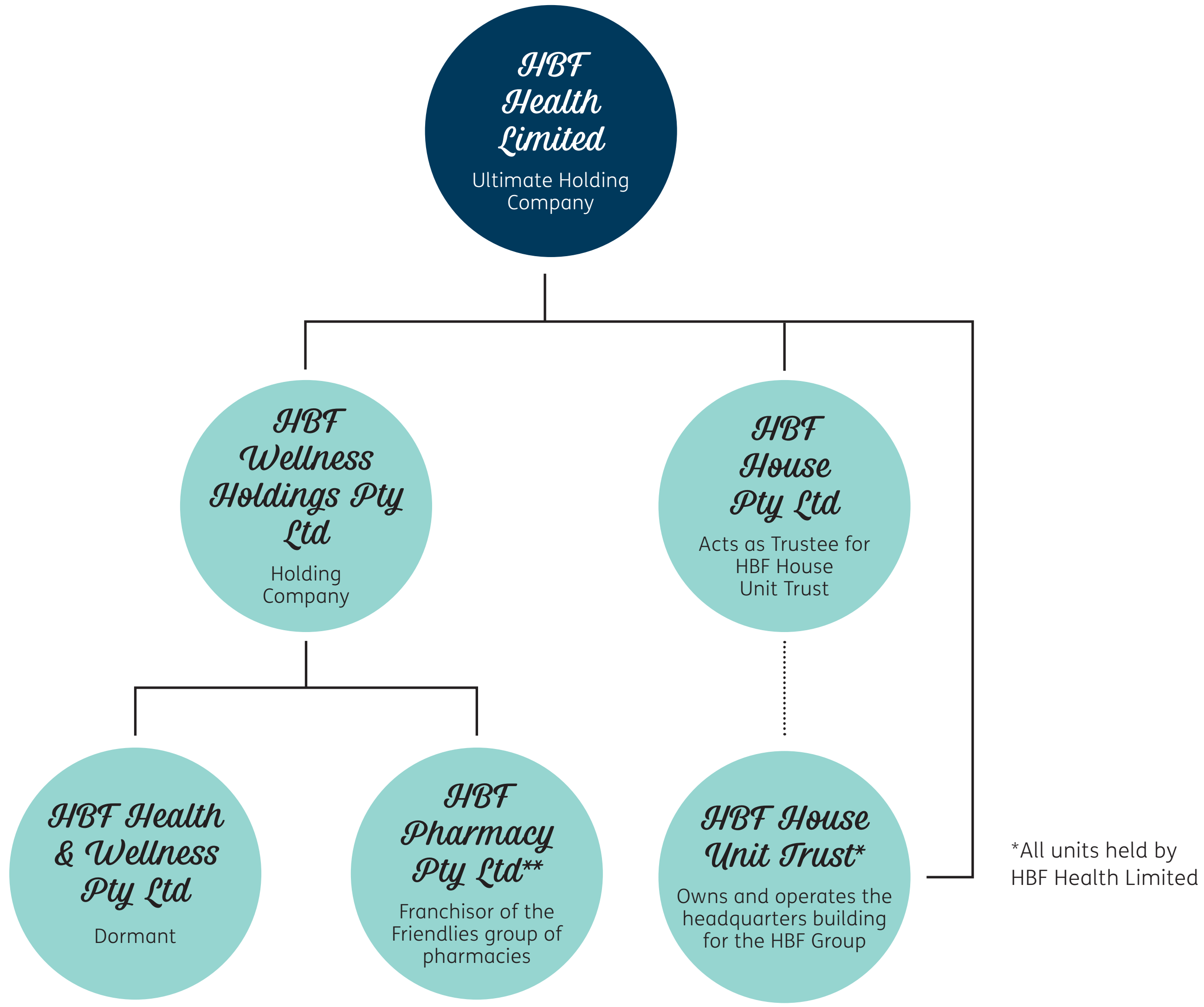
The above statement of cash flows should be read in conjunction with the accompanying notes.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

1: Entity information

HBF Health Limited is registered under the Corporations Act 2001 as a company limited by guarantee. HBF Health Limited is a not-for-profit entity. HBF Health Limited is registered at 570 Wellington St, Perth WA 6000.

HBF Health Limited and its subsidiaries (HBF Group) are incorporated and domiciled in Australia. HBF Health Limited has prepared a consolidated financial report incorporating the following entities that it 100% owned and controlled during the financial year:



The principal activities during the year of entities within the HBF Group were:

- Provision of health insurance to individuals and families.
- Distribution of general insurance and life insurance products to individuals and families.
- Act as the franchisor to a group of community pharmacies.**

** During August 2019 the HBF Group formed an alliance with the pharmacy group Pharmacy 777. Under the alliance the HBF Group sold HBF Pharmacy Pty Ltd including the Friendlies master franchise to Pharmacy 777 as disclosed in Note 14.

The HBF Group had 836 full time equivalent employees as at 30 June 2019 (2018: 767).

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

2: Basis of preparation

a) Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared in accordance with the historical cost convention, except for financial assets at fair value through profit or loss and certain classes of property, plant and equipment, which are measured at fair value. Cost in relation to assets represents the cash amount paid or fair value of the assets given in exchange. Liabilities are stated at amortised cost except where actuarial valuations are provided in which case they are measured at fair value.

The financial report is presented in Australian Dollars and all values have been rounded to the nearest thousand dollars, except where specified otherwise, under the option available under ASIC Corporations' (*Rounding in Financials/Director's Reports) Instrument 2016/191.*

b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of HBF Health Limited and its subsidiaries (HBF Group) as at 30 June 2019. Control is achieved when the HBF Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the HBF Group controls an investee if and only if the HBF Group has:

- Power over the investee (ie existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the HBF Group has less than a majority of the voting or similar rights of an investee, the HBF Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The HBF Group's voting rights and potential voting rights.

The HBF Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the HBF Group obtains control over the subsidiary and ceases when the HBF Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the HBF Group gains control until the date the HBF Group ceases to control the subsidiary.

Investments in controlled entities are carried at cost less provision for impairment if any. All controlled entities have a June financial year-end.

3: Critical accounting judgements and estimates

Significant estimates and judgements are made by the HBF Group to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, as well as new actuarial modelling techniques.

The key areas of significant judgement and the methodologies used to determine key assumptions are set out below.

a) The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not reported to the HBF Group.

The outstanding claims provision comprises a central estimate, estimated claims handling expenses and a risk margin that is added to the central estimate to increase the probability that the provision will be adequate. The outstanding claims provision is determined by an independent actuary.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

3. Critical accounting judgements and estimates (continued)

b) Central estimate

A central estimate is an estimate that is intended to contain no intentional under or over estimation. It can be regarded as having an equal probability of being sufficient or insufficient.

Central estimates for each class of business are determined by reference to a variety of estimation techniques. These are generally based on actuarial analysis of historical experience and assume an underlying pattern of claims development and payment. A separate estimate is made of reinsurance funds payable to or receivable from the Private Health Insurance Risk Equalisation Special Account (RESA).

The recoverability of these amounts is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the group may not receive amounts due to it and these amounts can be reliably measured.

In selecting the net central estimate consideration is generally given to the following:

- Historical trends in the development and incidence of the number of claims reported and claim payments
- Trends in claim frequency
- Trends in average claim sizes, both gross and net of third party recoveries
- Changes in the size of exposure, measured by number of policies, number of persons covered, earned premiums, sum insured and policy limits
- Inflationary and other economic and non-economic pressures and their potential impact on each class of business
- Medical and technological developments (health insurance)
- Legislative, social and economic forces and their potential impact on each class of business
- Historical payments to/from the RESA
- Qualitative input from the insurer
- The group's expense structure and the likely costs associated with future claim payments.

c) Risk margin

The determination of the appropriate level of risk margin takes into account the inherent uncertainty or variability of the central estimate. The risk margin increases the probability that the net liability is adequate to a minimum of 80% (2018: 80%).

The measurement of variability uses techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of future payments and assign likelihood to different outcomes. The use of a range of outcomes allows a determination of the risk margin required to provide an estimate at a given probability of adequacy.

d) Investments at fair value

All of HBF's investments are in unlisted unit trusts, managed funds or term deposits. The investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds adjusted for any factors likely to impact the redemption price to reflect fair value based on a likely exit price if the units were to be sold in the market. The value of the underlying investments within the unit trusts that are traded in active markets is determined by the unit fund managers based on their quoted market prices at the reporting date. The value of investments that are not traded in an active market is determined by the unit fund managers using valuation techniques. Such techniques include the use of recent arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow technique or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

However, the very nature of such investments requires a degree of judgement and estimation based on information available at the time of deriving a valuation. The fair value of such investments is therefore subject to a level of uncertainty not present in actively traded markets.

e) Revaluations of property, plant and equipment

Land and buildings are measured at revalued amounts with changes in fair value being recognised in Other Comprehensive Income. Land and buildings were valued by reference to market-based evidence, using comparable prices and market yields adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of properties and sensitivity analyses are provided in Note 16.

f) Assets held for sale

The Group classifies assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

4: Risk management

HBF Health Limited has a comprehensive enterprise-wide *Risk Management Policy,* framework and processes that are consistent with the *ISO 31000.*

a) Governance framework

The HBF Board has overall responsibility for corporate governance of HBF Health Limited and its subsidiaries. This includes authority to determine, review and approve policies, practices, management performance and financial operations. All Non-Executive Directors are independent.

HBF's Corporate Governance Statement is informed by contemporary Australian standards including the Australian Stock Exchange Corporate Governance Council's *Corporate Governance Principles and Recommendations*. HBF applies such principles in a manner consistent with its status as a not-for-profit member organisation.

The Directors execute their responsibility 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. This includes the HBF Audit Committee, Nomination and Remuneration Committee, Risk Committee and Transformation Committee.

The Audit Committee oversees the compliance of financial reporting practices, accounting practices and audit and assurance. The Risk Committee oversees legal and ethical requirements and the risk management framework of the HBF Group. The role of the Nomination and Remuneration Committee is to review and advise on the HBF and controlled entities Board compositions, size and membership. The Transformation Committee was established to review, recommend, oversee and monitor matters related to HBF's Transformation Programme.

This is supplemented by a clear organisational structure with approved delegated authorities and responsibilities for the Board, executive management and senior managers. More detailed information can be found in the Governance Report.

b) Capital management framework

HBF Health Limited operates within the regulatory environment established by the *Private Health Insurance Act 2007* (the Act). The regulatory body for the Private Health Insurance industry is the Australian Prudential Regulation Authority (APRA). HBF Health Limited is subject to the Solvency and Capital Adequacy Standards applied by the Act and regulated by APRA. HBF Health Limited has capital in excess of its minimum requirements and the Board is updated on the capital position on a monthly basis.

HBF Health Limited has a *Capital Management Policy* (which includes a Capital Management Plan and a Liquidity Management Plan) endorsed by the Board as part of the annual planning and budgeting cycle. *The Capital Management Policy* incorporates APRA's minimum requirement for a capital management policy and minimum considerations for a liquidity management plan.

The *Capital Management Policy* of HBF Health Limited establishes the framework and guidelines for the management and governance of capital and liquidity. It also addresses the capital and liquidity needs of HBF Health Limited with reference to the explicit link between capital, pricing, investments and liquidity.

c) Insurance contracts - Risk management policies and procedures

The HBF Group's insurance activities primarily involve the underwriting of risks and claim management. The HBF Group employs a disciplined approach to underwriting and risk management that abides by government regulations.

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk processes, together with claim management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the entity's overall insurance operations. The HBF Group conducts its own risk management function, in accordance with the regulatory guidance and relevant *Australian and International Standards (ISO 31000)*. This approach yields substantial benefits because the HBF Group has expertise in and a detailed understanding of, its market segment and this expertise and knowledge enables the business to customise its own underwriting and risk management disciplines to effectively assess and price the risk.

The key processes and control elements in place to mitigate risks arising from writing insurance contracts include the following:

1. Management information systems to provide up-to-date, reliable data on the risks to which the business is exposed;
2. Actuarial-based methods and models using historical data to calculate premiums and monitor claims patterns. It should be noted that HBF Health Limited requires regulatory approval prior to implementing annual rate increases;
3. Underwriting guidelines which determine policies and procedures for acceptance of risk;
4. Alignment of investments to the nature and term of the insurance liabilities;
5. The diversification of classes of insurance business, retaining a large number of uncorrelated individual risks.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

4. Risk management (continued)

(ii) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the entity. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The HBF Group minimises concentration of risk in relation to premiums receivable by undertaking transactions with a large number of customers and terminating policies in cases of non-payment.

Although members predominantly reside in Western Australia, the main insurance claims risk for the health insurance business relates to the ageing demographic. This risk is mitigated somewhat through participation in the Risk Equalisation Special Account (RESA).

(iv) Claims management and claims provisioning risks

The HBF Group's approach to determining the outstanding claims provision is set out in Note 3 and Note 4. External actuaries assess the HBF Group's outstanding claims provision reported at reporting date.

d) Reinsurance and risk equalisation counterparty risk

HBF Health Limited and all private health insurers are part of the RESA. The RESA is controlled by the industry regulator, enabling a more equitable means of spreading hospital claims costs for high risk groups between all private health insurers.

Note 10 provides information regarding the quality of HBF Group's credit risk exposure in respect of risk equalisation recoveries receivable.

e) Financial risk management

The activities of the HBF Group expose it to financial risks such as cash flow and fair value risk, interest rate risk, credit risk and liquidity risk. The HBF Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the HBF Group.

Key objectives of the HBF Group's capital management strategy is to maintain appropriate levels of regulatory capital, ensure sufficient liquidity to meet the HBF Group's working capital obligations, including the settlement of insurance liabilities and to optimise investment returns.

(i) Cash flow and liquidity risk

Cash flow and liquidity risk is the risk the HBF Group cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due. It may result from either the inability to sell financial assets quickly at their fair value; or a counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. The HBF Group prudentially manages liquidity risk by maintaining sufficient working capital. In the event surplus cash exists, these funds are added to the entity's investment portfolio. In line with the *Capital Management Policy* and Liquidity plans, term deposits are matured on a regular basis to cover any projected working capital shortfalls.

The financial liabilities exposed to cash flow and liquidity risk are the trade payables and accruals and the outstanding claims provisions. The trade payables and accruals account matures within the three months from the balance date. The maturity of outstanding claims provisions can be found in Note 18(c).

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market factors, comprising currency risk, interest rate risk and price risk. The HBF Group has policies that limit the amount of exposure to any one fund manager and class of investment asset thereby minimising concentration risk. Independent consultants annually measure fund manager performance and periodically review the investment asset allocation.

Currency risk

The HBF Group has no residual exposure to currency risk in respect of overseas unit trust investments. Funds are placed through Australian based institutions with expertise in the areas of overseas investing; all investments are fully hedged against currency risk. These trusts are not controlled entities. The HBF Group Board requires that, where investments are made in international equities, the currency risk is fully hedged within each of the individual funds in which they are held. The HBF Group has no residual currency risk in either the parent entity or at a consolidated group level. This applies to both 2019 and 2018.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

4. Risk management (continued)

Interest rate risk
HBF Health Limited is exposed to interest rate risk through its investment in term deposits and interest-bearing securities held through unit trusts. These investments form the majority of the HBF Health Limited's investment portfolio.

Interest rate risk on fixed term deposits has been managed both by limiting the term of deposits and also dividing funds into multiple accounts with different maturity dates.

The analysis below demonstrates the impact on the surplus and equity of a movement in interest rates on funds invested in interest bearing securities held through unit trusts, with all other variables held constant. Reasonably possible movements in interest rates were determined based on historical movements and economic forecaster's expectations.

	Movement in variable	Exposure $'000	Pre-tax movement in surplus and equity $'000
30 June 2019			
Term deposits	+1%	1,123,103	(6,614)
	-1%	1,123,103	6,614
30 June 2018			
Term deposits	+1%	1,184,293	(6,720)
	-1%	1,184,293	6,720

Price risk
The HBF Group is exposed to equity and property securities price risk. This arises from investments held on the statement of financial position and classified at fair value through profit or loss. The HBF Group Board approves limits on the proportion of the investment portfolio held in international equities, domestic equities and domestic property thereby limiting exposure to price risk.

The analysis below demonstrates the impact on the surplus and equity of a movement in market prices with all other variables (including interest rates and currency risk) held constant. Reasonably possible movements in market prices were determined based on historical movements and economic forecaster's expectations.

	Movement in variable	Exposure $'000	Pre-tax movement in surplus and equity $'000
30 June 2019			
Equity related instruments	+10%	387,545	38,755
	-10%	387,545	(38,755)
30 June 2018			
Equity related instruments	+10%	257,263	25,726
	-10%	257,263	(25,726)

Credit risk
Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The nature of the HBF Group's insurance business does not expose it to credit risk concentrations from its products, services and investments. The HBF Group considers credit exposure when entering significant counterparty contracts with suppliers and intermediaries. Credit risk exposure in regards to receivables, including reinsurance, is set out in Note 10 of the accounts.

HBF Health Limited holds a significant proportion of its investment portfolio in interest bearing securities and fixed term deposits.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

4. Risk management (continued)

The table below provides information regarding the credit risk exposure according to the entity's categorisation of counterparties by Standard and Poor's credit rating.

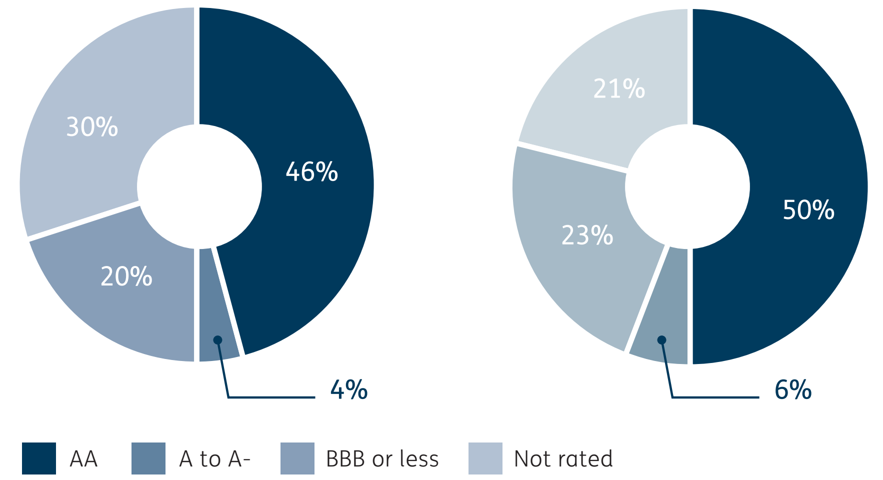
	AAA $'000	AA $'000	A to A- $'000	BBB or less $'000	Not rated $'000	Total $'000
30 June 2019						
Cash and cash equivalents	-	57,642	-	-	-	57,642
Term deposits	-	728,013	58,938	336,152	-	1,123,103
Interest related instruments	-	-	-	-	77,065	77,065
Equity related instruments	-	-	-	-	387,545	387,545
Infrastructure	-	-	-	-	48,070	48,070
	-	785,655	58,938	336,152	512,680	1,693,425
30 June 2018						
Cash and cash equivalents	-	50,593	-	-	-	50,593
Term deposits	-	736,162	96,647	351,484	-	1,184,293
Interest related instruments	-	-	-	-	72,822	72,822
Equity related instruments	-	-	-	-	257,263	257,263
	-	786,755	96,647	351,484	330,085	1,564,971

Interest related instruments are held through investments in unrated investment trusts. The underlying instruments within these trusts are rated as follows:

	Notes	AAA $'000	AA $'000	A to A- $'000	BBB or less $'000	Not rated $'000	Total $'000
30 June 2019							
Interest related instruments	11	24,778	12,322	14,469	16,081	9,415	77,065
30 June 2018							
Interest related instruments	11	19,566	11,237	16,043	15,490	10,486	72,822

Credit risk exposure:

30 June 2019 30 June 2018



HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

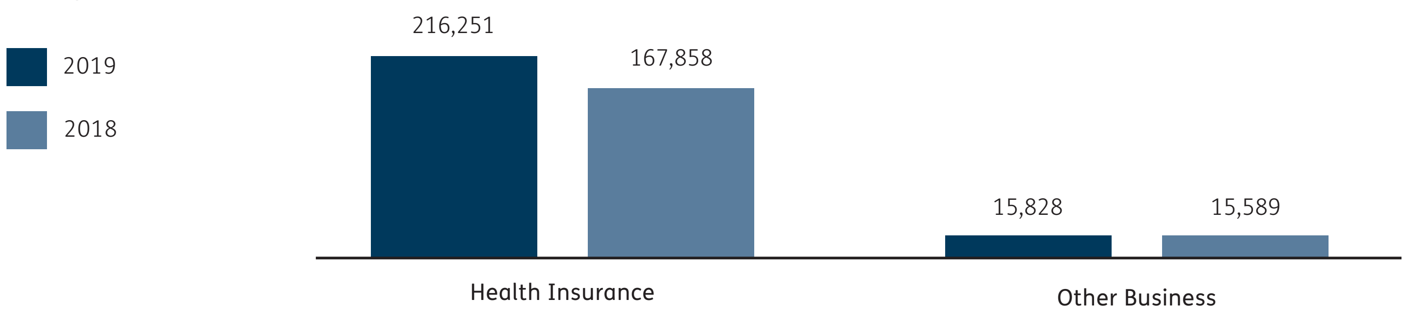
5: Business area reporting

Management has determined the operating segments based on the reports reviewed by the CEO and Board of Directors that are used to make strategic decisions as follows:

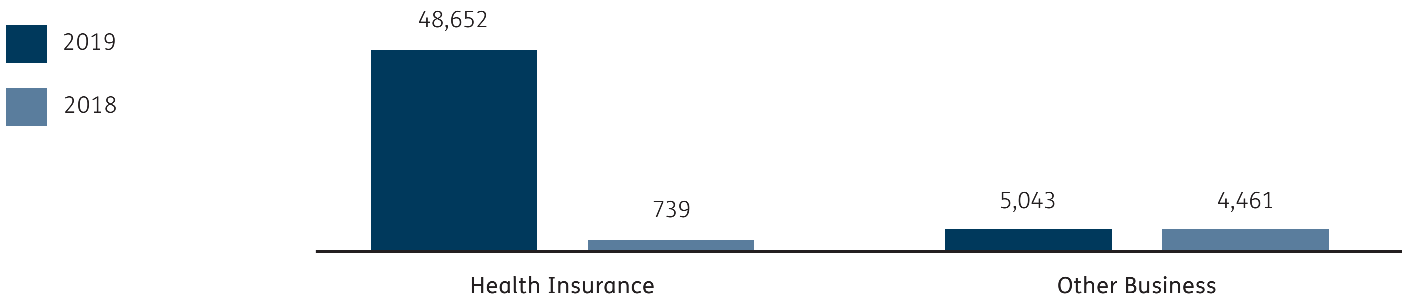
Health insurance business	Provision of health insurance to individuals and families
Other business	Commission income from the distribution of general insurance and life insurance products to individuals and families and income from acting as the franchisor to a group of community pharmacies.

	Health insurance $'000	Other Business $'000	Grand total $'000
Year ended 30 June 2019			
Income received	1,685,583	15,828	1,701,411
Benefits paid	(1,582,296)	-	(1,582,296)
Reinsurance received	112,964	-	112,964
Gross profit	216,251	15,828	232,079
Operating expenses	(167,599)	(10,785)	(178,384)
Operating profit	48,652	5,043	53,695
Year ended 30 June 2018			
Income received	1,695,002	15,589	1,710,591
Benefits paid	(1,634,717)	-	(1,634,717)
Reinsurance received	107,573	-	107,573
Gross profit	167,858	15,589	183,447
Operating expenses	(167,119)	(11,129)	(178,248)
Operating profit	739	4,461	5,199

Gross profit ($'000):



Operating profit/(loss) ($'000):



HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

6: Revenue

		Notes	2019 $'000	2018 $'000
(a)	Insurance premium revenue			
	Gross written premiums		1,674,716	1,695,973
	Movement in unearned premiums	18(b)	10,867	(971)
			1,685,583	1,695,002
(b)	Revenue from contracts with customers			
	Commission income		15,285	14,956
			15,285	14,956
(c)	Other revenue			
	Rental revenue		330	442
	Other non-operating revenue		5,107	3,217
			5,437	3,659
(d)	Net gain from financial assets at fair value through profit or loss			
	Gain on change in fair value of investments		14,966	11,847
	Interest from other corporations		29,767	29,996
	Dividends from other corporations		21,206	14,821
			65,939	56,664
	Total revenue		1,772,244	1,770,281

Accounting policy
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Insurance premium revenue
Insurance premium revenue comprises amounts charged to the policyholders. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is accounted for based upon the pattern of processing renewals and new business. Premium is earned from the date of attachment of risk over the indemnity period based on the pattern of risks underwritten.

Revenue from contracts with customers
Commission income is earned on general insurance and life insurance policies sold on behalf of insurers where HBF's obligation is to act as an agent. The sale of products underwritten by third party insurers is a continuous and on-going obligation satisfied over time rather than a series of different obligations. Commission rates are fixed within the contract and the commissions are earned when products are sold or renewed. Commission income is recognised when payments are made by policyholders to the insurers, upon which the right to receive the commission is established. There has been no change to the recognition of commission income following the adoption of *AASB 15*.

Other revenue
Rental income from operating leases where the HBF Group is the lessor is recognised in the profit or loss on a straight-line basis over the lease term.

Interest revenue is recognised as it accrues using the effective interest method.

Distributions represent realised gains, dividends and other distributions received from Fund Managers in association with the investment portfolio. They are recognised as revenue as they become due.

Unrealised gains reflect the change in the fair value of the investment portfolio that has yet to be realised.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

7: Expenses

	Notes	2019 $'000	2018 $'000
(a) Expense by function			
Claims handling expenses		33,736	33,293
Acquisition costs	12	33,225	34,918
Other underwriting costs		121,141	98,499
Other operating and administration expenses		21,129	15,185
		209,231	181,895
(b) Expense by nature			
Employee costs (excluding superannuation plan expenses)		88,377	82,213
Defined contribution superannuation plan expenses		6,463	8,646
Depreciation and amortisation expenses		12,647	16,614
Bad and doubtful debts expense		26	39
Operating lease rental expense		2,934	2,874
Marketing expenses		29,073	29,262
Consulting fees		9,730	8,831
Fees and levies		2,243	2,358
Electronic ancilliary claiming		2,754	2,932
IT maintenance expenses		11,058	10,216
Impairment loss / (impairment loss reversal)		(1,000)	1,000
Postage, printing and scanning expenses		4,145	4,848
Corporate social responsibility		4,236	1,000
Strategic project costs		27,712	-
Other expenses		8,833	11,062
		209,231	181,895

8: Auditors' remuneration

	2019 $	2018 $
Amounts received or due and receivable by Ernst & Young for:		
Audit of the financial reports	279,751	323,467
Other assurance services for regulatory reporting	70,724	73,449
Audit & assurance services	350,475	396,916
Consulting advice	934,931	26,750
Taxation advice	19,175	27,144
Other services	954,106	53,894
Total auditors' remuneration	1,304,581	450,810

In the opinion of the Board there has been no impairment of independence of the external auditors as a result of the provision of these services.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

9: Income tax

	2019 $'000	2018 $'000
(a) Major components of income tax expense		
Current tax expense	-	432
Deferred tax expense	-	-
Income tax benefit reported in the statement of comprehensive income	-	432
(b) Reconciliation of tax expense to prima facie tax on accounting profit		
Total profit before income tax	93,681	61,242
Tax at the Australian tax rate of 30% (2018: 30%)	28,104	18,373
Tax effect of tax exempt entity	(28,104)	(17,941)
Aggregate income tax expense	-	432

(c) Deferred tax assets and liabilities
There is $nil deferred tax assets and liabilities as at 30 June 2019 (2018: $nil).

Accounting policy
HBF Health Limited is exempt from income tax in accordance with section 50(30) of the *Income Tax Assessment Act 1997*. Certain subsidiaries are subject to income tax.

HBF Wellness Holdings Pty Limited is the head entity of the tax consolidated group. The group uses the acceptable allocation method of a "separate taxpayer within group" approach for each entity, on the basis that the entity is subject to tax as part of the tax-consolidated group. This method requires adjustments for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group.

Revenue and expenses arising under the tax sharing agreement are disclosed as income tax expense in the statement of comprehensive income.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:
- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries and joint ventures and where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised except:
- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary differences are associated with investments in subsidiaries or joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

9. Income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except receivables and payables are stated with the amount of GST included. The amount of GST recoverable from or payable to the Australian Taxation Office (ATO) is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing activities, which is recoverable from, or payable to, the ATO are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the ATO.

10: Receivables

	Notes	2019 $'000	2018 $'000
Government rebate receivable		34,276	36,466
Risk equalisation receivable	18(c)	40,650	38,446
Gross contributions / premium receivable		4,727	5,619
Sundry debtors and prepayments		13,797	12,786
Commission income accrued		1,156	7,150
Investment interest receivable		8,482	10,015
Total gross receivables		103,088	110,482
Allowance for impairment loss		(26)	(39)
Net receivables		103,062	110,443
Current		103,062	105,998
Non-current		-	4,445
		103,062	110,443

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

10. Receivables (continued)

The following table provides information regarding the carrying amount of the HBF Group's financial assets credit risk and their ageing. It should be noted that amounts receivable from government departments have been included within the AA- to AAA rating.

Credit Rating	AAA-to AA $'000	AA- to A+ $'000	BBB+ to BB- $'000	Not Rated $'000	Total $'000
As at 30 June 2019					
Government rebate receivable	34,276	-	-	-	34,276
Risk equalisation receivable	40,650	-	-	-	40,650
Contributions / premium receivable (net)	-	-	-	4,727	4,727
Sundry debtors and prepayments (net)	1,265	-	-	12,506	13,771
Commission income accrued	-	-	-	1,156	1,156
Investment interest receivable	-	4,593	3,889	-	8,482
	76,191	4,593	3,889	18,389	103,062
As at 30 June 2018					
Government rebate receivable	36,466		-	-	36,466
Risk equalisation receivable	38,446	-	-	-	38,446
Contributions / premium receivable (net)	-	-	-	5,619	5,619
Sundry debtors and prepayments (net)	1,118	-	-	11,629	12,747
Commission income accrued	-	-	-	7,150	7,150
Investment interest receivable	-	5,227	4,788	-	10,015
	76,030	5,227	4,788	24,398	110,443

	Neither past due nor impaired $'000	Past due but not impaired		Past due and impaired $'000	Total $'000
		0 - 3 months $'000	3 to 12 months $'000		
As at 30 June 2019					
Government rebate receivable	34,276	-	-	-	34,276
Risk equalisation receivable	40,650	-	-	-	40,650
Contributions / premium receivable (gross)	-	4,727	-	-	4,727
Sundry debtors and prepayments (gross)	13,771	-	-	26	13,797
Commission income accrued	1,156	-	-	-	1,156
Investment interest receivable	8,482	-	-	-	8,482
	98,335	4,727	-	26	103,088
As at 30 June 2018					
Government rebate receivable	36,466	-	-	-	36,466
Risk equalisation receivable	38,446	-	-	-	38,446
Contributions / premium receivable (gross)	-	5,619	-	-	5,619
Sundry debtors and prepayments (gross)	12,747	-	-	39	12,786
Commission income accrued	7,150	-	-	-	7,150
Investment interest receivable	10,015	-	-	-	10,015
	104,824	5,619	-	39	110,482

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

10. Receivables (continued)

Accounting policy
Government rebate receivable (Premiums reduction scheme)
Government rebate receivable represents the rebate component of member's insurance cover owed and expected to be received from the Department of Human Services. Contributions (rebate) from the Department of Human Services are recognised as income in the period to which they relate.

Risk equalisation
Risk equalisation relates to amounts recoverable from the Risk Equalisation Special Account (RESA) which is administered by the Australian Prudential Regulation Authority (APRA). The RESA is a scheme to subsidise health insurers for high cost claims and age-based claims amongst health insurers. The RESA is an estimated accrual based upon an industry survey of eligible claims. The final amounts receivable from the RESA are determined by APRA after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

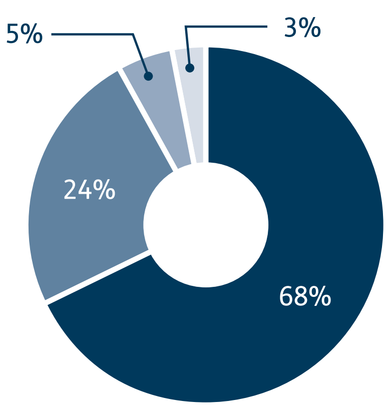
Contributions / premiums receivable
Contributions receivable represent monies owed and expected to be received for insurance policies during the financial year. Contributions receivable are recognised initially at fair value and subsequently measured at amortised cost less an allowance for impairment. Due to their short-term nature they are not discounted.

11: Financial assets at fair value through profit and loss

	2019 $'000	2018 $'000
Term deposits	1,123,103	1,184,293
Equity related instruments	387,545	257,263
Fixed interest related instruments	77,065	72,822
Infrastructure	48,070	-
	1,635,783	1,514,378

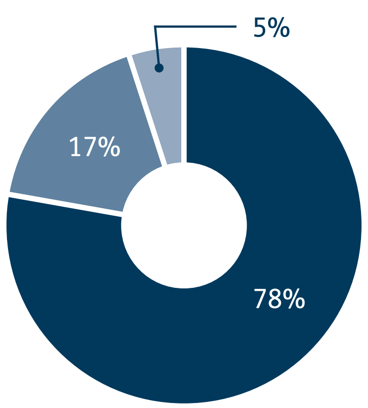
Portfolio composition:

30 June 2019



Term deposits
Equity related instruments
Fixed interest related instruments
Infrasturcture

30 June 2018



Term deposits
Equity related instruments
Fixed interest related instruments

HBF Health Limited
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11. Financial assets at fair value through profit and loss (continued)

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1: quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;
Level 2: valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable); and
Level 3: valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

For financial instruments that are recognised at fair value on a recurring basis, the HBF Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Translation of the above produces the following fair value hierarchy:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Unquoted investments				
Equity related instruments	-	387,545	-	387,545
Fixed interest related instruments	-	77,065	-	77,065
Infrastructure	-	-	48,070	48,070
	-	464,610	48,070	512,680

There were no transfers between levels during the year.

Reconciliation of Level 3 fair value

	2019 $'000	2018 $'000
Opening balance	-	-
Purchases	47,500	-
Fair value gains recognised in profit and loss	570	-
Closing balance	48,070	-

The following table provides quantitative information about significant unobservable inputs related to Level 3 fair value movements:

Asset classification	Fair value $'000	Valuation technique	Unobservable input	Range
Distribution / Regulated	16,842	Income Approach	Discount rate	9.0%-9.9%
GDP-Sensitive	14,418	Income Approach	Discount rate	10.8%-13.5%
Contracted / Power	16,810	Income Approach	Discount rate	8.8%-11.6%
	48,070			

Significant increases / decreases in any of these inputs in isolation would result in significant lower/higher fair value measurements.

Accounting policy

Assets backing insurance liabilities
As required under AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* all investments with the exception of 'Investment in Controlled Entities', 'Investment in Associates' and 'Non-current Assets Held for Sale' are deemed to back insurance liabilities and are valued at fair value through the profit and loss.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

11. Financial assets at fair value through profit and loss (continued)

Investments
Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either; financial assets at fair value through the statement of comprehensive income; held-to-maturity investments; or available-for-sale investments, as appropriate. However, AASB 1023 General Insurance Contracts requires that all assets backing insurance liabilities be measured at fair value through profit or loss. All of the HBF Group's financial assets were so classified throughout the reporting period. When financial assets are recognised initially, they are measured at fair value in the statement of financial position with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

HBF holds investments in term deposits, unlisted unit trusts, managed funds and an infrastructure investments fund. The investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds adjusted for factors likely to impact the redemption price to reflect fair value based on a likely exit price if the units were to be sold in the market. The value of the underlying investments within the unit trusts that are traded in active markets is determined by the unit fund managers based on their quoted market prices at the reporting date. The value of investments that are not traded in an active market is determined by the unit fund managers using valuation techniques. Such techniques include the use of recent arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow technique or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The estimated fair values of the investment in infrastructure is determined by the fund manager at each valuation date. HBF's interest in these investments is based on its proportionate ownership. Such investments may include direct investments in infrastructure assets, partnership interests or other interests in infrastructure-related assets. As part of the fund managers valuation process, infrastructure assets are valued by independent appraisers on a quarterly basis. Asset valuations and the salient valuation-sensitive assumptions of each interest are reviewed by the fund manager. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three valuation techniques that can be used: the market, income or cost approach; the appropriateness of each approach depends on the type of assets or business being valued.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the HBF Group retains the right to receive cash flows from the asset and either, the HBF Group has transferred substantially all the risks and rewards of the asset, or the HBF Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

12: Deferred acquisition costs

	Notes	2019 $'000	2018 $'000
Deferred acquisition costs at beginning of year		20,694	20,826
Acquisition costs incurred		24,335	34,786
Acquisition costs charged to profit and loss	7(a), 12(a)	(33,225)	(34,918)
Deferred acquisition costs at end of year		11,804	20,694
Current		4,773	5,912
Non-current		7,031	14,782
		11,804	20,694

a) Acquisition costs charged to profit and loss

		2019 $'000	2018 $'000
Amortisation of deferred acquisition costs		(8,890)	(10,780)
Brand and distribution costs expensed		(24,335)	(24,138)
	7(a)	(33,225)	(34,918)

HBF Health Limited
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12. Deferred acquisition costs (continued)

Accounting policy
Acquisition costs incurred in obtaining insurance contracts are expensed immediately, except for broker related costs which are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

13: Investments

	2019 $'000	2018 $'000
Investment in Whitecoat Operating Pty Limited		
Investment in other entity at beginning of year	500	1,500
Reversal of impairment loss /(impairment loss)	1,000	(1,000)
Sale of shares in other entity during the year	(1,500)	-
Investment in other entity at end of year	-	500

HBF's investment in Whitecoat Operating Pty Limited was sold during the 2019 financial year for a sale price of $2,500,000. The impairment loss of $1,000,000 raised during 2018 was reversed and a profit on sale of investment of $1,000,000 was recognised.

Accounting policy
Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either; financial assets at fair value through the statement of comprehensive income; held-to-maturity investments; or available-for-sale investments, as appropriate. However, AASB 1023 *General Insurance Contracts* requires that all assets backing insurance liabilities be measured at fair value through profit or loss. All of the HBF Group's financial assets were so classified throughout the reporting period. When financial assets are recognised initially, they are measured at fair value in the statement of financial position with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

The HBF Group assess, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset, has an impact on the estimated future cash flows of the financial asset.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the HBF Group retains the right to receive cash flows from the asset and either, the HBF Group has transferred substantially all the risks and rewards of the asset, or the HBF Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

14: Assets held for sale

	Notes	2019 $'000	2018 $'000
Land		13,100	467
Buildings		85,701	1,851
Plant and equipment		-	252
Building renovations		-	4,580
Commission income accrued		5,767	-
HBF Pharmacy Pty Ltd net assets	14(a)	920	-
		105,488	7,150

The HBF Group is currently finalising a sale and leaseback for it's Head Office building located at 570 Wellington Street, Perth WA 6000. The sale is expected to be completed within the next financial year. Fair value has been determined with reference to the sale and leaseback agreement.

Zurich Financial Services Australia Limited is currently in negotiations with HBF to buy back Future Trail Commissions owing to the Group. The sale is expected to be completed within the next financial year. Fair value has been determined with reference to the heads of sale agreement.

(a) In August 2019 the HBF Group formed an alliance with pharmacy group, Pharmacy 777. Under the alliance, the HBF Group sold HBF Pharmacy Pty Ltd including the Friendlies master franchise to Pharmacy 777. The Pharmacy 777 and Friendlies Pharmacy networks will be combined under the Pharmacy 777 brand to expand the reach of preventative health services provided to HBF members in pharmacies. The HBF Pharmacy Pty Ltd net assets have been valued at carrying value.

HBF Pharmacy net assets transferred to assets held for sale:

	Notes	2019 $'000	2018 $'000
Cash and cash equivalents	22(b)	243	-
Receivables		270	-
Financial assets at fair value through profit or loss		500	-
Intangible assets		78	-
Trade and other payables		(171)	-
		920	-

The asset held for sale in the prior year relates to HBF Group's former head office building located at 125 Murray Street, Perth WA 6000. On 22 May 2018, a contract of sale was signed for 125 Murray Street. A sale price of $8,100,00 was agreed and completion of the sale ocurred on 25 July 2018.

Accounting policy
The Group classifies assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

15: Intangible assets

	Notes	2019 $'000	2018 $'000
Computer Software			
Cost			
Opening balance		61,339	58,446
Transfer from work in progress	16	217	2,893
HBF Pharmacy Pty Ltd assets held for sale		(447)	-
Closing balance		61,109	61,339
Amortisation			
Opening balance		53,456	43,841
Transfers		-	800
Amortisation		4,642	8,815
HBF Pharmacy Pty Ltd assets held for sale		(369)	-
Closing balance		57,729	53,456
Net book value at end of the year		**3,380**	**7,883**

Intangible assets with a cost of $33.3m (2018: $25.5m) have been fully amortised and are still in use.

Accounting policy
Computer software is measured at cost and amortised using the straight-line method over its estimated useful life. This ranges from 3 to 10 years. The carrying amount of computer software excludes all research costs, which are expensed when incurred.

HBF Health Limited
Notes to the financial statements
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16: Property, plant and equipment

	Notes	Land $'000	Buildings $'000	Plant and Equipment $'000	Renovations $'000	Work in progress $'000	Total $'000
30 June 2019							
Cost or valuation							
Opening balance		18,125	102,111	11,368	30,832	715	163,151
Additions		-	-			5,818	5,818
Revaluations		(2,900)	(4,430)	-	-	-	(7,330)
Transfer out of work in progress		-	-	2,032	3,000	(5,032)	-
Transfer to intangible assets	15	-	-	-	-	(217)	(217)
Assets held for sale	14	(13,100)	(85,701)	-	-	-	(98,801)
Closing balance		2,125	11,980	13,400	33,832	1,284	62,621
Depreciation							
Opening balance		-	5,947	7,575	14,947	-	28,469
Depreciation expense		-	3,368	2,092	2,545	-	8,005
Closing balance		-	9,315	9,667	17,492	-	36,474
Net book value at end of year		**2,125**	**2,665**	**3,733**	**16,340**	**1,284**	**26,147**
30 June 2018							
Cost or valuation							
Opening balance		24,875	100,279	10,744	30,831	319	167,048
Additions		-	-		-	3,924	3,924
Disposals		(6,750)	(1,537)	(11)	1	-	(8,297)
Revaluations		-	3,369	-	-	-	3,369
Transfer out of work in progress		-	-	635	-	(635)	-
Transfer to intangible assets	15	-	-	-	-	(2,893)	(2,893)
Closing balance		18,125	102,111	11,368	30,832	715	163,151
Depreciation							
Opening balance		-	2,563	5,395	12,712	-	20,670
Depreciation expense		-	3,384	2,180	2,235	-	7,799
Closing balance		-	5,947	7,575	14,947	-	28,469
Net book value at end of year		**18,125**	**96,164**	**3,793**	**15,885**	**715**	**134,682**

Property, plant and equipment with a cost of $4.5m (2018: $4.6m) have been fully depreciated and are still in use.

Accounting policy
Property, plant and equipment, except land and buildings, are carried at cost, less accumulated depreciation and any impairment losses.

Land and buildings are measured at fair value using the revaluation model, less accumulated depreciation on buildings and any impairment losses recognised since the date of last revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

16. Property, plant and equipment (continued)

A revaluation surplus is recorded in other comprehensive income and credited to the assets revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is retained in the asset revaluation reserve in equity.

Depreciation is provided on a straight-line basis on all owner-occupied property, plant and equipment, other than freehold land as follows:

Buildings:	1.5% - 2.5%
Plant and Equipment:	5% - 25%
Building / branch renovations:	6.7% - 25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

Impairment of assets accounting policy
The HBF Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the HBF Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revaluation of land and buildings
The revalued land and buildings consist of office properties in Australia. Management determined that these constitute one class of asset under *AASB116,* based on the nature, characteristics and risks of the property.

The fair value of land and buildings at 30 June 2019 were determined by the Directors. The Directors assessed the fair value as consistent with the prior year due to a lack of material changes in market conditions.

The fair value of the properties, excluding the headquarters at 570 Wellington Street, were determined at 30 June 2017 using the market comparable and capitalisation methods. Under the market comparable approach, comparable sales values per square metre are applied to the lettable area to determine the market value. Under the capitalisation approach, the net market rental income as at the valuation date is capitalised at an appropriate market yield to estimate the value of the property. As at the date of valuation on 30 June 2017, the properties' fair values are based on valuations performed by LMW, an accredited independent valuer who has valuation experience for similar office properties in Australia since 1982.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

16. Property, plant and equipment (continued)

Significant valuation assumptions:	**Range**
Market Comparable approach	
Sales value per lettable square metre	$10,212
Capitalisation approach	
Market yield	5.90% - 8.83%

Significant increases / (decreases) in the estimated market yield would result in a significantly higher (lower) fair value. Based on the range of potential values for these inputs provided in the valuation report, there are no reasonably possible movements which would have a significant impact of the valuation.

The fair value of the headquarters at 570 Wellington Street, Perth was determined using the expected sale price of the building. The HBF Group is currently finalising a sale and leaseback of the building. Refer to Note 14 Assets held for sale for further details.

Reconciliation of Level 3 fair value:

	2019 $'000	2018 $'000
Opening balance	114,293	122,590
Disposals	-	(8,297)
Depreciation for the year	(3,368)	(3,369)
Level 3 revaluation (loss) / profit on revaluation at year end	(7,330)	3,369
Assets held for sale	(98,801)	-
Closing balance	4,794	114,293

The revaluation of land and buildings resulted in the recognition of a revaluation reserve of $15,580,000 as at 30 June 2019 (30 June 2018: $22,908,000)

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2019 $'000	2018 $'000
Cost	2,672	107,840
Accumulated depreciation and impairment	(356)	(9,475)
Net carrying amount	2,316	98,365

Land and buildings with a cost of $105,168,000 and accumulated depreciation of $12,421,000 was transferred to Assets held for sale during the year. Refer to Note 14.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

17: Trade and other payables

	2019 $'000	2018 $'000
Trade creditors and accrued expenses	30,765	11,110
Employee related payables	6,939	4,347
Other payables	1,312	703
	39,016	16,160

Accounting policy

Trade and other payables are carried at amortised cost and as they are expected to mature within 3 months they are not discounted. They represent liabilities for goods and services provided to the HBF Group prior to the end of the financial year that are unpaid and arise when the HBF Group becomes obliged to make future payments in respect of the purchase of these goods and services.

18: Insurance liabilities

	Notes	2019 $'000	2018 $'000
GapSaver	18(a)	91,246	89,916
Unearned premium liabilities	18(b)	224,200	235,067
Outstanding claims	18(c)	134,710	137,485
		450,156	462,468
Current		401,977	419,462
Non-current		48,179	43,006
		450,156	462,468

a) GapSaver

	2019 $'000	2018 $'000
Movements in provisions		
Balance at beginning of year	89,916	85,137
Member deposits	54,664	55,924
Member withdrawals	(54,070)	(51,243)
Present value adjustment	933	(73)
Adjustment for cancellations	(197)	171
Balance at end of year	91,246	89,916
Current	43,446	47,373
Non-current	47,800	42,543
	91,246	89,916

Accounting policy

Contributions received for the GapSaver option are brought to account in line with that member's product. The GapSaver provision is reduced when it is utilised to cover the gap on a member's claim (the difference between the amount charged for treatment and the benefit payable on that treatment). The balance of the GapSaver provision (i.e. the excess of GapSaver contributions made over GapSaver contributions utilised) is subject to discounting based on actuarial calculations.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

18. Insurance liabilities (continued)

b) Unearned premium liability

	2019 $'000	2018 $'000
Unearned premium at beginning of year	235,067	234,096
Premium written during the year	1,674,716	1,695,973
Premium earned during the year	(1,685,583)	(1,695,002)
Unearned premium at end of year	224,200	235,067
Current	223,821	234,604
Non-current	379	463
	224,200	235,067

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2019 and 30 June 2018.

Unearned premium accounting policy
Contributions received are brought to account as income over the period to which they relate consistent with their assessed pattern of risk. Contributions in advance are reflected as a provision that is based on an assessment of each individual member's contribution date and paid-to date for all contribution periods.

Unexpired risk liability accounting policy
At each reporting date the HBF Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the Liability Adequacy Test (LAT) and is performed for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the anticipated administration costs attributable to policy handling and additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the shortfall requires an unexpired risk liability to be recognised.

In these circumstances, the entire shortfall, gross and net of risk equalisation, is recognised immediately in the income statement first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the statement of financial position as an unexpired risk liability.

The probability of sufficiency (POS) adopted in performing the liability adequacy test is set at 80%, consistent with the percentile adopted in determining the outstanding claims liabilities. The POS for outstanding claims liabilities is set at a level that is appropriate and sustainable to cover the HBF Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Being a test of adequacy, the POS for LAT is intended to highlight deficiencies in product pricing following an analysis of the Group's profit margins and after having regard to regulatory requirements and prudent industry practice.

An independent actuary determines the amount of any provision required.

HBF Health Limited
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18. Insurance liabilities (continued)

c) Outstanding claims liability

	Notes	Insurance liabilities $'000	Risk equalisation $'000	Net $'000
30 June 2019				
Central estimate of outstanding claims liabilities		128,714	(10,770)	117,944
Claims handling expenses		2,574	-	2,574
Risk margin		3,422	-	3,422
Outstanding claims liabilities/(Risk equalisation receivable)		134,710	(10,770)	123,940
Risk equalisation receivable on claims paid		-	(29,880)	-
Risk equalisation receivable on paid and outstanding liabilities	10	-	(40,650)	-
Movement in outstanding claims liability:				
Opening balance		137,485	(38,446)	99,039
Claims incurred in the current year		1,631,899	(117,102)	1,514,797
Adjustment to claims incurred in prior years		(49,603)	4,138	(45,465)
Net claims/Risk equalisation		1,582,296	(112,964)	1,469,332
Claims paid/Risk equalisation received during the year		(1,585,071)	110,760	(1,474,311)
Closing balance		134,710	(40,650)	94,060
30 June 2018				
Central estimate of outstanding claims liabilities		131,417	(10,392)	121,025
Claims handling expenses		2,628	-	2,628
Risk margin		3,440	-	3,440
Outstanding claims liabilities/(Risk equalisation receivable)		137,485	(10,392)	127,093
Risk equalisation receivable on claims paid		-	(28,054)	-
Risk equalisation receivable on paid and outstanding liabilities	10	-	(38,446)	-
Movement in outstanding claims liability:				
Opening balance		145,206	(28,714)	116,492
Claims incurred in the current year		1,670,743	(111,403)	1,559,340
Adjustment to claims incurred in prior years		(36,026)	3,830	(32,196)
Net claims/Risk equalisation		1,634,717	(107,573)	1,527,144
Claims paid/Risk equalisation received during the year		(1,642,438)	97,841	(1,544,597)
Closing balance		137,485	(38,446)	99,039

Given the short weighted mean term of the liability (less than two months) no explicit allowances have been made for inflation and discounting in the current and prior year. The weighted average expected term to settlement for the net central estimate is 0.12 years (2018: 0.13 years).

Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the valuation models and assumptions, the data quality, the health insurance environment and the impact of legislative reform. As HBF Health Limited is a single portfolio comprising two correlated classes of risk, no allowance is made for diversification when setting the risk margin. The risk margin applied to increase the level of adequacy of the central estimate to 80% is 2.8% (2018: 2.8%). More information regarding the risk margin is provided in Note 3(c).

Claims handling expenses applies a rate of 2.0% (2018: 2.0%).

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

18. Insurance liabilities (continued)

	1-3 months $'000	4-12 months $'000	1+ years $'000	Total $'000
Maturity profile				
At 30 June 2019				
Gross liability	119,997	14,713	-	134,710
Net liability	110,243	13,697	-	123,940
At 30 June 2018				
Gross liability	119,667	17,818	-	137,485
Net liability	110,469	16,624	-	127,093

Accounting policy
The liability for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin and estimate of claims handling expenses. This provision represents claims for hospitalisation and other services rendered prior to the reporting date but not yet presented to the organisation by that date as well as the cost of claims which have been received and are not yet processed or are in dispute at the reporting date. The provision also includes anticipated administration costs attributable to the processing of the outstanding claims as well as a risk margin. An independent actuary determines the amount of the provision.

Sensitivity analysis – insurance contracts
The HBF Group conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions, as described above. The movement in any key variable will impact the performance and equity of the HBF Group.

The following tables describe how a change in each assumption will affect the insurance liabilities and hence the profit/(loss) and the equity both gross and net of risk equalisation transfers.

Average weighted term to settlement	Does not directly affect the insurance liabilities.
Average claim size	Average claim size is determined by the valuation and is used as a benchmark. Hence it is not sensitivity tested.
Adopted reporting rates	Used to determine the level of claims incurred but not reported (IBNR). An increase or decrease in lodgements have a corresponding impact on claims expense.
Incurred cost in latest two service months	A change in the ultimate claims cost incurred for the most recent two service months will have a disproportionate impact on the outstanding claims amount due to the claim payments made to date.
Sufficiency margin	An increase or decrease in the coefficient of variation has a corresponding impact on the sufficiency margin and hence on the actuarial provision.
Claims handling expenses	An increase or decrease in the expense rate assumption has a corresponding impact on claims expense.

		Pre-tax movement in surplus and equity	
	Movement in variable	Gross of reinsurance $'000	Net of reinsurance $'000
Impact of movement in variable			
Adopted reporting rates	1% increase	115	106
	1% decrease	(116)	(107)
Incurred cost in latest two service months	1% increase	2,889	2,658
	1% decrease	(2,889)	(2,658)
Sufficiency margin	1% increase	1,310	1,205
	1% decrease	(1,310)	(1,205)
Claims handling expenses	1% increase	1,439	1,324
	1% decrease	(1,439)	(1,324)

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

18. Insurance liabilities (continued)

Actuarial assumptions and methods
Claims estimates for health insurance classes are derived from an analysis of four different valuation models. The ultimate number of claims incurred are projected based on changes in claimant behaviour over time and past reporting patterns. Payments experience is analysed based on trends in ultimate incurred by month, paid chain ladder, paid per claim incurred and per claim reported. The resulting projected payments from these models are analysed along with benchmarks for average claim size and other statistics, in order to determine the final estimate of outstanding claims. The analysis and projection work is done for six valuation categories and consolidated into two health insurance classes, ie hospital and general treatment. The exposure period is month of service.

Given the short weighted mean term of the liability (less than two months) no explicit allowances have been made for inflation and discounting.

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

Average weighted term to settlement	The average weighted term to settlement is calculated separately, by class of business, based on historic payment patterns.
Future claim reports (IBNR)	Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.
Average claim size	Average claim size is a benchmark being the outcome of the month of service blend of actuarial methods described above.
Expenses rate	Claims handling expenses were calculated by analysis of actual expenses from profit and loss statements over the last 12 months.
Discount rate	No explicit assumption made given the short weighted mean term of the liability (less than two months).
Inflation	No explicit assumption made. Methods adopted (paid chain ladder and incurred cost development) make implicit allowance for inflation.
Superimposed inflation	No explicit assumption made. Methods adopted (paid chain ladder and incurred cost development) make implicit allowance for inflation.
Sufficiency margin	The inherent uncertainty in the estimated claim liability means that there is a range of possible outcomes. An analysis of the variation of the expected results lead to adoption of a 4.7% co-efficient of variation (3.4% for 1-month hindsight valuations) and the lognormal distribution. This distribution is then used to calculate the risk margin required to increase the level of sufficiency of the central estimate from 50% to 80%.

19: Reserves and retained earnings

	2019 $'000	2018 $'000
Attributable to HBF Health Limited		
General reserve	111,513	111,513
Retained earnings	1,314,408	1,220,727
Asset revaluation reserve	15,580	22,910
	1,441,501	1,355,150

The General reserve was created by the merger between HBF Health Limited and HealthGuard Health Benefits Fund Limited.

The asset revaluation reserve is used to record increments and decrements on revaluation of non-current assets as described in Note 16.

The *Private Health Insurance Act 2007* requires health benefit organisations to maintain sufficient reserves so that, at any time, the value of the assets of the fund is sufficient to meet the obligations of the fund, at that date, to policyholders and creditors referable to the fund, under adverse conditions. The reserves of HBF Health Limited met the requirements of the *Private Health Insurance (Prudential Supervision) Act 2015* and the Solvency Standard and Capital Adequacy Standard contained therein as at 30 June 2019 and 30 June 2018.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

20: Employee benefits

	Notes	2019 $'000	2018 $'000
The aggregate employee benefit liability is comprised of:			
Accrued annual leave	(a)	4,983	5,052
Accrued long service leave	(b)	7,650	7,493
		12,633	12,545
Current		10,231	10,232
Non-current		2,402	2,313
		12,633	12,545
(a) Accrued annual leave			
Opening balance		5,052	5,265
Additional benefits accrued		4,986	4,790
Benefits utilised		(5,055)	(5,003)
Closing balance		4,983	5,052
(b) Accrued long service leave			
Opening balance		7,493	7,650
Additional benefits accrued		1,320	1,187
Benefits utilised		(1,163)	(1,344)
Closing balance		7,650	7,493

Accounting policy
Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries and any other short-term employee benefit expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government bonds that have terms to maturity approximating the terms of the related liabilities are used.

Employee benefit expenses arising in respect of the wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements are charged against profits on a net basis in their respective categories. The contributions made to employee accumulation superannuation funds are brought to account as an expense when salaries and wages are paid or accrued.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

21: Contingencies and commitments

(a) Contingent liabilities

Under the agreement to sell HBF Holdings Pty Limited and its wholly owned subsidiary, HBF Insurance Pty Limited, to CGU Insurance Limited (now Insurance Australia Group Limited (IAG)), HBF has received consideration of $15 million which will be required to be repaid on a pro-rata straight line basis over 10 years in the event that termination of the agreement occurs as a result of specified primary events. The specified primary events relating to HBF include; 1) being subject to a banning, disqualification, suspension or cancellation *order under the Corporations Act 2001, 2)* being charged with or convicted with any offence that is likely to bring IAG into disrepute, 3) authorisation to provide financial services becomes void, 4) insolvency, 5) holding an Australian Financial Service licence, 6) change of 15% or more in ownership, 7) disposal of assets other than in the ordinary course of business, 8) material change in conduct of business and 9) ceasing to be a private health insurer. The specified primary events relating to IAG relate to a change in legal or beneficial ownership by more than 50%.

The Directors consider the possibility of any of the primary events occurring to be very remote at present and as such no liability actual or contingent has been recognised in the financial statements.

	2019 $'000	2018 $'000
(b) Capital expenditure commitments - within one year		
Within one year	489	1,303
After one year but not more than five years	-	-
More than five years	-	-
	489	1,303
(c) Lease expenditure commitment		
Operating leases:		
Within one year	980	2,292
After one year but not more than five years	259	965
More than five years	-	-
	1,239	3,257

Operating leases expenditure relate to 9 retail stores and have an average lease term of 0.89 years (2018: 1.12 years) and 9 vehicles with an average lease term of 0.56 years (2018: 1.52 years). Leases are non-cancellable.

	2019 $'000	2018 $'000
(d) Lease commitments receivable		
Operating leases:		
Within one year	173	253
After one year but not more than five years	267	380
More than five years	-	-
	440	633

Operating lease revenue is due from tenants in commercial property owned by HBF Health Limited. Leases have an average lease term of 0.64 years (2018: 1.22 years) and an average implicit interest rate of 1.2% (2018: 0.8%).

Accounting policy
HBF Group as lessor
Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of the leased items, are included in the determination of operating results in equal instalments over the lease life. The entity does not have any finance leases.

HBF Group as lessee
Operating lease payments are recognised as an operating expense in the statement of comprehensive income over the lease term.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

22: Cash flow statement

(a) Financing facilities available

(i) An overdraft facility on the operational cheque account. By negotiation, the overdraft must not exceed the balance of other funds held with the Commonwealth Bank; and

(ii) A direct debit facility with the Commonwealth Bank.

	2019 $'000	2018 $'000
(b) Reconciliation of cash		
Cash and cash equivalents comprises:		
Cash and bank balances	57,642	50,593
Short-term deposits	-	-
	57,642	50,593

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	Notes	2019 $'000	2018 $'000
Cash and bank balances		57,642	50,593
Short-term deposits		-	-
Cash at banks and short-term deposits attributable to assets held for sale	14	243	-
		57,885	50,593
(c) Reconciliation of operating surplus after tax to the net cash flows from operations			
Operating surplus		93,681	60,810
Depreciation and amortisation		12,647	16,614
(Gain)/loss on disposal of property, plant and equipment		-	(811)
(Gain)/loss on disposal of assets		(1,806)	-
Impairment of other financial assets		-	1,000
Change in value of investments		(14,966)	(11,847)
Changes in assets and liabilities			
Government rebate receivable		2,190	97
Risk equalisation		(2,204)	(9,732)
Contributions / premium receivable		892	249
Expected future recoveries		(13)	14
Commission income accrued		227	(268)
Sundry debtors and prepayments		(1,280)	(1,140)
Investment interest receivable		1,533	(1,322)
Deferred acquisition costs		8,890	132
Trade creditors and accruals		23,027	(1,710)
Contributions in advance / unearned premiums		(9,537)	5,750
Outstanding claims		(2,775)	(7,721)
Employee benefits		88	(370)
Tax assets and liabilities		-	432
Net cash flow from operating activities		110,594	50,177

Accounting policy

Cash and short-term deposits in the statement of cash flows comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above net of outstanding bank overdrafts and includes cash in transit to be invested.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

23: Related party disclosures

The following individuals were in office during the financial year unless otherwise stated:

Directors
Mr T Crawford
Mr J Van Der Wielen
Mr R England
Ms H Kurincic
Ms Gai McGrath (from 1 May 2019)
Mr R Moore
Mr B Stewart
Ms L Palmer (until 31 January 2019)
Ms M Woodford (until 31 October 2018)

Executives and senior management
Mr W Linnell
Mr S Walsh
Ms S Duncalf
Mr P Arav (from 4 February 2019)
Ms A Hoskins (until 6 May 2019)
Mr P Kasimba (until 15 September 2019)
Mr D Gollan (until 31 May 2019)
Mr L Rogers (until 3 December 2018)
Mr N LeFebvre (until 31 December 2018)

Key management personnel were in office for the entire financial year unless otherwise stated.

Key management personnel remuneration

	2019 $	2018 $
Directors		
Short-term benefits	958,012	1,020,935
Superannuation	88,253	96,989
	1,046,265	1,117,924
Other key management personnel		
Short-term employee benefits	5,262,827	4,259,342
Superannuation	212,298	201,769
Long-term employee benefits	1,484,683	92,536
Termination benefits	829,926	615,509
	7,789,734	5,169,156
Total	8,835,999	6,287,080

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

24: Significant events after reporting date

In August 2019 the HBF Group formed an alliance with pharmacy group, Pharmacy 777. Under the alliance the HBF Group sold HBF Pharmacy Pty Ltd including the Friendlies master franchise to Pharmacy 777 as disclosed in Note 14. There have been no other significant events since the reporting date.

25: Information relating to HBF Health Limited (the Parent)

	2019 $'000	2018 $'000
Current assets	1,792,489	1,659,705
Non-current assets	143,524	172,859
Total assets	1,936,013	1,832,564
Current liabilities	451,154	445,698
Non-current liabilities	50,581	45,319
Total liabilities	501,735	491,017
Net assets	**1,434,278**	**1,341,547**
General reserve	111,513	111,513
Retained earnings	1,313,238	1,220,574
Asset revaluation reserve	9,527	9,460
Total equity	**1,434,278**	**1,341,547**

	2019 $'000	2018 $'000
Surplus of the Parent entity	92,664	61,244
Revaluation of land and buildings	67	67
Total comprehensive income of the Parent entity	**92,731**	**61,311**

The Parent entity has a contingent liability as disclosed in note 21(a).

The Parent entity has contractual obligations to purchase plant and equipment for $489,000 at balance sheet date (2018: $1,303,000).

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

26: New accounting standards and interpretations

(a) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The HBF Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2018. The adoption of these new standards and amendments has had no material impact on the HBF Group's financial statements:

AASB 15, and relevant amending standards Revenue from Contracts with Customers

AASB 15 replaces all existing revenue requirements in Australia Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 Leases (or AASB 16 Leases, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract obligation.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Refer to Note 6 for discussion on the impact of adoption.

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- Share-based payment transactions with a net settlement feature for withholding tax obligations
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts

This Standard amends AASB 4 Insurance Contracts to permit issuers of insurance contracts to:

- Choose to apply the 'overlay approach' that involves applying AASB 9 Financial Instruments and also applying AASB 139 Financial Instruments: Recognition and Measurement to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or
- Choose to be temporarily exempt from AASB 9 when those issuers' activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.

The HBF Group has elected to apply the temporary exemption from AASB 9. The Group qualifies to apply the temporary exemption as it has not previously applied any version of AASB 9 and its activities are predominantly connected with insurance. Insurance liabilities within the scope of IFRS 4 comprise more than 90 per cent of the total carrying amount of the Group's liabilities.

There would be no material change in the fair value of financial assets as at the reporting period if AASB 9 were applied. Refer to Note 4 for further information on credit risk.

HBF Health Limited
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26. New Accounting Standards and Interpretations (continued)

AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: • AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration • AASB 12 Disclosure of Interests in Other Entities – clarification of scope • AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value • AASB 140 Investment Property – change in use.
AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4	The amendments confirm that in Australia compliance with AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts ensures simultaneous compliance with AASB 4. The Standard also amends AASB 4 to ensure the relief available to issuers of insurance contracts set out in AASB 2016-6 can be applied by an entity applying either AASB 1023 and AASB 1038 if the entity otherwise meets the qualifying criteria.
AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

(b) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, other than AASB 9 that is already effective, have not been adopted for the annual reporting period ended 30 June 2019. The nature of each new standard and amendment is described below:

AASB 9, and relevant amending standards Financial Instruments (application date of 1 July 2022)	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial

HBF Health Limited
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26. New Accounting Standards and Interpretations (continued)

	liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139. The HBF Group has elected to apply the temporary exemption from AASB 9 as per AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts.
AASB 16 Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of- use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. The HBF Group plans to adopt AASB 16 using the modified retrospective approach, as a result prior period balances will not be restated. The HBF Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. During 2019, the HBF Group has performed a detailed impact assessment of AASB 16. The net impact, including the sale and leaseback of the Head Office building (Note 14), on equity and profit and loss is not expected to be material to the HBF Group's 2020 financial results.
AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-For-Profit Entities	AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for not-for- profit entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately. The Standard also expands the circumstances in which not-for-profit entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services), including for example, peppercorn leases.

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26. New Accounting Standards and Interpretations (continued)

	Consequently AASB 1004 Contributions is also amended, with its scope effectively limited to address issues specific to government entities and contributions by owners in a public sector entity context.
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	This Standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.
AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: • AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity • AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.
AASB Interpretation 23, and relevant amending standards Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.
AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities	This Standard amends AASB 1, AASB 16, AASB 117, AASB 1049 and AASB 1058 to provide a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions principally to enable the entity to further its objectives. The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

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Notes to the financial statements
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26. New Accounting Standards and Interpretations (continued)

Conceptual Framework AASB 2019-1 Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework (application date of 1 July 2020)	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	The Standard amends the definition of a business in AASB 3 Business Combinations. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.
AASB 17 Insurance Contracts (application date of 1 July 2022)	AASB 17 replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts for for-profit entities. AASB 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of AASB 17 is the General (building block) Model, supplemented by: • A specific adaptation for contracts with direct participation features (Variable Fee Approach) • A simplified approach mainly for short-duration contracts (Premium Allocation Approach).

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2019

26. New Accounting Standards and Interpretations (continued)

The main features of the new accounting model for insurance contracts are:

- A measurement of the present value of future cash flows, incorporating an explicit risk adjustment remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income determined by an accounting policy choice.

The HBF Group has begun its initial assessment of the impact of the adoption of AASB 17 on its financial statements.

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (application date of 1 July 2022)	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022

The above standards and interpretations are applicable for financial years beginning on or after 1 July 2019 unless otherwise stated. The HBF Group has not elected to early adopt any new standards or amendments that are issued but not yet effective. New standards or amendments will be adopted when they become effective.

The HBF Group is yet to assess the impact of the adoption of the remaining standards and amendments, except as indicated above.

HBF Health Limited
Directors' declaration
Year ended 30 June 2019

Directors' declaration

In accordance with a resolution of the directors of HBF Health Limited, I state that:

In the opinion of the directors:

a) the financial statements and notes of the consolidated entity are 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 2019 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001;*

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Tony Crawford
Chairman
24 September 2019
Perth

HBF Health Limited
Auditor's Independence Declaration

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

As lead auditor for the audit of the financial report of HBF Health Limited for the financial year ended 30 June 2019, I declare 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.

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

Ernst & Young

Ernst & Young

F Drummond
Partner
24 September 2019

FD:LC:HBF:041

HBF Health Limited
Independent Auditor's Report

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Independent Auditor's Report to the Members of HBF Health Limited

Opinion

We have audited the financial report of HBF Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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FD:LC:HBF:040

HBF Health Limited
Independent Auditor's Report

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Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

HBF Health Limited
Independent Auditor's Report

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
24 September 2019

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