2021 Annual Report.

CELEBRATING 80 YEARS
80 YEARS
hbf

hbf

Contents.

About HBF

HBF is a not-for-profit organisation incorporated under the *Corporations Act 2001* 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 member-based health fund, providing hospital and ancillary insurance to more than one million members nationwide. We understand that reliable, affordable cover is what members rely on when things don't go to plan. Therefore, at HBF, we focus on one thing only – doing the best by our members.

2021 at a glance.

Our national growth strategy and commitment to do the right thing by members - particularly during a pandemic - drove membership and policy growth during FY21.

1,002,265

members ^ 3.8%

505,050

policies ^ 3.7%

+79,000 members
+40,000 policies

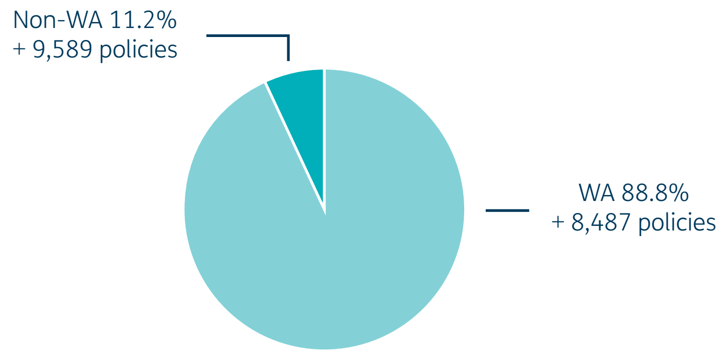
approx. to join HBF after the acquisition of CUA Health Limited

Market share

7.3%

HBF had lost market share for three years but added 0.04% from our competitors through FY21

Policy growth



HBF experienced growth in every State and Territory in FY21 as our national growth strategy gained momentum.

Policies in accordance with APRA definition

1,197

employees

$42 million

approx. in surplus funds to be returned to members due to the COVID-19 pandemic

16.3 years

average length of membership
v 0.1 years

3

HBF Dental Centres opened
Joondalup, Morley, Mandurah

The value of being an HBF member.

470,000
policies being paid a refund of surplus funds from COVID-19 of between $20 and $140

89.7 cents
returned in every dollar we received in premiums back to members as claims

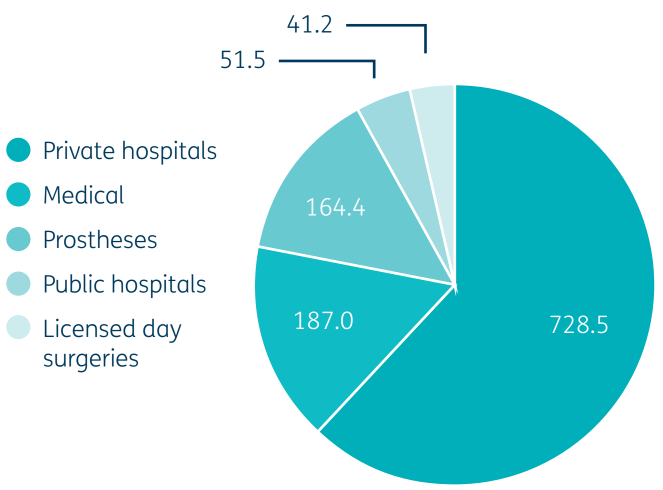
$4.8 million
in COVID-19 hardship waivers to members

100,000
face masks to members, employees and the community

46,509
fully-covered flu vaccinations

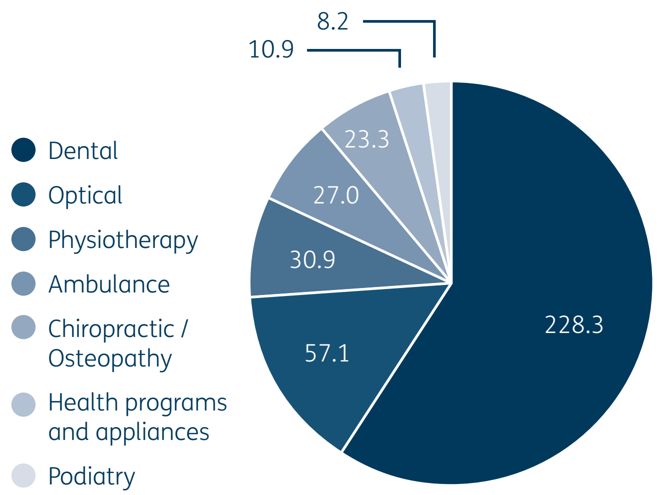
1,000
members supported through COACH and Health Navigator

Major areas of hospital claims ($m)



Total = $1.173 billion

Major areas of general treatment claims ($m)



Total = $385.7 million

Source: HBF claims data for date of benefit paid, 1 July 2020 to 30 June 2021

Common trends for claims surgeries

Source: HBF claims data for date of admission, 1 July 2020 to 30 June 2021

Top five hospital claims areas

	FY20 ($m)	FY21 ($m)
Orthopaedic	$273.0	$271.7
Cardiovascular	$152.0	$143.4
Public hospital	$79.0	$125.8
Digestive	$97.1	$97.9
Obstetrics	$51.4	$46.0

Source: HBF claims data, 1 July 2020 to 30 June 2021. Data includes accommodation, prostheses, medical and other hospital and medical services

2021 achievements:

- Grew our market position with net policy growth in FY21
- Financial performance in the year exceeded expectations, despite COVID-19 support to members
- Maintained member-centric philosophy while adapting to evolving COVID-19 situation
- 2021 premium increase kept to a minimum
- Reconciliation Action Plan endorsed by Reconciliation WA
- Estimated more than $6 million in community support provided in FY21, including donations, premium relief, volunteering and in-kind support, and other fundraising initiatives

Chairman's report.

> **“HBF continues to strengthen its position as an unapologetic member-based organisation...”**

Maintaining our focus on and staying true to our purpose, vision, and values to ensure our members are at the core of every decision we make are the highest priorities for HBF.

While the 2021 financial year started as a year of uncertainty, we have emerged in a strong position having navigated the myriad of challenges laid out before us as a result of the ongoing impact of the global pandemic. I am proud of the achievements outlined in this report delivered by the organisation under the stewardship of our Board, Managing Director, Executive and senior management team, and all employees who have continued to deliver for our members in the moments that matter.

Having commenced implementation of our ambitious strategic plan centred around national growth in private health insurance and diversification within the health sector, HBF continues to strengthen its position as an unapologetic member-based organisation. During the year we grew our market position in health insurance by promoting the benefits of being part of HBF.

In 2020, we made a commitment to return any extraordinary profits collected as a result of our members not being able to access medical services due to government-mandated restrictions associated with the pandemic. Using historical claims information, we calculated the level of deferred claims we expected to incur and, adopting a formula published by the regulator, made a provision in our liabilities. Our Appointed Actuary has monitored claims utilisation throughout the year to determine the level of deferred claims we received once access to medical services was restored. I am pleased to report HBF honoured its commitment and returned approximately $42 million of unutilised claims provisions in early FY22 to our members who held a policy during the period when services were unavailable.

HBF's financial performance during the year has exceeded our expectations, despite our decision to cancel our 2020 premium increase and our actions to look after our most vulnerable members who found themselves in financial distress as a result of the pandemic. Adopting our philosophy to ensure we keep downward pressure on premium increases for our members, we sought to ensure our 2021 rate review was kept to a minimum, further aligning to our organisational purpose. We are encouraged that our efforts are resonating with members and the public as demonstrated by net policy growth throughout FY21.

The underwriting result for FY21 fell slightly year on year. Premium revenue over the year improved as a result of our efforts to grow nationally while retaining more of our existing members, while total claims paid by HBF also increased, resulting in a higher claims payout ratio.

Ensuring our members receive top quality service when interacting with HBF is one of the most important drivers of member satisfaction. The challenges overcome by our member contact centre throughout the year are by no means insignificant. Increasing enquiries from customers switching to HBF seeking an improved member value proposition, increased member activities as a result of rolling lockdowns due to varying COVID-19 restrictions across the country, and managing queries driven by the implementation of our strategic objectives have been managed in the most efficient manner, despite employing a distributed work environment for our employees due to lockdowns. The service rating scores achieved during such a volatile period are testament to the commitment and member-centric philosophy adopted by our frontline employees, which is also reflected in the independent Ombudsman complaints reporting in which HBF has retained the top position among the major health funds for the lowest complaints ratio.

Independent validation of an organisation's performance remains a reliable source to confirm member sentiment. HBF's trust score on a national basis improved significantly, indicating our brand strength is rising as customers, particularly those outside Western Australia, learn more about us. We expect our recent acquisition of CUA Health from Great Southern Bank, one of Australia's most trusted and member-focused financial services organisations, will further strengthen our brand position as we venture into new markets, and our products, health services and member value proposition become more well-known nationally.

Last year, HBF took its first steps to reconciliation and engaged with Reconciliation WA to commence work on a Reconciliation Action Plan (RAP). Led by Managing Director John Van Der Wielen, we remain committed to making a genuine and practical impact on reconciliation, leveraging our unique organisational capabilities to make a tangible difference to influence positive change and outcomes for Indigenous Australians. Adopting a multi-year approach, our RAP has been endorsed by Reconciliation WA and will focus on creating awareness, demonstrating respect and building trust with Aboriginal and Torres Strait Islander organisations and people.

Our RAP will evolve over time as we deliver on our objectives, ultimately innovating and elevating our performance as our capability grows.

Ensuring HBF continues to meet the demands of an ever-changing industry with an increasing focus on sustainability and efficiency, the need to reflect on the strength and capability of our Board remains a regular and ongoing governance priority. Retaining the right skills and experience on the Board to oversee the direction of the organisation from a strategic perspective has been a focus of renewal and succession activities over the past three years. This year, after a near decade-long commitment supporting delivery of HBF's organisational goals, Dr Rod Moore will retire in October.

Rod is one of Western Australia's most well-known and respected sports and musculoskeletal practitioners, having operated his own successful medical practices and retained a long-term appointment as a doctor to the West Coast Eagles Football Club. During his tenure, Rod has made an incredible contribution to HBF's transformation through a period of significant change, including the transition to becoming an APRA-regulated institution.

On behalf of the Board, I would like to personally thank Rod for his balanced and insightful participation and leadership in one of the most challenging periods of change HBF has experienced.

I also take this opportunity to welcome Jennifer Seabrook, who joined the Board in July 2021 and brings a wealth of experience in financial services across capital markets and mergers and acquisitions.

In November of 2021, I will have served on the Board for seven years, including five in the role of Chair. As required by our Constitution, the Board has commenced a process to identify a suitable candidate to succeed in the role of Chair within the next 12 months and, when selected, I will work closely with that person to facilitate an orderly leadership transition.

After a year of unprecedented volatility, I would like to take this opportunity to thank my fellow Non-Executive Directors, John Van Der Wielen, the Executive team, and all of HBF's employees for rising to the challenge. Our purpose to deliver for our members in the moments that matter continues to drive our people to succeed. Whilst some uncertainty may remain in the short-term, we are in the best position to overcome any hurdles as we seek to continue growing nationally and expand further into health services.

Tony Crawford
Chairman

2021 achievements:

- First major health insurer to announce return of surplus COVID-19 funds to members
- Most trusted private health insurance brand in Australia *(Roy Morgan Risk Report)*
- Lowest complaints ratio relative to market share of major insurers (Commonwealth Ombudsman)
- Acquiring CUA Health Limited, further growing HBF outside of WA
- Opened three HBF Dental centres
- Further enhancements to award-winning HBF App

Managing Director's report.

> "Our national growth strategy, expansion into health services, and investments in technology are aimed at driving better outcomes for members and enhancing the value of private health insurance..."

In my Managing Director's report last year, I assured members that HBF had survived many challenges in its 80-year history and that COVID-19 would be no different. Now, 12 months on, I am pleased to report not only did HBF manage COVID-19 well but we have grown and looked after our members by delivering on key strategic initiatives to best position HBF for the future.

Looking after our members

The COVID-19 pandemic has shown that nothing is more important than good health and our response has been true to HBF's purpose of delivering for our members in the moments that matter. When the virus first started impacting access to elective surgery and health services in March 2020, HBF was the first health insurer to promise our members that we would not profit from COVID-19. In FY21 we announced that HBF would be honouring this commitment through returning approximately $42 million from deferred claims provisions to 470,000 eligible policyholders from July 2021. These payments were in addition to our industry-leading 12-month freeze on premiums from 1 April 2020, saving members $37 million. HBF also provided financial hardship support to policyholders totalling nearly $5 million.

In addition to supporting our members financially during the pandemic, we distributed approximately 100,000 reusable face masks to our most vulnerable members and provided premium relief to members directly impacted by two major natural disasters in the year – the Wooroloo bushfire and Cyclone Seroja.

Delivering service to our members during COVID-19 lockdowns was our priority and I am proud to say we maintained excellent service levels with our staff working from home. Our member-first focus is reflected in our consistent member satisfaction results, with the June 2021 edition of the Roy Morgan Risk Report showing HBF is the most trusted private health insurance brand in Australia, while HBF has continued to maintain the lowest complaints ratio relative to market share of all the major private health insurers according to the independent Ombudsman.

Delivering on our strategy

In FY21 not only did we celebrate 80 years of being there for our members, we also delivered on major strategic initiatives that best position HBF for the years to come. Our growth strategy is focused on three pillars – building national scale, expanding into other areas of health services, and upgrading our technology platforms.

Supporting this growth strategy, in May 2021 we announced HBF would exit general insurance to reduce the complexity of the business and better enable us to deliver on our strategic initiatives. From 1 July 2021, HBF stopped selling home, motor, landlord and leisure insurance after we entered into an agreement with Insurance Australia Group. It was important following our exit members were looked after and our partnership with IAG stretching back to 2011 gave us the confidence that they would be.

Our aim to become a truly national private health insurer became reality in FY21 via our continued investment in our national advertising campaigns. A conscious business decision was implemented to avoid broker and comparison sites and this has led to consistent net policy growth. At the end of FY21, HBF had more than 11 per cent of its policyholders based on the east coast and this is growing strongly. We now have a physical presence via our kiosks in Melbourne with 18 staff.

This organic growth will be boosted by the acquisition of CUA Health, which is expected to complete in the first quarter of FY22. This is a significant move for HBF, adding a further 41,000 policies primarily across New South Wales, Queensland and Victoria. This will increase our policies held outside of Western Australia to almost 20 per cent and the number of people employed outside of WA to 86.

The second pillar of our growth strategy is expanding HBF into health services as we look to diversify and provide improved services to our members. After establishing our Pharmacy 777 alliance, we took the next step into health services in FY21 through the launch of our first HBF Dental centre at Joondalup. Dental is by far HBF's most claimed non-hospital service line, so it was an obvious place to start.

approx. $42 million in surplus funds to be returned to members due to the COVID-19 pandemic

HBF Dental Joondalup had 500 bookings within its first two weeks, indicating that members valued the choice of a new, modern dental offering with the convenience of extended opening hours and installed with leading technology. We opened two more HBF Dental centres at Morley and Mandurah in FY21 and intend to have up to 15 centres over the coming years. Meanwhile, eligible members living outside of WA will have access to Member Plus dental benefits with our HBF Dental partner Pacific Smiles, through their 101 dental centres in New South Wales, Victoria, Queensland and the ACT. In addition, we continue to assess opportunities in other health services that would provide value to HBF members.

We are also increasing the number of health programs for vulnerable members managing chronic illnesses and those at risk of avoidable hospitalisations, complementing the care they receive from GPs, specialists and other health providers. Besides our COACH and Health Navigator programs, we now offer guided support when it comes to managing, for example, knee and hip osteoarthritis symptoms and digital cardiac rehabilitation, and have several pilot programs and innovative trials underway in partnership with health providers aimed at providing participants with access to affordable, convenient, evidence-based treatments in the comfort of their home.

500 bookings within our first two weeks at HBF Dental Joondalup

Our growth into health services has been boosted by the addition of Dr Daniel Heredia, who we welcomed to the new position of Executive General Manager Health in January 2021. Dr Heredia has worked as a clinician in hospital management for more than 10 years and in 2020 was seconded from his position as Deputy Chief Executive/ Director of Medical Services at Hollywood Private Hospital to assist with the State's pandemic response as the Deputy Chief Executive Officer for COVID-19 Health Operations. We are delighted to have him join our strong executive team at HBF.

The final pillar of our growth strategy is a multi-year upgrade of our technology systems aimed at enhancing member experience and providing more options for how our members interact with us. We understand that many of our members want to be able to self-manage their health insurance in a simple and efficient way through digital channels. For example, we saw self-service digital transactions go up more than 50 per cent in FY21. The online experience has also played a key role in helping us grow membership, particularly given ongoing COVID-19 impacts, with digital being our biggest source of policy growth for the first time in FY21.

Our investments in technology have included improvements to our award-winning HBF App, enabling members to manage payments, make claims, view limits and usage and edit personal details which have resulted in more intuitive and efficient member interactions. We have also been working on upgrades to our systems that manage policies, claims processing, and medical provider interactions to increase organisational performance, ultimately streamlining member interactions.

We are conscious that while many members prefer to manage their health insurance policy using a digital channel, others favour telephone interactions or seek in-person support through our member contact centre and we continue to invest in this. In addition to our Melbourne kiosks, we have been undertaking a $13 million program to refurbish, modernise and, where necessary, relocate our WA branches to ensure a better member experience, including at our Booragoon, Joondalup, Mandurah, Albany, Kalgoorlie and Karrinyup branches. Following the acquisition of CUA Health, we will also be considering new opportunities to increase our physical presence in Queensland and beyond.

Financial performance

HBF's ability to continue delivering for its members relies on rigorous financial discipline. HBF ended FY21 with almost $2.1 billion in assets, the highest in the organisation's history, and our focus on the delivery of low-risk stable investment returns was again displayed with a 4.5 per cent return on our investment portfolio. During a year in which HBF looked after its members, staff and the community as well as investing in technological platforms, we produced a net surplus of $17.7 million (FY20: $31.0 million net surplus). Claims paid to members increased in FY21, with a total net claims expense of $1.459 billion equating to a payout ratio of approximately 89.7 per cent (FY20: 88.6 per cent).

Our role in the community

HBF gladly accepts that as a well-known and respected organisation, we have an important role to play beyond just being a trusted health insurer for our members. The community's moral expectations of large corporations are high and HBF proudly assists where it can, whether that be via small grants, our community partnership program or large donations, with a strong focus on improving community health. We also provide support in times of need, such as donating $100,000 to help The Salvation Army and the Minderoo Foundation after the Wooroloo bushfire to build temporary accommodation 'pods' for residents who had lost their homes

The commitment to giving back to the community extends beyond the organisation to our people volunteering their time. I continued to donate my time as Chair of the Future Health Innovation and Research Fund and Non-Executive Director of the Royal Flying Doctor Service (WA) as well as participating in The Gibb Challenge to raise funds for the RFDS. Dr Daniel Heredia also volunteers as a Non-Executive Director of the WA Country Health Service.

The year ahead

The world has changed markedly since our first members joined what was known as the Metropolitan Hospital Benefit Fund in 1941. Our 80th year was significant, with HBF today looking vastly different than it did just three years ago when the Board endorsed our 2019-2024 Strategic Plan.

Consolidating and building on our achievements in the past 12 months will be the focus in FY22. We will also continue to review our products and services to ensure we are providing the best possible value for all our members. By achieving this we can help ensure HBF continues to meet the evolving needs and expectations of our members for the future. Our national growth strategy, expansion into health services, and investments in technology are aimed at driving better outcomes for members (including keeping downward pressure on premiums) and enhancing the value of private health insurance.

HBF is a trusted and purpose-driven organisation with a rich heritage in WA and an exciting future as we grow nationally. I'm proud to be leading this organisation and grateful to our members, employees, Executive team, Board and Councillors for their loyalty and support.

John Van Der Wielen
Managing Director &
Chief Executive Officer

HBF marks 80 years of delivering for members in 2021

Corporate social responsibility.

As a purpose-driven organisation, HBF is committed to being more than a trusted health insurer.

We want to ensure we support our members in the moments that matter, provide the opportunities for our people to thrive, operate in an environmentally and socially-responsible way, and give back to the community through causes that make a tangible, lasting difference. In FY21 HBF delivered a range of important initiatives across these four core principles in our corporate social responsibility (CSR) activities.

1. Members.

We act in the best interests of our members, continually reviewing our business processes and member service.

As the COVID-19 pandemic continued, HBF remained committed to supporting the health and wellbeing of its members. This included following through on our promise to return surplus funds to our members and providing ongoing hardship support. We also provided financial support to our members impacted by natural disasters and remained committed to improving our processes through our Member Promises Review program.

Supporting our members during COVID-19

In FY21, HBF announced it was returning nearly $42 million in surplus deferred claims from COVID-19 to members, following through on our commitment made in March 2020 that we would not financially benefit from the COVID-19 pandemic. HBF was the first major health insurer to announce it would return surplus funds to members.

In its accounts for the financial year ended 30 June 2020, HBF estimated a deferred claims liability of $94.3 million relating to non-urgent elective surgery and ancillary services that members could not access when COVID-19 control measures came into place on 25 March 2020 but were expected to claim at a later date. As claims did not increase as expected, HBF determined approximately $42 million of that amount would be returned to eligible current and former HBF policyholders who held a hospital and/or extras policy between 25 March 2020 and 30 June 2020. Payments started in July 2021, with 470,000 eligible policies receiving between $20 (for a single with extras only cover) up to $140 per policy (for a family with both hospital and extras cover).

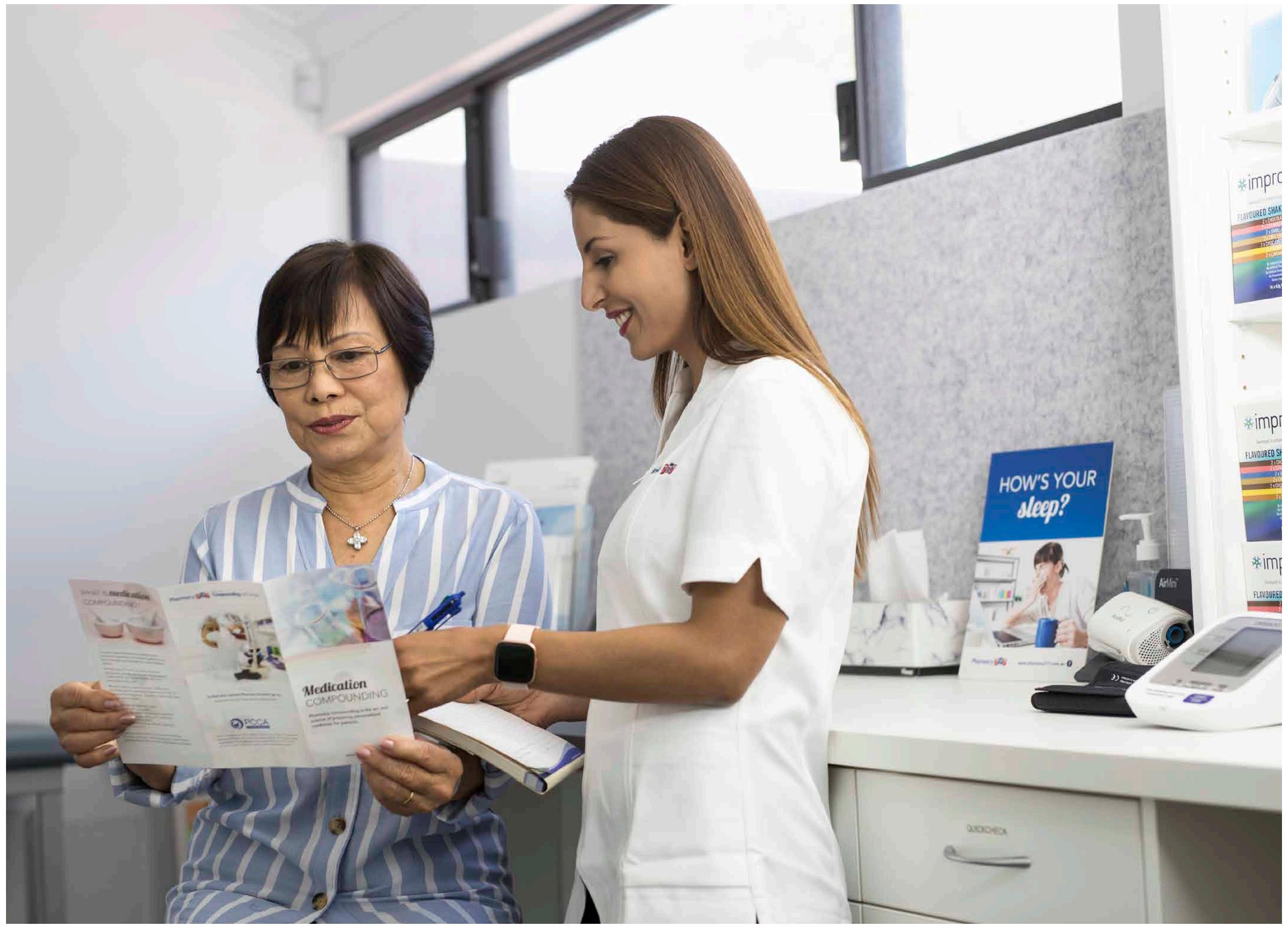
In addition, HBF continued to assist its members experiencing hardship due to COVID-19 during FY21.

COVID-19 hardship support included:

- Supporting 11,929 members via our hardship waiver and health cover protection provisions, with $4.8 million in premiums waived in the year
- Enabling 17,297 members to re-apportion their accrued GapSaver entitlements to help pay their premiums
- Extending financial hardship waivers until 1 April 2022
- Providing cover for COVID-19-related hospital admissions on eligible hospital policies until 1 April 2022
- Having temporary benefits for Psychology, Clinical Psychology, Physiotherapy, Occupational Therapy, Speech Therapy, Dietetics, Nutrition, Podiatry and Exercise Physiology treatments when delivered via phone or video, also known as telehealth, extended until 31 December 2021

$4.8m

in premiums waived to assist members experiencing hardship due to COVID-19



Disaster relief packages

HBF was quick to support members impacted by two natural disasters in FY21 – the Wooroloo Bushfire and Cyclone Seroja – with 341 benefitting from three-months' premium relief for their health insurance. Members requiring support after this time were invited to check their eligibility to use HBF's hardship waiver to extend this support by suspending their health insurance cover for up to six months. The premium relief for these two natural disasters totalled $63,000 in FY21.

Member Promises Review program

During the year HBF continued to deliver on its Member Promises Review, which started in FY19. Under this program, we have voluntarily analysed HBF's business processes to ensure we meet the standards members expect of HBF. Where we find we have erred, we correct our mistakes and remediate where necessary, without exception. The review concluded early in FY22 with the successful implementation of the review recommendations resulting in improvements to member experience, compliance and risk management, and operational efficiencies, with positive remediation of 100,000 HBF members.

Supporting the health of our members

HBF includes flu vaccinations as a claimable service for most members and in 2021 we had delivered, with the assistance of the Pharmacy 777 network, 46,509 fully-covered vaccinations. This compares to 55,778 in the previous year, when there was a significant rise from 36,708 in 2019 likely due to heightened awareness in the community during the COVID-19 pandemic.

Through our alliance with the Pharmacy 777 network, we're able to deliver a wide range of health services and benefits to support our members' health and wellbeing. In the last year, 2,921 members received a fully-covered health check and 620 members signed up to the P777 'Impromy' weight management program.

We provided free outdoor fitness classes during spring and summer to our members in 22 locations across Western Australia (18 metropolitan and four regional). The programs attracted 12,650 participants with four levels available including beginner, intermediate, high intensity and family.

Our COACH and Health Navigator care co-ordination programs continued to provide health coaching support and supported nearly 1,000 members in 2021.

Several new chronic disease management programs were launched to assist members managing chronic illness. Osteoarthritis Healthy Weight for Life provides care team support from physiotherapists, dietitians and counsellors to improve function and pain related to hip and knee osteoarthritis.

The Patient Partner program provides prehabilitation and rehabilitation in the comfort of a member's own home to optimise outcomes following a hip or knee joint replacement. Cardihab, a digital app-enabled cardiac rehabilitation program, provides a convenient and accessible channel for members to receive clinically-recommended cardiac rehabilitation following an acute heart event.

As the WA Government moved to mandate the wearing of face masks during lockdowns in Western Australia, HBF provided 100,000 reusable HBF face masks to members (and employees).

2. Our people.

With a competitive remuneration package, flexible working options and an active wellbeing program, we offer rewarding career opportunities and enable our people to thrive in a safe, supportive and respectful workplace.

Employee benefits include:

- Salary packaging options
- 14 weeks' primary carer parental leave (in addition to the legislated 18 weeks)
- Three paid 'Wellness Days' each year to be used for wellness, emergency or preventative medical leave, in addition to normal personal/carer's leave entitlements
- Enabling our employees to use Wellness Days to receive their COVID-19 vaccinations, recognising the unpredictable nature of the virus and the need to protect the community
- Career growth and development opportunities
- Health insurance discounts
- Free HBF Fitness sessions, annual health checks, flu vaccinations, weight loss and quit smoking programs, and 24-hour-a-day counselling and psychological support
- Two volunteering days. We also encourage our employees to give to our community through blood donation drives and workplace giving programs
- Dollar-for-dollar matching of employee charity donations through the HBF Workplace Giving program
- The option to join a dedicated band of employees known as the HBF Angels, which organises fundraising events and donation drives for charities

free
24-hour-a-day
psychological
counselling

3. Sustainability and environment.

HBF operates as an environmentally and socially-responsible not-for-profit organisation.

We:

- Follow sustainable sourcing practices where possible and measure our building waste and recycling efforts each month
- Maintain the current five-star National Australian Built Environment Rating System (NABERS) Energy Base Building rating at our headquarters in Perth and comply with environmental management system certification (ISO 14001) and the sustainable e-waste management standard (AS/NZS 5377)
- Empower our employees to play their part in caring for the environment and reducing the amount of waste going to landfill by:
  - Placing bins in our kitchens for general waste, recycling and organics, enabling the recycling of coffee pods, and providing a guide to recycling for employees
  - Encouraging our employees to bring their own reusable coffee cup to work
  - Providing a co-mingled recycling bin and a secure document destruction bin in our printer rooms and urging our people to ‘think before you print’
  - Using safe disposal methods for fluorescent tubes, used batteries, printer cartridges and e-waste
  - Having our weekly fruit supplies delivered in reusable wooden crates (which are returned to the supplier each week) rather than cardboard boxes
- Reject any form of modern slavery and monitor our risk in our business operations and supply chain to ensure HBF positively contributes to the abolishment of modern slavery practices globally

Towards a sustainable future

An independent assessment benchmarking HBF among 18,500 global companies has shown that we once again have achieved a ‘very high’ score for our contribution to sustainable development, which is defined by the United Nations in the Brundtland Report as:

...development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- *The concept of ‘needs’, in particular the essential needs of the world’s poor, to which overriding priority should be given, and*
- *The idea of limitations imposed by the state of technology and social organisation on the environment’s ability to meet present and future needs*

HBF is in the top nine per cent of these companies for our contribution to the United Nations’ 17 Sustainable Development Goals (UN SDGs), which provide a blueprint for nearly 200 countries to address economic, social and environmental challenges by 2030.

Many of the SDGs are relevant to HBF in some way, however, the assessment showed that we contribute to the achievement of some SDGs more directly than others:

- SDG 1 – No Poverty
- SDG 3 – Good Health and Well-being
- SDG 5 – Gender Equality
- SDG 8 – Decent Work and Economic Growth
- SDG 11 – Sustainable Cities and Communities

The assessment found that HBF makes a higher contribution to the SDGs compared to other private health insurers in Australia and internationally.

Our level of carbon risk and sustainability-related risks through our overall business activities, measured by spending on products and services that help society or the environment, was low.

4. Community.

We’re committed to giving back to the community and finding ways to better the health of all Australians.

Partnerships

Each year we undertake a significant three-year partnership with an organisation making a tangible difference to the health of our community.

In October 2020, we announced we would provide $300,000 over three years to the University of Western Australia’s Young Lives Matter Foundation for a clinical trial with Meeting for Minds of gene-based treatment for severe depression. Using pharmacogenomics (the study of how a person’s genetic make-up influences how they metabolise medication), the trial will analyse whether PG-guided treatment is more effective than today’s widely adopted ‘trial and error’ approach.

Our inaugural community partner, Australian Red Cross Lifeblood, has received 150 expressions of interest from people wanting to donate their faecal matter for transplant into patients suffering from a debilitating, life-threatening condition known as recurrent or refractory Clostridium difficile infection. This has translated into 19 eligible donors who passed first stage screening and were due to move into further screening for supply in the final week of June 2021. HBF’s funding will help to establish WA’s first public faecal microbiome transplant (FMT) facility, providing Fiona Stanley Hospital with a reliable supply of faecal microbiota and potentially assisting future research into other conditions such as ulcerative colitis and Crohn’s disease. This is the first FMT manufacturing facility in Australia to receive Good Manufacturing Practice certification from the Therapeutic Goods Administration. HBF provided $100,000 in FY21 in the second year of a three-year, $300,000 partnership.

Reconciliation Action Plan

During NAIDOC Week in November 2020, HBF renamed its Perth head office to ‘Walburniny’, meaning ‘to bring good health’ in Noongar language

Reconciliation Australia endorsed our Reconciliation Action Plan in April 2021 and the occasion was marked by the unveiling of an artwork created by Aboriginal artist Beverley Egan in collaboration with some of our employees. Several meeting rooms at Walburniny were also renamed, including:

The boardroom – ‘Koorlbardi’ (meaning ‘magpie’)

Three workshop spaces – ‘Kaart’ (‘mind’), ‘Koort’ (‘heart’) and ‘Wirrin’ (‘spirit’)

A group of 40 employees joined the Walk for Reconciliation in June 2021, showing our desire for change and walking from the WA Museum Boola Bardip to Yagan Square in Perth for a cultural celebration

Brand partnerships

We enhance the fitness of our members and the WA community by proudly partnering with VenuesWest for the naming rights to three premier sporting and recreation centres: HBF Stadium, HBF Arena and HBF Park.

During spring and summer, more than 3,000 HBF members redeemed an exclusive offer of five free passes to use at either the gym, fitness classes or pool at HBF Arena or HBF Stadium.

Collectively, the three venues hosted 93 sporting groups and 48 community events over the past year, and Western Australia's elite athletes logged 948 training hours despite disruptions due to COVID-19 restrictions.

Disaster relief

HBF donated $100,000 in supporting The Salvation Army and the Minderoo Foundation to fund the building of temporary accommodation 'pods' for residents displaced by the Wooroloo bushfire. We also provided 1,000 face masks to the fire evacuation centre in Swan for distribution to people who had to flee their homes.

HBF presented WA Premier Mark McGowan with an HBF Run for a Reason t-shirt with 'KEBAB' on the back at an all-staff event, in recognition of a notable press conference earlier in the year. After the devastating Wooroloo bushfire in February 2021, the shirt was signed by Mr McGowan and returned to HBF so it could be framed and auctioned to raise money for the Lord Mayor's Distress Fund, with a winning bid from St John of God Health Care.

Telethon Family Festival

Through HBF's support of a variety of activities at the Telethon Family Festival, more than $200,000 was raised for sick West Australian children.

HBF sponsored and provided in-kind support for the Active Zone and HBF Fitness Challenge. Thirty-seven teams from HBF and our community and corporate partners Deloitte Australia, IAG, Gerard Daniels, Silver Chain Group and Royal Flying Doctor Service (WA) volunteered to ride a stationary bike over six hours. HBF employees also donated through the Workplace Giving program.

Direct Advice for Dads (DAD)

An HBF-created website providing information and advice for new and expectant fathers is becoming increasingly popular.

DAD had nearly 446,000 visits and almost 84,000 Facebook followers. According to podcast measurement company Chartable, DAD was the top-ranking dedicated podcast for fathers in the Australian parenting category; the third season of podcasts finished in April 2021 with a total of 133,838 downloads. Guests featured on the podcast included cricketer Justin Langer, celebrity fitness trainer Shannon Ponton, television presenter Barry Du Bois, radio host Matt Dyktynski and comedian Nick Cody.

Industry leadership

Our Chief Executive Officer, John Van Der Wielen, was appointed in October 2020 to chair the advisory council of WA's Future Health Research and Innovation Fund, which provides health and medical researchers with a secure, ongoing source of funding.

2021 highlights

522
lives saved through blood donations

1,255
hours volunteered by our employees

100,000
face masks to members, employees and the community

133,838
downloads of the Direct Advice for Dads podcast

More than $200,000
raised through the Telethon Family Festival

$300,000
over three years to the University of Western Australia

$100,000
in disaster relief following the Wooroloo bushfire

Workplace giving

Four times a year, HBF employees are invited to nominate a charity to receive up to $5,000 through our Workplace Giving program.

$65,000 was granted to a range of charities in FY21 including Story Dogs, Feed the Little Children Inc, No Limits Perth, Telethon, Beyond Blue, Starick, Perth Homeless Support Group, Royal Flying Doctor Service WA and the Saba Rose Button Foundation.

The impact of our community engagement

Case study – Story Dogs

As part of the $65,000 donated through the Workplace Giving program, $5,000 was given in October 2020 to Story Dogs, a reading program run by volunteers through which selected children across Australia read to an accredited dog and its handler. Learning outside of the classroom in a non-judgemental one-to-one setting enables children to improve their focus and confidence to become confident, lifelong readers.

Our donation equipped five Story Dogs teams across Western Australia, including Labrador Gus and his owner, Debra, who volunteer at Osborne Primary School, with resources to use during their school visits.

> "The sponsorship for Gus means that more appropriate books can be purchased for the program and that the costs are covered for dog/volunteer vests, bookmarks for the children to use, and a Story Dog blanket for Gus to sit on. The school finds the Year 2 students who are struggling with literacy are very excited to read to Gus and have a one-on-one session with him. He is so attentive to their voices and pats."

Francesca Cant
Story Dogs area co-ordinator

Case study – Rottnest Foundation

Our three animated quokkas, Gracie, Buddy, and Jack, have been hard to miss across Australian TV, radio and digital channels as they encourage private health insurance consumers to review their cover and consider HBF for its affordability and value.

We thought it was only fitting that for a workplace volunteering day, we'd assist with conservation initiatives at Rottnest Island, which supports the world's largest known quokka population and is essential for the survival of the species.

The Rottnest Foundation arranged for 46 of our people to work across two sites – Porpoise Bay and Little Armstrong Bay – to assist with tree guard removal as part of the Rottnest Island woodland management program.

> "Tree guards are critical to the survival of the young seedlings, protecting them from grazing quokkas. It is just as important that they be removed in about two to three years' time so the plants can mature. The HBF crew did an amazing job, which would have taken the Island rangers some months to achieve. We look forward to partnering with them again to support the conservation of Rottnest Island."

Pauline McMullan
Rottnest Foundation Executive Officer

Community grants

Each quarter, HBF allocates small grants of up to $10,000 to organisations involved in community health initiatives.

$36,050 was donated to five charities in FY21, including to support adolescents grieving the death of a parent, fund mental health education seminars for multicultural communities, cover the cost of healthy eating sessions as part of an indigenous youth multi-sport program, and purchase two defibrillators for street chaplains providing crisis care.

Blood donors

HBF employees helped save 522 lives in FY21 through regular donations to Australian Red Cross Lifeblood, with staff granted time out from their work day to do so.

HBF Angels

In 2021, the HBF Angels raised more than $3,000 for Soldier On Australia to support veterans and their families and also provided 200 Christmas gifts for foster children.

Volunteering

Our employees dedicated 1,255 hours to the community through our volunteering program, joining The Salvation Army to feed firefighters battling the Wooroloo bushfire, shaking collection tins and selling merchandise during a Royal Flying Doctor Service WA street appeal, assisting with conservation initiatives at Rottnest Island, packing hampers at Foodbank WA, and handing out gifts to foster children at the annual Wanslea Christmas party.

We also tidied up the grounds and gardens at St Bartholomew's Sunflower Villas in East Perth and The Salvation Army's Bridge House in Highgate and prepared meals at Foodbank WA, The Salvation Army and Perth Homeless Support Group.

2021 financial performance highlights:

- Net policy growth for 12 consecutive months
- Net profit of $17.7 million from strong investment returns offset by spend on HBF's transformation program
- Claims paid out are 89.7 per cent of premium revenue

Financial performance.

Strong investment income has assisted in generating a net profit, offsetting investment in growth and new technology.

Summary Group income statement

	2021 $'000	2020 $'000	Change
Health insurance premium revenue	1,627,540	1,631,004	(0.2%)
Net claims expense	(1,459,132)	(1,444,340)	1.0%
Gross underwriting result	**168,408**	**186,664**	**(9.8%)**
Health insurance operating expenses	(179,355)	(174,836)	(2.6%)
Strategic Projects	(64,669)	(22,447)	(188.1%)
Operating result	**(75,616)**	**(10,619)**	**612.1%**
Other revenue	26,073	16,460	58.4%
Net investment income	79,959	34,675	130.6%
Other operating and administration expenses	(12,726)	(9,528)	(33.6%)
Profit for the year	**17,690**	**30,988**	**(42.9%)**

In HBF's 80th year of operation we achieved net policy growth for 12 consecutive months and have reported a net profit of $17.7 million. This profit was achieved through strong investment performance yielding income of $80.0 million, offset by HBF's ongoing investment in strategic initiatives including the transformation program ($56.2 million). HBF continued to invest in health adjacencies with three HBF Dental centres launched to 30 June 2021.

We also continued to support the annual flu vaccination program through our pharmacy partners.

In May 2021 we entered a Share Sale Agreement to acquire Queensland-based CUA Health Insurance. The acquisition is expected to complete in Q1 FY22 therefore the operating results to 30 June 2021 exclude any CUA activities, however business development costs recognised in operating expenses are higher because of this acquisition.

In June 2021, we announced that we will return $41.9 million to members arising from the surplus deferred claims provisions for COVID-19. This will be paid during July and August 2021.

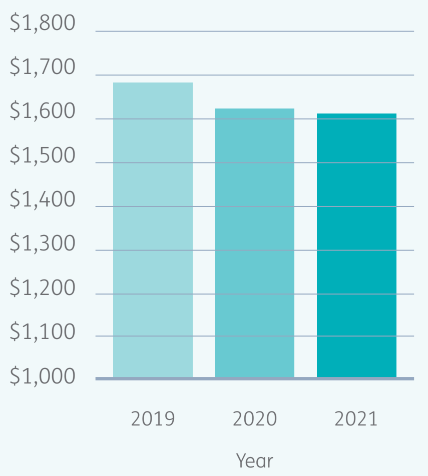
3
HBF Dental centres launched

Business development activities to acquire CUA Health

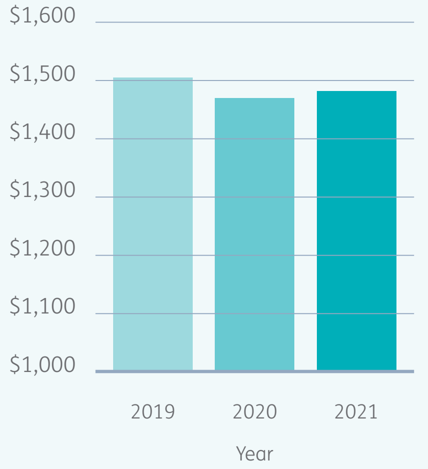
$41.9m

Surplus COVID-19 deferred claims to be paid back to members

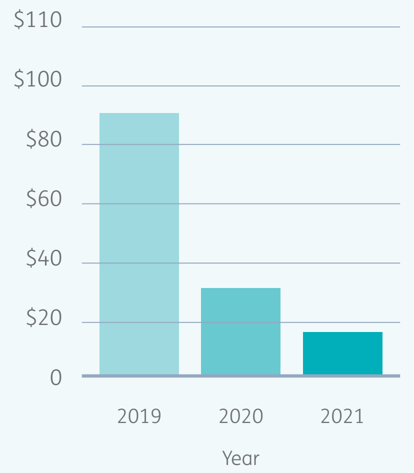
Premium revenue
(millions)



Net claims
(millions)



Profit for the year
(millions)



Premiums decreased by $3.5 million (0.2%) compared to 2020. Although total policies increased by 18,076, members opted for lower tier products and volume growth was partially offset by lower prices. In addition to cancelling the premium increase, saving members $37 million, HBF supported members through hardship waivers, complimentary cover, premium suspension offers, and bushfire and cyclone relief packages. This support equated to $4.9 million in foregone premiums.

Net claims expense includes the cost of claims paid to members, hospitals, and medical and ancillary providers as well as provisions for those claims incurred but not yet received by HBF, and those claims deferred either voluntarily due to members not seeking treatment amidst an ongoing pandemic or as a result of lockdowns. Claims incurred by HBF members represent 89.7% of health insurance premium revenue (2020: 88.6%). This ratio increases as members actively seek value from the less expensive lower tier products, which still meet their coverage needs. The increase in net claims expense is largely reflective of HBF's growing member base.

Health insurance operating expenses include employee costs, claims handling and policy acquisition costs, business development costs and other project costs. Health Insurance operating expenses increased by $4.5 million (2.6%) on 2020. The main drivers of this increase are higher employee costs as we focus on the capability and capacity of our workforce to deliver strategic initiatives and business development activities relating to the acquisition of Queensland-based health insurer CUA Health Insurance. These costs are partially offset by a reduction in other project costs.

Strategic projects have progressed significantly in 2021 as HBF has continued to invest in both the transformation program and Member Promises Review program. Transformation program costs increased by $40.7 million in 2021 as we work to deliver the best possible experiences for employees, members and providers through new and updated technology and tools. As a result of COVID-19 and the use of national and international suppliers, the transformation program experienced delays in 2021. A review of the program roll-out was completed and the delivery dates have now been extended. The costs of the delays have been included in this report.

Transformation costs include the costs of Software as a Service (SaaS) systems which have been recognised as operating expenses following new accounting guidance released from the International Financial Reporting Standards Interpretation Committee (IFRIC) in April 2021. The 2020 financial statements have also been restated accordingly for this change (refer to Note 2(d) to the financial statements for details on this change to accounting policy). In 2021 the cost of the Member Promises program was $1.5 million higher than 2020 as the focus was placed on completing the program.

CUA (now Great Southern Bank) Chief Executive Paul Lewis with HBF Chief Executive John Van Der Wielen

HBF's operating result is a loss of $75.6 million driven predominantly by higher transformation and Member Promises program costs, higher employee costs and the cost of business development activities to expand HBF's East Coast footprint.

Other revenue reflects non-health insurance related revenue generation. In line with the strategy to focus on health insurance, HBF exited the general insurance distribution arrangement in June 2021 when it sold its general insurance renewal rights to Insurance Australia Group Limited for $15.0 million; this balance is included in other revenue. This is slightly offset by the reduction in general insurance profit share commission ($2.1 million). Other revenue also includes the commission earned from the sale of general insurance and life insurance products to members during the year and revenue earned from HBF Dental.

Net investment income includes returns of $80.0 million from HBF's investment portfolio which is a return of 4.5% in 2021. The return is substantially higher than the average RBA Cash Rate of 0.16% over the 12 months. While strong returns from the allocation to Australian Equities and Global Unlisted Infrastructure were the main drivers of this result, the exposure to risk assets was purposefully lowered as the year progressed to reduce the level of volatility in investment outcomes and protect a progressively greater portion of gains. The allocation to other defensive assets (Short Duration Credit and Global Absolute Return Bonds) also contributed to the strong annual result, providing a significant boost to returns relative to cash. As at 30 June 2021, the investment portfolio is defensively positioned and is well placed to gain from further upside in equity markets without being over-exposed to potential losses if there is a pullback.

HBF continues to be well capitalised and in a strong financial position. At 30 June 2021, net assets exceed both the Australian Prudential Regulation Authority's (APRA) Minimum Capital Requirement and HBF's internal capital requirement of 1.4 times the Minimum 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-term 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. This will continue to be monitored as capital is invested in the delivery of the strategic initiatives.

Group financial position

	2021 $'000	2020 $'000	Change
Assets			
Cash and cash equivalents	276,820	62,334	344.1%
Receivables	89,749	76,547	17.2%
Financial assets at fair value	1,489,797	1,732,972	(14.0%)
Deferred acquisition costs	22,841	5,665	303.2%
Assets held for sale	3,759	98,801	(96.2%)
Intangible assets	67,158	33,466	100.7%
Property, plant and equipment	130,825	25,296	417.2%
Total assets	2,080,949	2,035,081	2.3%
Liabilities			
Trade and other payables	104,246	30,209	245.1%
Insurance liabilities	471,593	518,487	(9.0%)
Employee benefits	15,061	13,832	8.9%
Total liabilities	590,900	562,528	5.0%
Net assets	1,490,049	1,472,553	1.2%
Equity			
General reserve	111,513	111,513	0.0%
Retained earnings	1,363,086	1,345,396	1.3%
Asset revaluation reserve	15,450	15,644	(1.2%)
Total equity	1,490,049	1,472,553	1.2%

During the 2021 financial year, HBF maintained its **strong net asset position.**

The major balance sheet movements during the year were:

- A $214.5 million increase in cash and cash equivalents, offset by a $243.2 million decrease in financial assets at fair value. With interest rates on term deposits close to zero during the year, the interest available to HBF on cash at bank was higher than the rates available on term deposits meaning it was advantageous (subject to counterparty constraints) to hold higher levels of cash rather than reinvest maturing term deposits.
- The $17.2 million increase in deferred acquisition costs is driven by HBF's investment in East Coast growth.
- A $95.0 million decrease in assets held for sale offset an increase in property, plant and equipment and largely relates to the reclassification of HBF's head office building (Walburniny) from assets held for sale to property, plant and equipment.
- The $33.7 million increase in intangible assets reflects HBF's investment in the technology assets as part of the transformation program. These assets include the member mobile app (which currently holds the highest rating for private health insurance mobile apps) and HBF's website which supports and integrates all member-facing channels and investment in cloud hosting infrastructure. The 2020 balance for intangible assets has been restated to exclude Software as a Service assets (details of this change in accounting policy are explained in Note 2(d) to the financial statements).
- Trade and other payables increased by $74.0 million; $41.9 million of the increase relates to deferred claims payable to members in July and August 2021.
- The $46.9 million decrease in Insurance liabilities arises from a $7.2 million increase in unearned premiums, offset by a $54.1 million decrease in claims liabilities. In June 2020, HBF recognised a $94.3 million deferred claims liability for claims that would have been incurred during the 2020 year, except for the restrictions imposed by the COVID-19 pandemic. $34.2 million of these claims eventuated and were paid during 2021.

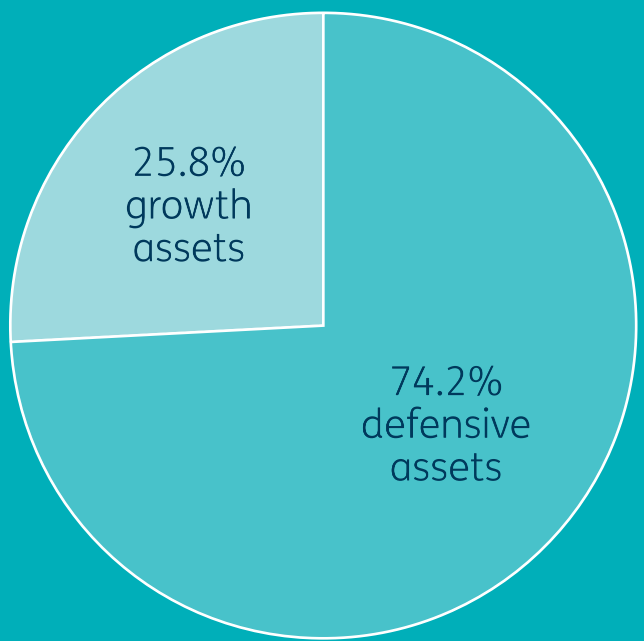
  HBF has determined that $41.9 million of the delayed claims are unlikely to return and has committed to returning this to members during July and August 2021; this balance is classified as trade and other payables at 30 June 2021. The remainder of the 2020 balance has been retained to cover delayed claims which are still likely to occur. To ensure adequate coverage for claims delayed due to the ongoing 2021 restrictions, HBF has set aside an additional $23.3 million provision. This will release as the delayed claims are paid over the next 12 months.

Our presence in Melbourne has helped to generate policy growth

2021 investments highlights:

- $80.0m investment income
- 4.5 per cent net return, exceeding the RBA cash rate with 74 per cent of the portfolio defensively invested
- Defensive assets added to enhance and diversify returns in changing market conditions

Investment allocation
as at 30 June 2021



Investment performance.

> **"The final return of $80.0 million and 4.5 per cent is HBF's best result over the past five years..."**

As Chair of the Management Investment Committee, I'm pleased to report an investment income result of $80.0 million for the full year, equivalent to a return of 4.5 per cent and representing a strong result in an environment in which interest rates have been at historic lows. I would like to thank the Board and the Executive team for their support and my fellow members of the Committee.

Following the COVID-induced pullback in investment markets in February – March 2020, asset prices have risen, reflective of a low interest rate environment and an improving outlook for earnings and revenue streams in a post-COVID environment. Significant levels of government and central bank-initiated stimuli as well as the rollout of vaccines appear to have been effective in supporting the economic recovery to date. However, there is also a mindfulness of the risks and events with the potential to halt and/or reverse the momentum of this recovery.

The Management Investment Committee has navigated the changing investment conditions with a focus on optimising return while minimising risk. Defensive assets (outside of cash and traditional fixed interest) have been added to the portfolio to enhance and diversify returns. There has also been an increased willingness to shift the allocation to equities within the portfolio to reflect changing market conditions, risks and opportunities.

HBF's investment portfolio exists to provide a stable base on which long-term business and pricing decisions can be made to the ultimate benefit of members. Consistent with this, while the sustained rally in equity markets over the 12 months was beneficial to performance, exposure to equities was purposefully lowered as the year progressed to reduce the level of volatility in investment outcomes and protect a progressively greater portion of gains.

The final return of $80.0 million and 4.5 per cent is the best result over the past five years, based on performance above both the average RBA cash rate (0.16 per cent) and the inflation rate (3.8 per cent for the 12 months to 30 June) for a similar split of growth and defensive assets. As at 30 June 2021, the investment portfolio is defensively positioned and is well-placed to gain from further upside in equity markets without being overexposed to a significant loss if there is a pullback, noting that a pullback may also provide an opportunity to increase exposure to risk assets.

The Management Investment Committee will continue to meet frequently and focus on the investment strategy of the portfolio. Within an investment environment characterised by low interest rates and with a potential for volatility, asset allocation decisions as well as diversification across and within asset classes become increasingly important to both enhance returns and manage risk.

Mark Barnaba
Chair, Management Investment Committee

HBF Management Investment Committee

Mark Barnaba
Chair

Brent Stewart
Non-Executive Director

John Van Der Wielen
Managing Director and Chief Executive Officer

Donna Carrington
Chief Financial Officer

Our Executive leadership team supports the Chief Executive Officer (CEO) in leading and growing the business and managing risk. It is responsible for setting and implementing key corporate, strategic and operational objectives and the depth and breadth of experience and knowledge across a range of sectors ensures HBF is well-equipped to meet the demands and challenges of becoming a truly national insurer.

Executive team.

1

Adam Stock

Executive General Manager, Governance and Risk
Chief Risk Officer

MSc, PMIIA

Prior to HBF:
Partner at Deloitte

Head of Internal Audit, UK Government

2

Dr Daniel Heredia

Executive General Manager, Health

MBBS (Hons), MBA (Distinction), Dip. Public Health, GAICD, FRACMA, FCHSM

Prior to HBF:
Deputy Chief Executive Officer and Medical Director at Hollywood Private Hospital (Ramsay Health Care)

Deputy Chief Executive – COVID-19 Health Operations at Department of Health (WA)

Medical Advisor at Medicare Australia

3

Selina Torrance

Executive General Manager, Member Experience

BBus, PGradDipHRM, MBA, GAICD

Prior to HBF:
General Manager Member Experience at P&N Bank

Chief Operating Officer at P&N Bank

4

John Van Der Wielen

Managing Director and Chief Executive Officer

MBA, FAICD

Prior to HBF:
Senior Advisor at The Blackstone Group

CEO at Friends Life UK

International Managing Director Wealth at ANZ Bank

CEO at Clerical Medical and Halifax Life

5

Simon Walsh

Chief Transformation Officer

BEng (Electronic), MBA, GAICD

Appointed 10 August 2020
Formerly: Executive General Manager, Strategy and Ventures

Prior to HBF:
Managing Director at Bankwest

Head of Group Strategy and Mergers and Acquisitions at HBOS Australia

Chief Information Officer at P&N Bank

Executive Manager Customer and Corporate Services at Western Power

6

Donna Carrington

Chief Financial Officer

BCom, CA

Prior to HBF:
Partner at Deloitte

7

Amy Stanley

Executive General Manager, People and Corporate Affairs

BA (Hons), GradDipHR

Prior to HBF:
General Manager Human Resources and Corporate Affairs at ATCO Australia

Director Human Resources at Coca-Cola South Pacific

Guiding Element	Descripton
Purpose *Why we exist as a business*	To deliver for our members in the moments that matter,
Value proposition *How we create value*	we will be simply human, and available with quality, affordable experiences designed for you.
Strategy *How we get there*	To deliver this we must: optimise, grow and diversify our business, and enhance our capabilities to match,
People *How we enable performance*	while enabling a positive employee experience and unique culture where people can perform and thrive,
Values *How we behave on the way*	and always keeping members as our reason, being brave, doing the right thing, and working as one.
Vision *What we want to be*	We'll know we're succeeding when we are Australia's most trusted and valued member-based organisation.

Strategic overview.

HBF's purpose, vision and values form the foundation of our strategy and articulate our commitment to put our members' interests first. The strategy represents a bold aspiration to transform HBF from a traditional private health insurer to a member-centric, technology-enabled, highly competitive national health insurance provider and more active participant in health services.

Our strategy is underpinned by the principles and values of a member-based organisation. We recognise the responsibility and role we have to provide valuable products and quality service and maintain a sustainable business for our members.

We do this by ensuring that we are a competitive and commercially-focused organisation that is run for the benefit of members rather than shareholders.

Our purpose

To deliver for our members in the moments that matter

Our vision

To be Australia's most trusted and valued member-based organisation

Our values

Members are our reason

We are brave

We do the right thing

We work as one

Strategic pillars

1. Optimise and grow our business

Our aim is to become a truly national private health insurer by growing in a sustainable manner and striving to be the best member-based organisation in Australia. We believe the right way for us to do this is to always put our members first. Being the best won't be decided by us – it will be determined by our members who join and stay with us because we provide products and services they need and always put their interests first. This is being achieved through:

Growth beyond WA base

HBF has a proud history in Western Australia and we are now looking to increase our membership nationally as an important part of our strategy. Generating new policy growth, diversifying our membership base, and increasing our size will improve our competitiveness, granting members access to a wider range of services and placing downward pressure on premiums for our members. With a cheeky group of quokkas leading our marketing campaign, we experienced four per cent policy growth on the east coast in the last year. The acquisition of CUA Health will add meaningful scale outside of WA in FY22, with the majority of its approximately 79,000 members expected to benefit from lower premiums, enhanced benefits, or both as HBF members.

Continued focus on affordability

Affordability is still a key challenge for the private health insurance industry and remains a high priority for HBF.

After cancelling the 2020 premium increase for all HBF members, our 2021 premium increase was one of the lowest of the major health funds.

We continue to review our products to ensure we are providing the best possible value to our members and invest in a range of health services to keep downward pressure on premiums and minimise out-of-pocket expenses.

Our improvements in technology will also lead to long-term efficiencies for the business.

Better member experience

Our refreshed HBF App was the first major initiative from our transformation program and in the first 12 months exceeded 155,000 self-service transactions. In June 2021, HBF had the highest rated mobile health fund app in both the Apple and Google stores.

Our app was also awarded 'honouree' status in the 'Apps and Software: Services and Utilities' category at the 2021 Webby Awards. The Webby Awards are the 'Oscars' for digital experiences and this year more than 13,500 submissions were lodged from 70 countries. The HBF App finished in the top 10 in its category and the top 20 per cent of all projects entered.

Trust is an important part of our relationship with our members and our measure of trust which we've been tracking for the last two years improved by 2.8 per cent in the last 12 months. HBF also maintains a low complaints ratio relative to market share according to the Commonwealth Ombudsman.

Up to 15 HBF Dental centres will open in metropolitan and regional WA within three years

2. Diversifying into health services

A key part of HBF's strategy is to diversify our business to become an active participant in the delivery of health services. Our aim is to provide a range of affordable products and services for our members across Australia to positively impact on their overall health, ensuring that when they do become ill they return to good health quickly and in the most cost-effective manner.

In February 2021, we launched our first HBF Dental centre at Joondalup in Perth's northern suburbs, and this was quickly followed by centres in Morley and Mandurah. Additional centres are planned for other sites across Perth in FY22, including at Karrinyup and Cannington. HBF Dental has redesigned the dental experience for patients, giving them everything on their wish list – high quality no- or known-gap treatment in modern, clean centres which are conveniently located and offer family-friendly extended opening hours (including on weekends). Our dental centres are open to anyone, not just HBF members, and our aim is to locate most of our dental centres in major shopping centres.

Our partnership with Pacific Smiles Group, which manages HBF Dental centres, means HBF members outside of WA will have access to Member Plus dental benefits through 101 dental centres in NSW, Victoria, Queensland and the ACT.

HBF's alliance with Pharmacy 777 provides our members with access to 62 pharmacies across Western Australia, enabling us to make important services such as health checks, flu vaccinations and other support programs widely accessible.

In addition to our Health Navigator and COACH programs, HBF launched three new health programs during the year to assist members with the management of chronic ill health. More detail is provided in the Corporate Social Responsibility report.

3. Grow our people and business capabilities to serve our members and secure our future

We're building world-class capabilities in our workforce, core insurance processes and technology to enhance member experience and support HBF's growth nationally and into health services.

The first horizon of our technology transformation program has now been completed. This horizon involved detailed planning which focused on understanding member needs and making things easier for our people. The plan also includes an approach that provided flexibility to respond to changing member needs quickly and affordably on an ongoing basis as we switch on different components of the technology. This approach has allowed us to make significant and seamless improvements to the HBF App since it was launched in March 2020.

We have also implemented a new Enterprise Performance Management system which provides best-in-class budgeting and planning tools to manage our business.

We are currently working on horizon two, which includes significant changes to our cloud and data platforms to support and facilitate other major initiatives in horizon three.

The business tools being implemented will help us:

- Design better member experiences
- Provide insights into health risks for our members
- Design better products
- Manage our costs better and make our products more affordable

In horizon three we will provide a new HBF website to provide a more interactive experience for our members, a new self-service myHBF member portal, and an upgrade of our health insurance systems that will allow better interactions with medical service providers, policy administration and claims processing.

Material business risks

HBF faces risks inherent to the private health insurance (PHI) industry and within the strategic direction it has chosen. The categories of risk assessed as potentially material to HBF, and the approach to manage these risks, are summarised in the following table.

Risk category	Risk management approach
Strategic risks There is risk inherent to the PHI industry, the broader financial sector, and in the macroeconomic environment which may impact HBF's ability to achieve our strategic objectives. The COVID-19 pandemic continued to place increased pressure on the wider economy, including the affordability of PHI, which has the potential to delay the timing for HBF to deliver key strategic initiatives, including diversification of HBF's core business.	HBF identifies and assesses strategic risks as part of the annual strategic and business planning processes. Initiatives are underway to manage these risks, including the acquisition of CUA Health and growth of HBF Dental. In addition to these initiatives, HBF continues its multi-year technology transformation to replace ageing technology – which will deliver a more advanced and intuitive digital experience and seamless claims processing that provides an enhanced member experience and supports growth objectives. In their consideration of strategic risk, the Board confirmed that HBF's current business strategy remains relevant.
Operational risks From time to time, internal processes and control failures may lead to financial loss, reputational damage or a less than optimal member experience. Like many companies, HBF faces operational risks from technology and cyber vulnerabilities, employee health and safety incidents, outsourcing of business processes, business disruption, and regulatory or policy non-compliance.	HBF has established risk management processes, supported by a Board-approved risk management framework, that are designed to identify, assess, treat and report operational risks. HBF continues to operate its quality assurance, risk monitoring and oversight, and internal audit procedures which are designed to ensure effective risk management and to enable continuous business improvement.
Financial risk HBF is exposed to financial risk through its investment portfolio, the need to maintain minimum levels of cash assets and capital reserves, and through the buying and claiming patterns of our insured member base.	HBF limits its exposure to financial risk through rigorous investment disciplines set out within the Investment Management Standard, which is administered by the Management Investment Committee. To ensure satisfactory levels of cash and capital, the Board has established minimum liquidity and capital holding requirements, which are set out within the Risk Appetite Statement and Capital Management Policy. Adherence to these requirements is measured monthly.

Risk category	Risk management approach
Insurance risk HBF's core insurance activities primarily involve the underwriting of policies and claims management. The combination of PHI participation in the community, claiming patterns of members, competitiveness of products and the composition of the member base has the potential to create risk in HBF's insurance business.	For HBF to achieve sustainable profitable growth in the delivery of PHI to members, insurance risk is managed across product development, product pricing, and claims management. Together these elements ensure we balance the composition of our existing policy base (through retention, lapse and cancellation management), sales (by acquiring new policies and switchers from other funds), and claims (to achieve a sustainable underwriting margin). HBF's emerging Health Strategy is an important initiative which introduces programs intended to improve member health outcomes.
Member promises (conduct) risk At HBF, we aim to conduct business impartially and ethically, ensuring integrity in our business practices at all times to protect our members and the broader community. When dealing with our members, it is possible that on occasion we have not done, or may be perceived to have not done, the right thing.	As part of our commitment to better member outcomes, we have developed a Code of Conduct to ensure all staff have a clear understanding of what acceptable conduct means and to ensure we are 'doing the right thing' by members. During FY21 we made significant progress to close out conduct-related vulnerabilities in our business, raised from the management-initiated Member Promises Review. If we find we have fallen short, we will always correct our mistakes. During the year, many members would have received letters from HBF advising of our actions to correct prior errors.
Regulatory risk HBF operates in a highly regulated sector of the financial services industry. There continue to be changes in the prudential standards framework within which HBF operates, and from time to time, there is a risk HBF may not fully meet (or be able to demonstrate it has met) all prudential requirements. HBF accepts that to operate as a PHI carries a level of sovereign risk, whereby the government of the day has control over policies and legislation which govern the financial services and private health insurance sector directly or indirectly.	HBF structures its business across the 'three lines of defence' risk assurance model to implement its risk management and compliance frameworks. Accountability for compliance with prudential standards is allocated across functional lines (first line) and it is required that compliance against the standards is demonstrated annually. This position is validated by the second line of defence (from within the Compliance function). The extent of regulatory and policy change, and the impact to HBF, is monitored by HBF's Legal and Compliance functions, and the assessed risk confirmed with the Risk function.
Technology and data privacy risk To provide our core insurance services, we collect, process and manage significant amounts of personal and sensitive health information. Protecting this information from internal and external threats is critical if HBF is to protect its reputation. Like all companies, HBF must continue to be vigilant to ensure its systems protect against the ever-evolving threat of cyber attack. These threats continually evolve and there is a risk that vulnerabilities are exploited in HBF systems.	HBF continues to evolve information security practices in its technology architecture and in its approach to system design. HBF has a Privacy Office and operates a Privacy Impact Assessment (PIA) process to identify and assess initiatives planned or underway from an information privacy and data protection perspective. During FY21, HBF continued to significantly invest in maturing and enhancing our cyber security capability, governance and resilience, including enhancing all elements required to demonstrate compliance with APRA's Information Security *(CPS 234)* prudential standard. The effectiveness of HBF's technology control environment is proactively monitored, tested and assured across the three lines of defence to ensure the protection and security of member information.

Governance report.

HBF Health Limited (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 Securities Exchange 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-based 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, which, together with the Board of Directors, plays an important role in the oversight, governance and performance of HBF. Corporate governance processes are detailed in the *HBF Constitution, Governance Regulations, Council Charter* 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. The Council generally meets twice annually, and its role is to appoint individuals to Board positions, ensure Director remuneration is appropriate and oversee the long-term sustainability of HBF for the benefit of the organisation and its policyholders.

The HBF Council comprises:

- Elected Councillors who are elected by a ballot of registered policyholders
- 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 the eligibility criteria and 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
David Brown	Steven Cole	Tony Crawford
David Carvosso	Andrew Cook†	Richard England
Charlotte Dunn**	Valerie Davies	Helen Kurincic
Anthony Evans	Stephen Jones	Gai McGrath
Susan Milos	Jodie Meadows	Rod Moore
Moira Watson	Fiona Kalaf	Diane Smith-Gander
	Peter Moore	Brent Stewart
	Wendy Newman	
	Will Moncrieff	
	Kenneth Perry	
	Brian Roche	
	Chris Ryan†	
	Tri Suseno*	

**Ceased role of General Councillor on 15 September 2020*
***Appointed to the role of Elected Councillor on 22 September 2020*
†Appointed to the role of General Councillor on 15 September 2020

Board

The Board has overall responsibility for corporate governance of HBF and its subsidiaries. This includes ensuring HBF complies with legal and regulatory obligations including those issued by the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), Department of Health (DOH), Services Australia, and the 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 members via the Council for the performance of HBF. The Board and Board Sub-Committees meet regularly in accordance with an annual meeting schedule while additional meetings are called as required. 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 HBF and its subsidiaries 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 established a delegation framework in which responsibility for the operational and administrative management of HBF has been given to the Chief Executive Officer and other positions within the organisation. 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, while 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 meet their fiduciary duties and enable the 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 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, while allowing the Board to also appoint the Chief Executive Officer to be an additional director. As of the date of this report, the Board comprised an independent Non-Executive Chair, seven 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.

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

Independence

In meeting 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 HBF and its subsidiaries, 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. The Board may appoint an individual to fill a Director vacancy by ordinary resolution for a term which expires on commencement of the next Annual General Meeting, after which the individual is eligible for re-appointment.

When a Board vacancy does arise, the People, Culture and Remuneration Committee identifies and assesses competencies which 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, checks are performed to confirm relevant eligibility criteria, including independence, have been met.

Director induction, education and access to information

Newly-appointed Directors participate in an induction program which includes meeting with Executives, taking a tour of facilities and the issuing of relevant reading materials. Directors commit to continuing professional development in keeping with the minimum membership requirements of the Australian Institute of Company Directors.

All Directors have unrestricted access to organisational records and information during their tenure and after retirement for the longer of seven years or the completion of any action, inquiry or hearing in which they are involved, via an access and indemnity deed with HBF. Directors have unfettered access to the CEO, Executive General Managers and the Company Secretary, and regularly consult with and request information from management. Directors may also source external professional advice in respect of any matter connected with the discharge of their responsibilities 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, including performance of its Sub-Committees, while seeking opportunities for continuous improvement.

This process includes annual surveys, one-on-one meetings co-ordinated by the Board Chair, and an external review conducted every three years. The process is 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 in fulfilling 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, Diane Smith-Gander

People, Culture 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, Gai McGrath

Risk Committee

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

Members:

Helen Kurincic (Chair), Richard England, Gai McGrath, Brent Stewart

Transformation Committee

Role: Oversight of the adequacy and effectiveness of the business transformation program.

Members:

Brent Stewart (Chair), Gai McGrath, Diane Smith-Gander

The individual attendance of Directors at the various standing committee meetings held during the year is set out on page 47 of the Annual Report.

Executive Leadership Team

The following individuals were Executive General Managers at 30 June 2021:

Mr John Van Der Wielen
Chief Executive Officer

Mr Simon Walsh
Chief Transformation Officer

Ms Donna Carrington
Chief Financial Officer

Ms Amy Stanley
Executive General Manager People and Corporate Affairs

Mr Adam Stock
Executive General Manager Governance and Risk

Ms Selina Torrance
Executive General Manager Member Experience

Dr Daniel Heredia
Executive General Manager Health
(appointed 25 January 2021)

Ethical standards

All Board members, Executives and employees are required to observe the highest standards of ethical, moral and legal business conduct. Directors adhere to the principles set out in the *Australian Institute of Company Directors Code of Conduct* and the *HBF Code of Conduct,* while 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 HBF, or one of its subsidiaries, must provide the Board with notice of such interest. The Company Secretary maintains a register of standing Director declarations of interest and reports these to each Board meeting. A Director who has a material personal interest in a matter being considered at a meeting 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 HBF or any of its subsidiaries 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 ensure additional steps are taken to maintain impartiality.

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 provides 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 which 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*. At 30 June 2021, females accounted for:

- 65% of the workforce
- 43% of executives
- 42% of senior managers
- 93% of all manager promotions
- 71% of all non-manager promotions

At the date of this report, three out of eight Board members are female.

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. Representatives from management, the internal auditor, the Appointed Actuary, and external Appointed Auditors are invited to attend scheduled 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 and 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 Group'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 2021.

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 maintains an internal audit function managed by the Head of Internal Audit to provide 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 is 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 plan and risk profile. The Head of Internal Audit 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 is adopted.

The framework complies with all regulatory obligations, including the 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 Standard* and the relevant documents and resources required for the management of HBF's material risks. The Board sets the HBF Risk Appetite including risk tolerance, risk limits and triggers.

The *Risk Management Strategy* facilitates successful delivery of HBF 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 Strategic Overview within the Annual Report.

The Risk Committee assists the Board through the regular review of the risk management framework, confirming the appropriateness and effectiveness of the implementation and internal control systems to adequately identify, assess, manage and report on the risks which could prevent HBF from achieving its objectives, or 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. Representatives of management, the internal auditor, Appointed Actuary, and the external Appointed Auditors are invited to attend Risk Committee meetings.

The Directors of HBF Health Limited (HBF) present their report on the consolidated Group consisting of HBF and its controlled entities (HBF Group) for the year ended 30 June 2021.

Directors' report.

Directors

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

Tony Crawford
Chairman

LLB, BA, FAICD

Mr Crawford was appointed to the Board of HBF in August 2014 and assumed the role of Chair in November 2016. Tony also serves as Chair of the People, Culture and Remuneration Committee and has previously been a member of the Audit, Risk and Transformation Committees. Prior to its migration into HBF, Tony was also a Director of HealthGuard Health Benefits Fund Limited from 2013 until June 2015.

Tony currently serves as Chair of the Energy and Water Ombudsman in New South Wales, Chair of Heart Research Australia and Chair of NSW Rugby Union. Previously Tony was the independent Chair of Grant Thornton Australia and a Non-Executive Director of Konekt Limited.

Tony 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 the role of CEO from 2000 until his retirement from the firm in 2010.

Tony is a graduate of the OPM Program at Harvard Business School, a Fellow of the Australian Institute of Company Directors, and an associate member of the Law Society of NSW.

John Van Der Wielen
Managing Director and Chief Executive Officer

MBA, FAICD

Mr Van Der Wielen was appointed Managing Director and Chief Executive Officer of HBF in May 2017.

John has more than 35 years' experience in insurance, wealth management, private banking and investments, and has held executive positions within several global financial services groups in London, Sydney and Luxembourg.

Prior to joining HBF, John was Chief Executive of Friends Life (UK and International) in London after having served as Managing Director – Wealth at ANZ Bank in Sydney and Chief Executive of Clerical Medical and Halifax Life in the United Kingdom. Most recently, John was a Senior Advisor for The Blackstone Group Inc. and served as an independent non-executive on Lombard International Assurance – Luxembourg and Partners Life, New Zealand.

John is currently Chair of the Future Health Research and Innovation Fund and a Non-Executive Director on the Board of the Royal Flying Doctor Service Western Australia. He was previously a Non-Executive Director of KYCKR Limited.

John 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 in February 2015 and has served as Chair of the HBF Audit Committee since October 2015. He is a member of both the People, Culture and Remuneration Committee and Risk Committee. For the past 25 years, Richard has served as a Non-Executive Director and Chair of various listed and unlisted companies, as well as not-for-profit organisations.

Richard currently serves as Chair of QANTM Intellectual Property Limited, Hobart International Airport Pty Ltd, and Quartz Reef Hill Investments Pty Ltd. He is a Non-Executive Director of Friendly Society Medical Association Limited and a Non-Executive Director of Gardior Pty Ltd, the trustee of The Infrastructure Fund "TIF". He previously served as Chair of Automotive Holdings Group and Ruralco Holdings and was a Non-Executive Director of Nutrano Produce Group Ltd and Japara Healthcare 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, FGIA

Ms Kurincic was appointed a Director of HBF in February 2016 and serves as Chair of the HBF Risk Committee. Helen is also a member of the Audit Committee and People, Culture and Remuneration Committee.

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

Previously, Helen 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 was 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.

Helen 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 as a member of the Minister's Implementation Taskforce and Minister's Reference Group for the Long-Term Reform of Aged Care.

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

Dr Rod Moore

MBBS, GradDipSpMed, FAICD

Dr Moore was appointed a Director of HBF in October 2012 and serves as Chair of the HBF subsidiary board HBF Wellness Holdings Pty Ltd and Chair of HBF Dental Services Pty Ltd. He is also a member of the HBF Audit Committee.

Rod was recently appointed a Non-Executive Director of the Young Lives Matter Foundation at the University of Western Australia. He was formerly Chair of MDA National Limited (a major Australian medical indemnity provider) and MDA National Insurance Ltd. Rod is also a member of the Human Research Ethics Committee at the University of Western Australia.

As a Graduate of the UWA Medical School, Rod 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. Rod is a Fellow of the Australian Institute of Company Directors.

Gai McGrath

BA, LLM, GAICD

Ms McGrath was appointed a Director of HBF Health Limited in May 2019 and serves as a member of the HBF Risk Committee, People, Culture and Remuneration Committee, and Transformation Committee. She is a skilled Non-Executive Director with 35 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.

Gai currently serves as Chair of BT Funds Management and Humanitix. She is also a Non-Executive Director of Steadfast Group (ASX: SDF), Genworth Mortgage Insurance Australia (ASX: GMA), and Toyota Finance Australia. Gai was previously a Non-Executive Director of IMB Bank, Investa Office Fund, and Landcom.

Gai is a highly respected executive and was 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).

Gai holds a Bachelor of Laws (Hons) and Bachelor of Arts from the University of Sydney as well as a Master of Laws (Distinction) from the London School of Economics and Political Science at the University of London, is a Graduate of the Australian Institute of Company Directors, and has studied at INSEAD Business School.

Brent Stewart

BSc, BPsych, FAICD

Mr Stewart was appointed a Director of HBF in November 2015 and serves as Chair of the HBF Transformation Committee. He is also a member of the Risk Committee and Management Investment Committee.

Brent is currently Executive Chair of Waveride Capital Limited, Chair of Etherington Inc. and more recently Chair to the Advisory Board of Hesperia Holdings Pty Ltd. He also serves as a Non-Executive Director of Paragon Care Limited (ASX: PGC) and Argonaut Limited.

Previously, Brent occupied a variety of board roles in both the public and private sectors. He was founder and Chief Executive of Market Equity Pty Ltd from 1992 until 2005, when the business was acquired by Aegis PLC and merged into its global market research business, Synovate. He continued as a global Chief Executive of Synovate until retiring from executive life in 2011.

Brent 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 in strategy, marketing and market research. Brent is a Fellow of the Australian Institute of Company Directors.

Diane Smith-Gander AO

BEcon, MBA, FAICD, FGIA, FAIM

Ms Smith-Gander was appointed a Director of HBF in May 2020. Diane is a member of the HBF subsidiary board HBF Wellness Holdings Pty Ltd and is also a member of the Audit Committee and Transformation Committee. She currently serves as the National Chair of the Committee for Economic Development of Australia, Chair of Safe Work Australia member body, Chair of DDH1 Limited/DDH1 Group Holdings Pty Ltd and more recently Chair of Zip Co Ltd. She is also a Non-Executive Director of ASX-listed AGL Energy Limited and a Director of WA Government home lender Keystart Loans. Diane's previous directorships include Wesfarmers Limited and CBH.

Prior to becoming a professional Non-Executive Director, Diane started her career in banking and was a Partner at McKinsey & Company in the United States. Diane is an advocate for gender equality and is a past president of Chief Executive Women. In the 2019 Queen's Birthday Honours, Diane was made an Officer of the Order of Australia (AO) in recognition of her "distinguished service to business, to women's engagement in executive roles, to gender equality, and to the community".

In 2015, Diane was awarded an Honorary Doctor of Economics by the University of Western Australia, where she is an Adjunct Professor in Corporate Governance.

Company Secretary

Adam Simpson

LLB, FGIA

Mr Simpson was appointed Company Secretary of HBF Health Limited in October 2018 and was appointed Company Secretary for the HBF subsidiary companies from January 2019.

Adam has more than 14 years' corporate governance experience in both the financial and utilities sectors, holds a Bachelor of Law from the University of Canterbury, is a Fellow of the Governance Institute of Australia, and is a practicing lawyer in Western Australia.

Principal activities

The principal activities of HBF 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 appropriate healthcare solutions. HBF continues to look for opportunities to sustainably grow its membership base nationally, while remaining the leading provider of health insurance in Western Australia.

Performance measures

HBF 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 along with an outline of the strategy and the organisations future prospects is set out in the Financial Performance report on pages 20 to 25 of this Annual Report.

Dividends

The *HBF Constitution* states the entity shall not make distributions to members by way of dividends and no such payments have been made during the financial year up to the date of this signed report, nor are any planned.

Share options

HBF is limited by guarantee and no options for shares in the entity were issued during the financial year nor in previous years.

Significant changes in the state of affairs

During the 2021 financial year, HBF launched its HBF Dental business and opened centres in Joondalup, Morley and Mandurah. The clinics are managed under a management services agreement with Pacific Smiles Group Ltd, which operates dental centres around the country and provides the necessary resources to enable HBF Dental to provide optimal clinical services. HBF has plans to open additional centres across Western Australia.

There were no other significant changes in the state of affairs of the HBF Group during the year.

Significant events after reporting date

Subsequent to financial year-end, HBF commenced distribution of the unutilised portion of the Deferred Claims Liability (DCL) provision which was reserved for the period of time when HBF policyholders were unable to access services during the closure of medical providers during the COVID-19 pandemic shutdowns. The DCL provision was accounted for in the previous financial year, and the unused portion was determined by HBF's Appointed Actuary in conjunction with HBF's Chief Financial Officer using regulatory guidelines.

There have been no other significant events since the reporting date.

Indemnification and insurance of Directors and officers

During the financial year, HBF 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 21, 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 submitted a 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		Audit Committee		People, Culture and Remuneration Committee		Risk Committee		Transformation Committee	
	Scheduled (6)	Additional (8)	Scheduled (5)	Additional (–)	Scheduled (5)	Additional (1)	Scheduled (5)	Additional (3)	Scheduled (6)	Additional (–)
Mr T Crawford	6	8	4*	–	5	1	5*	2*	5*	–
Mr R England	6	8	5	–	5	1	5	3	3*	–
Ms H Kurincic	6	8	5	–	5	1	5	3	4*	–
Ms G McGrath	6	8	2*	–	5	1	5	3	6	–
Dr R Moore	6	8	5	–	5*	–	4*	1*	6*	–
Ms D Smith-Gander[1]	6	8	5	–	1*	–	–	2*	6	–
Mr B Stewart	6	8	–	–	1*	–	5	3	6	–
Mr J Van Der Wielen	6	8	5*	–	4*	–	1*	–	6*	–

** Indicates the Director attended the committee by invitation.*

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 17 of the Financial Report. The Directors are satisfied 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 auditor independence was not compromised.

The auditors have provided their independence declaration which can be found on page 103 and forms part of this report.

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

Tony Crawford
25 August 2021
Perth

Board and Executive Director remuneration report.

The HBF Board continues to enhance the remuneration reporting and governance framework to ensure members understand the approach taken in determining remuneration for the Directors and Executives.

During FY21, the Board revised HBF's remuneration philosophy and underpinning principles to ensure HBF can continue to live its purpose and achieve its business objectives. Our refreshed approach to remuneration aligns to the interests of members, drives sustainable financial performance, and encourages a prudent risk culture while allowing HBF to compete for the best talent in the market. The remuneration philosophy is detailed further within this report.

In FY21, HBF continued to deliver for its members:

- Paid out 89.7 per cent of premiums in claims
- Announced return of $41.9 million to members as a result of COVID-19 control measures impacting claims related to non-urgent elective surgery and ancillary services
- Experienced consistent net policy growth across Australia
- Launched HBF Dental and opened three centres
- Agreed to acquire Credit Union Australia Limited's health insurance portfolio, expanding HBF's presence outside of WA
- Achieved a strong investment income of $80.0 million through prudent risk management

HBF's FY21 performance and delivery of key strategic initiatives were made possible by our people, and their achievements are reflected both in the financial results and Executive remuneration outcomes presented in this report.

Members are at the heart of everything we do at HBF and I am proud to present the FY21 Board and Executive Director Remuneration Report to you in that spirit.

Tony Crawford
Chair, HBF Board and People, Culture and Remuneration Committee

1. Introduction

HBF is committed to aligning with best practice corporate governance principles such as those found in the ASX Corporate Governance Council's Principles and Recommendations (4th Edition). In the spirit of transparency for our members and users of this report, the Directors present the Remuneration Report for the Board and the Executive Director for the year ended 30 June 2021.

This report forms part of the Directors' Report and has been audited in accordance with section 300A of the *Corporations Act 2001*.

2. Overview of Executive remuneration

a. Remuneration philosophy and principles

HBF's remuneration philosophy is described in four statements, each underpinned by a set of key principles the Board defined to guide remuneration decisions for all employees. This outlined in the table below:

Philosophy	Supporting principle	Remuneration component
Attracting, motivating and retaining our people ('the best talent in financial services and healthcare') through market competitive remuneration	• Align the interests of our people and our company by ensuring there is a clear link between remuneration and performance • Be market competitive and support our broader employee value proposition • Remuneration arrangements are aligned to the impact of the role on business performance	Total remuneration (fixed and variable)
Rewarding a culture of high performance where the member is at the centre of everything we do	• Reward sustainable outperformance across a balance of financial and non-financial measures over the short, medium and long term • Support HBF's risk management framework and culture, by encouraging appropriate risk behaviours and setting clear performance goals	Variable reward focused on outperformance of strategic objectives
Rewarding our people with a focus on 'how' goals are achieved (by using gateways relating to conduct, behaviour, risk and compliance outcomes) as much as 'what' is achieved	• Ensure performance and therefore reward is assessed on both 'what' is achieved and 'how' it is achieved with appropriate differentiation applied • Remuneration outcomes to be commensurate with performance and risk outcomes	Total remuneration (fixed and variable)
Ensuring reward is fair, transparent and simple to understand	• Ensure the purpose and value of each element of remuneration is communicated and understood by our people	Total remuneration (fixed and variable)

The philosophy and principles are contained within the Remuneration Policy and are subject to annual review by the People, Culture and Remuneration (PCR) Committee to ensure remuneration practices within HBF are effective in meeting the objectives of the policy.

b. Executive performance and remuneration policy

Applying these principles, HBF aims to reward Executives with a level and mix of fixed and variable at-risk remuneration appropriate to their position, responsibilities and performance in a way that supports our business strategy and vision:

Strategic pillars	Remuneration approach
Optimise and grow our business	Market competitive reward to attract and retain the best talent in financial services and broader segments
Diversifying into health services	HBF's reward philosophy and framework supports long-term decision making and aligns the Executive reward with our member and stakeholder expectations
Grow our people and business capabilities to serve our members and secure our future	Variable at-risk remuneration design incorporates specific targets relating to member outcomes

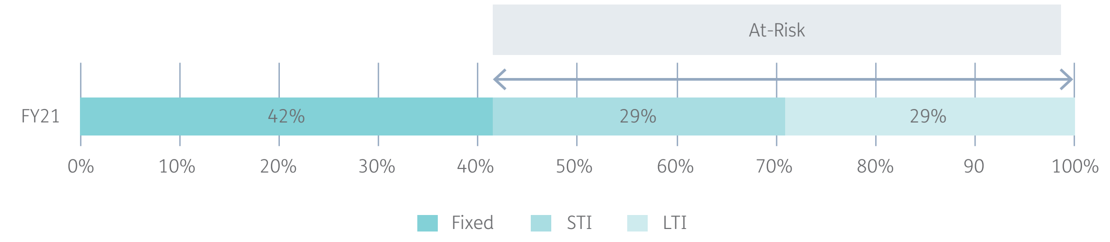
c. Executive Director remuneration framework (elements and target mix)

The Executive Director remuneration includes a combination of fixed and variable components. The weighting of each component of remuneration is carefully constructed to be competitive, encourage decision-making over the medium and long term, and align with the risk profile and value created for our members.

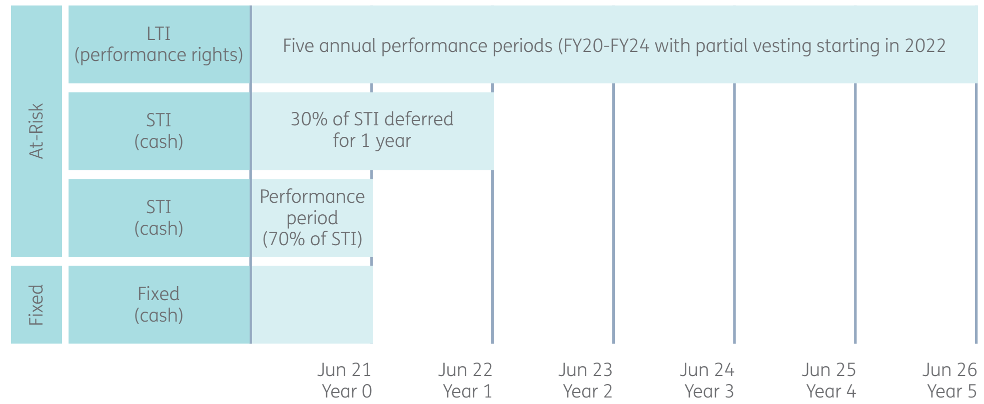
	Component	Performance measure	Performance range	Vehicle[1]
FIXED	Fixed	Local market review of comparable roles in similar companies based on scope of the Executive Director's role	Actual payments reflect individual skill, qualifications, experience and market conditions	Component consists of cash, statutory superannuation where applicable, and other non-monetary benefits
RISK	Short-Term Incentive (STI)[1]	Performance against Board pre-agreed weighted financial and non-financial Key Performance Indicators (KPIs) (i.e. balanced scorecard 90% corporate, 10% individual) with a **risk gateway** applied	0% to 110% of target STI Target STI equals 70% of fixed remuneration	Cash: 70% of award paid October following performance period; and 30% deferred for 12 months
RISK	Long-Term Incentive (LTI)[1]	LTI is assessed against two equally-weighted measures: 1. Diversification: Percentage non-WA PHI revenue and percentage non-PHI revenue 2. Financial – Management Expense Ratio (MER) in average of top six health funds and WA market share	Maximum annual LTI equals 70% of fixed remuneration	Cash: Achievement is assessed annually, post year-end throughout the performance period (FY20-24) If annual performance targets met, the cash payment is deferred for three years with partial vesting commencing at end of FY22

Note 1: 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.

The Executive Director's on target remuneration mix for FY21 is:



The components of remuneration are assessed across multiple horizons to encourage sound long-term decision-making:



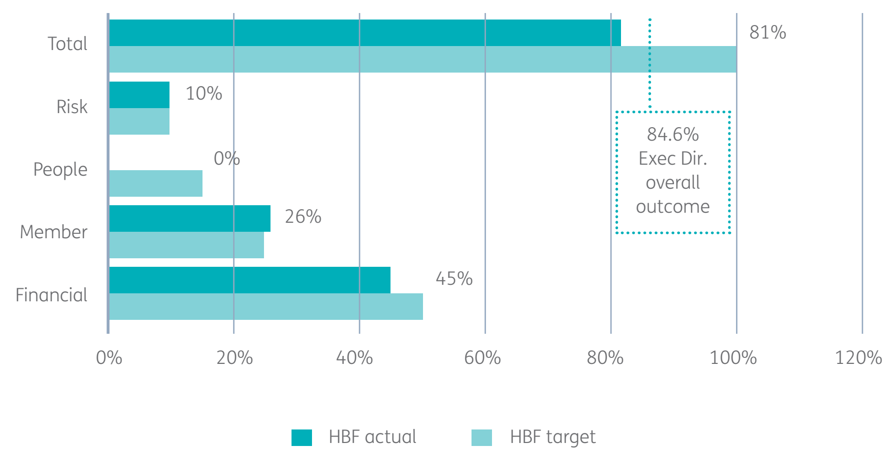
Note: Payment of STI and LTI occurs in October post the end of the relevant 30 June performance period, subject to meeting any deferred periods as applicable.

3. Executive Director performance pay outcomes 2021

HBF performance for FY21 has been strong across three of the four quadrants with the HBF risk gateway passed.

The Board has approved an 84.6 per cent payout of the Executive Director's target short-term incentive. This is based on an 81.8 per cent payout for HBF scorecard performance (90 per cent of the Executive Director's performance weighting) and a 110 per cent payout on individual performance (10 per cent of the Executive Director's performance weighting).

HBF scorecard target vs actual performance 2021



Awarded performance pay for the Executive Director in FY21

The actual performance pay awarded to the Executive Director in FY21 is presented below:

Executive Director	Year	On target $[1]	% Achieved	Total incentive amount	Cash[2]	Deferred cash[3]
John Van Der Wielen	FY21	810,377	84.6%	685,741	480,019	205,722
	FY20	809,893	91%	737,003	515,902	221,101

Note 1: Target STI opportunity is 70 per cent of fixed remuneration.

Note 2: 70 per cent of the FY21 incentive will be paid in October 2021. Seventy per cent of FY20 incentive was paid in October 2020 and is reflected in the 'Executive Director actual remuneration 2021' table.

Note 3: 30 per cent of FY20 incentive was deferred and will be paid in October 2021. FY21-deferred STI will be paid in October 2022.

Long-Term Incentive scheme for the Executive Director

The Executive Director is not entitled to any LTI payment in FY21 as part of the current scheme. This is consistent with FY20 approach and disclosures.

4. Executive Director actual remuneration 2021

The actual remuneration paid to the Executive Director is presented below:

		Fixed			Variable		
Executive Director	Year	Cash salary and fees[1]	Non-monetary benefits[2]	Super Contrib.	Short-term Incentives[3]	Long-term Incentives[4]	Total remuneration
John Van Der Wielen	FY21	1,179,679	3,655	21,694	754,290		1,959,319
	FY20	1,108,545	3,872	25,153	629,538	602,334	2,369,442

Note 1: The Executive Director's base salary remained unchanged in FY21. The increase in cash salary and fees in FY21 was principally due to 27 payment fortnights falling within the financial year.

Note 2: The Executive Director is provided with a car parking bay at an estimated value of $3,655 per annum in FY21 and, like all employees, is eligible for a subsidy toward HBF insurance premiums.

Note 3: Consists of retention bonus of $239,661 paid in FY21 and $514,629 relating to FY20 incentive. The difference from the reported figures in the FY20 Annual Report is reflected in cash salary and fees and superannuation contributions.

Note 4: FY20 payment relates to 2019 LTI that was discontinued. Refer to Section 2 (c) for details of current plan.

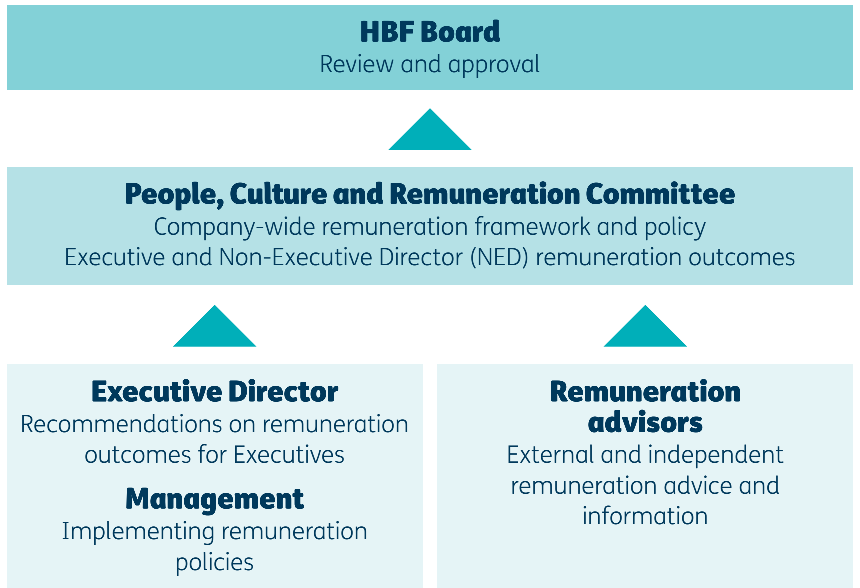
Contract terms for the Executive Director

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.

5. Governance

HBF has a robust governance framework in place to ensure that our remuneration and performance practices are fair and aligned with the requirements outlined in our risk management framework. Our governance framework also considers regulatory compliance, member outcomes, community expectations and the delivery of sustainable value creation for our members.

The role of the Board in remuneration



While there are four permanent members of the PCR Committee, a standing invitation exists to all Non-Executive Directors to attend meetings. The Executive Director / Chief Executive Officer (CEO) and Executive General Manager People and Corporate Affairs are also invited to attend PCR Committee meetings, except where matters associated with their own performance or remuneration are considered. Further information regarding the PCR Committee members can be found in the Governance Report and the PCR Committee Charter can be found on the HBF website. For PCR Committee meeting attendance information, refer to the table on page 47 of the Directors' Report.

The PCR Committee is able to engage the services of an external independent remuneration advisor, to provide guidance on the application of the Remuneration Policy where required. The external advisor has supported the PCR Committee by providing data and reports on various remuneration matters without undue influence from HBF management.

Variable reward governance

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 PCR 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 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 future awards.

6. Non-Executive remuneration

HBF's Non-Executive Director (NED) fee arrangements are structured and set by reference to the following key considerations:

- To attract and appropriately compensate suitably qualified directors, with experience and expertise appropriate to an unlisted, APRA regulated, not-for-profit member-based entity
- To reflect the time commitment expected in fulfilling their Board responsibilities and their contribution to committees and
- To acknowledge Australian market practice and governance expectations for comparable companies

In 2007, the HBF Council approved the creation of a fee pool from which NED fees are paid, providing the HBF Board with the flexibility to manage director fees for membership on the HBF Board, its standing committees and subsidiary boards. At the 2019 AGM, the Council approved the current maximum fee pool of $1.65 million.

The PCR Committee periodically reviews whether fees are appropriate having regard to information provided by independent remuneration consultants. This review was last undertaken in 2019 with an adjustment to fees effective 1 November 2019. Other than CPI, directors' fee levels have remained unchanged from this date.

HBF NED fees consist of a base fee plus committee fees recognising the additional time commitment required for members of the subsidiary boards and committees while the HBF Board Chair receives a composite fee. NEDs are not entitled to participate in any performance-based awards.

NEDs are engaged under a letter of appointment and are subject to election and rotation requirements as stipulated within the HBF Constitution. NEDs are entitled to be reimbursed for all travel and related expenses reasonably incurred in performing their duties and are eligible for a subsidy towards HBF insurance premiums.

The following table shows applicable fees (inclusive of superannuation) for HBF's Board and committees for the 2021 reporting period:

Board	**Chair**	**Member**
HBF	$284,745	$123,745
Subsidiary Board	$24,749	$12,375
Committee		
Audit	$24,749	$12,375
People, Culture and Remuneration	*Note 1*	$12,375
Risk	$24,749	$12,375
Transformation	$24,749	$12,375
Management Investment (Attendee)	-	$12,375

Note 1: Chaired by the HBF Board Chair therefore no fee is payable.

The actual remuneration earned by the Non-Executive Directors in FY21 is presented below:

		Fixed			
Name	Year	Cash salary and fees $	Non-monetary benefits[1] $	Superannuation contributions $	Total remuneration $
Tony Crawford	**FY21**	**273,226**	**-**	**21,694**	**294,920**
	FY20	250,551	-	22,234	272,785
Richard England	**FY21**	**164,299**	**-**	**15,608**	**179,907**
	FY20	152,926	-	14,528	167,454
Helen Kurincic	**FY21**	**164,299**	**-**	**15,608**	**179,907**
	FY20	152,926	-	14,528	167,454
Gai McGrath	**FY21**	**153,346**	**-**	**14,568**	**167,914**
	FY20	131,441	-	12,487	143,928
Rod Moore	**FY21**	**169,688**	**-**	**16,120**	**185,808**
	FY20	143,434	-	13,626	157,060
Diane Smith-Gander AO	**FY21**	**157,395**	**-**	**3,578**	**160,973**
	FY20	13,040	-	1,239	14,279
Brent Stewart	**FY21**	**153,827**	**-**	**14,614**	**168,441**
	FY20	156,001	-	14,820	170,821
Total Non-Executive Directors	**FY21**	**1,236,081**	**-**	**101,791**	**1,337,871**
Total Non-Executive Directors	FY20	1,000,319	-	93,462	1,093,781

Note 1: Non-monetary benefits if any consist of salary sacrifice, FBT or other non-cash benefits received by the Executive during the reporting period.

HBF Health Limited

Financial report.

For the year ended 30 June 2021

Contents

HBF Health Limited
Consolidated statement of comprehensive income
Year ended 30 June 2021

	Notes	2021 $'000	Restated* 2020 $'000
Revenue			
Health insurance premium revenue	4(a)	1,627,540	1,631,004
Other revenue	6	26,073	16,460
		1,653,613	1,647,464
Expenses			
Net claims expense	4(a)	(1,459,132)	(1,444,340)
Employee benefits	16(b)	(122,932)	(107,727)
Depreciation and amortisation expenses		(8,269)	(8,117)
Marketing expenses		(23,343)	(32,291)
Professional services fees	2(d), 13, 23	(67,002)	(25,258)
IT maintenance expenses		(15,081)	(13,796)
Office and administration expense		(10,566)	(10,728)
Other expenses		(9,557)	(8,895)
		(1,715,882)	(1,651,151)
Loss for the year before net investment income		(62,269)	(3,687)
Net investment income	7	79,959	34,675
Profit for the year		17,690	30,988
Other comprehensive (loss) / income			
Items that will not be reclassified to profit or loss			
Revaluation (loss) / profit of land and buildings	14	(194)	64
Total comprehensive income for the year		17,496	31,052

The above statement of comprehensive income should be read in conjunction with the accompanying notes.
* See Note 2(d) for details regarding the restatement of comparative financial information.

HBF Health Limited
Consolidated statement of financial position
At 30 June 2021

	Notes	2021 $'000	Restated* 2020 $'000
Assets			
Current assets			
Cash and cash equivalents	20(b)	276,820	62,334
Receivables	11	89,749	76,547
Financial assets at fair value	8	1,489,797	1,732,972
Deferred acquisition costs	5	8,257	3,233
Assets held for sale	12	3,759	98,801
Total current assets		1,868,382	1,973,887
Non-current assets			
Intangible assets	13	67,158	33,466
Property, plant and equipment	14	130,825	25,296
Deferred acquisition costs	5	14,584	2,432
Total non-current assets		212,567	61,194
Total assets		2,080,949	2,035,081
Liabilities			
Current liabilities			
Trade and other payables	15	104,246	30,209
Insurance liabilities	4(b)	423,319	469,311
Employee benefits	16	12,521	11,562
Total current liabilities		540,086	511,082
Non-current liabilities			
Insurance liabilities	4(b)	48,274	49,176
Employee benefits	16	2,540	2,270
Total non-current liabilities		50,814	51,446
Total liabilities		590,900	562,528
Net assets		1,490,049	1,472,553
Equity			
General reserve	10	111,513	111,513
Retained earnings	10	1,363,086	1,345,396
Asset revaluation reserve	10	15,450	15,644
Total equity		1,490,049	1,472,553

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

* See Note 2(d) for details regarding the restatement of comparative financial information.

HBF Health Limited
Consolidated statement of changes in equity
Year ended 30 June 2021

	Notes	General reserve $'000	Retained earnings $'000	Asset revaluation reserve $'000	Total $'000
At 30 June 2019		111,513	1,314,408	15,580	1,441,501
Profit for the year (Restated*)		-	30,988	-	30,988
Other comprehensive income		-	-	64	64
Total comprehensive income (Restated*)		-	30,988	64	31,052
At 30 June 2020 (Restated*)	10	111,513	1,345,396	15,644	1,472,553
Profit for the year		-	17,690	-	17,690
Other comprehensive income		-	-	(194)	(194)
Total comprehensive income		-	17,690	(194)	17,496
At 30 June 2021	10	111,513	1,363,086	15,450	1,490,049

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

* See Note 2(d) for details regarding the restatement of comparative financial information.

	Notes	2021 $'000	Restated* 2020 $'000
Cash flows from/(used in) operating activities			
Receipt of health insurance premium revenue		1,632,040	1,625,912
Receipt of commission income		10,207	12,844
Proceeds from the sale of general insurance distribution arrangement		15,000	-
Receipt of other income		218	3,450
Payment of claims		(1,624,262)	(1,478,319)
Risk equalisation receipts		106,405	127,499
Payments to suppliers and employees		(212,784)	(209,013)
Distributions received		17,816	14,738
Interest received		9,497	26,742
Goods and services tax received (net)		14,619	9,475
Net cash flows (used in)/from operating activities	20(c)	(31,244)	133,328
Cash flows from/(used in) investing activities			
Acquisition of property, plant and equipment		(17,081)	(4,148)
Acquisition of intangible assets		(36,400)	(33,140)
Proceeds on sale of held-for-sale assets		-	7,040
Proceeds on sale of property, plant and equipment		574	-
Redemption of financial assets at fair value through profit or loss		1,223,526	1,287,913
Purchase of financial assets at fair value through profit or loss		(924,888)	(1,386,543)
Net cash flows from /(used in) investing activities		245,730	(128,878)
Net increase in cash and cash equivalents		214,486	4,450
Cash and cash equivalents at beginning of year		62,334	57,884
Cash and cash equivalents at end of year	20(b)	276,820	62,334

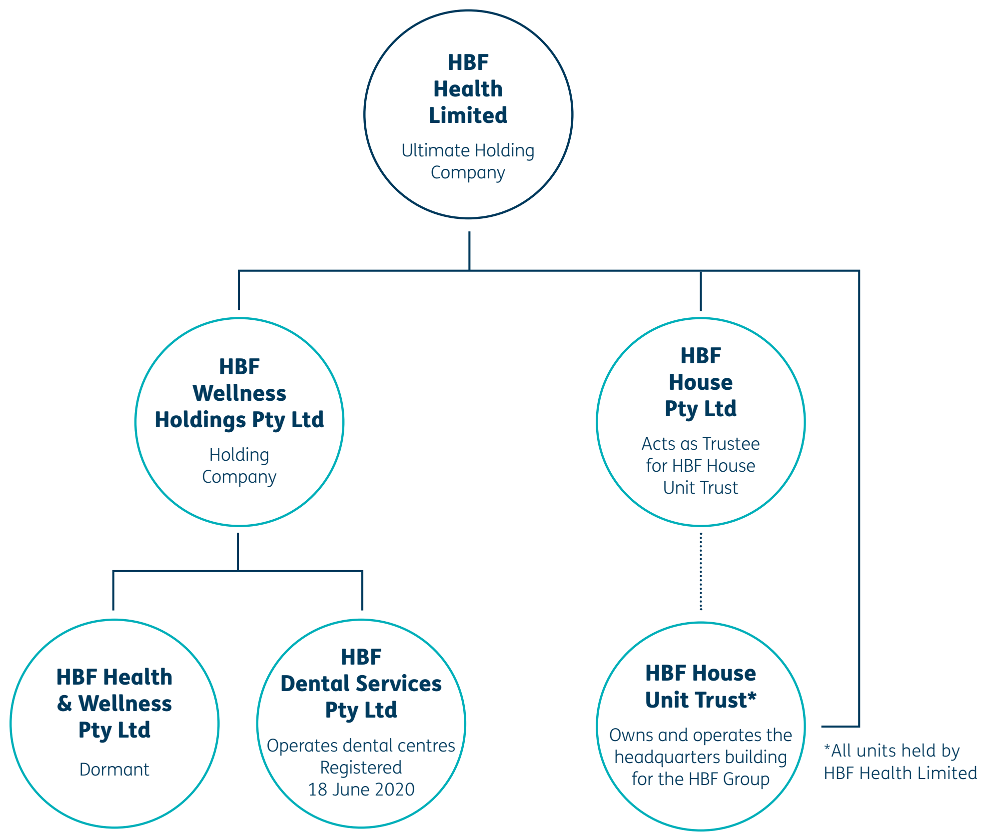
The above statement of cash flows should be read in conjunction with the accompanying notes.
* See Note 2(d) for details regarding the restatement of comparative financial information.

Section 1: Basis of preparation

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 per cent 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. HBF exited the general insurance distribution arrangement effective 30 June 2021.
- Provision of dental services; first dental centre commenced trading on 25 February 2021.

The HBF Group had 1,197 employees as at 30 June 2021 (2020: 1,026 employees).

2 Basis of preparation

a) Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*. Management has also incorporated the published views expressed by the Australian Securities and Investment Commission (ASIC) and Australian Prudential Regulation Authority (APRA) on certain matters in its application of accounting standards as they specifically relate to the recognition of the deferred claims liability set out in Note 4(b)(iii). The financial report has been prepared in accordance with the historical cost convention, except for financial assets and certain classes of property, plant and equipment and assets held for sale, 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. Certain comparatives have been reclassified to conform with current period presentation.

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), including having incorporated the published views from ASIC on financial reporting under COVID-19 conditions and from APRA on the measurement and recognition of a deferred claims liability in response to the unique circumstances arising from the COVID-19 pandemic.

ASIC has updated published FAQ regarding 30 June 2021 financial reporting stating "Private health insurers should recognise a claims liability where an insured person who knows that they have a condition is likely to continue their cover until the surgical procedure has been performed". The guidance further advises that "The liability estimate should typically have regard to the pattern of claims in prior periods compared to the pattern of claims in the current year." This is consistent with the guidance provided for the 30 June 2020 financial year and, in effect, requires a provision at 30 June 2021 for the backlog of medical procedures that were expected to occur during the financial year but did not due to COVID-19 and related government control measures.

APRA issued the "Application of the Capital Framework for COVID-19 Related Disruptions" with the latest release published in March 2021. APRA's guidance endorses the recognition of a deferred claims liability and outlines guidance for its measurement using a "prescriptive approach". However, since March 2021, valuing the deferred claims liability according to APRA's methodology is optional for regulatory returns if a robust process and prudent approach is followed. APRA's guidance specified the minimum considerations in valuing the liabilities and require disclosure of these to the Board. HBF has adopted an alternative approach that considers the most recent data available, and an estimate of claims that are more likely to be deferred rather than cancelled by category. HBF documented its approach to valuing the deferred claims liability for determining the amounts to refund to members, and this was approved by the Board in May 2021. The valuation approach and coverage of the considerations from APRA's guidance are detailed in HBF's 2021 Actuarial Valuation Report.

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 2021. 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 (i.e. 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.

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.

d) Change in accounting policy

Reflecting on the evolution of accepted accounting principles and policies, in April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to a Software as a Service (SaaS) arrangement. As a result, HBF Group has changed its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. The timing and status of our transformation program means this change has an impact on costs incurred in FY20 and FY21 and will also impact the result for FY22. The nature and effect of the changes from changing this policy is described below.

2 Basis of preparation (continued)

d) Change in accounting policy (continued)

Accounting policy for Software-as-a-Service (SaaS) arrangements

SaaS arrangements are arrangements in which HBF Group does not currently control the underlying software used in the arrangement. Where costs incurred to configure or customise SaaS platforms result in the creation of a resource which is identifiable, and where HBF Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the HBF Group with a distinct service (in addition to the SaaS access) are recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are recognised as expenses over the duration of the SaaS contract. Some costs had been previously capitalised as Intangible Assets under Work In Progress and are therefore required to be restated.

Impact of change in accounting policy

For the current year, $25.3 million of costs that would previously have been capitalised as intangible assets (under the previous policy) were expensed and recognised mainly in the professional services fees. Cash outflows of $25.3 million were included in payments to suppliers and employees in the statement of cash flows that previously would have been included as payments to acquire intangible assets.

The change in accounting policy has been retrospectively applied and the comparative financial information for the year ended 30 June 2020 has been restated. In 2020 several operating expense categories have increased, they are Employee benefits by $1.4 million, Professional services fees by $5.2 million and IT maintenance expenses by $1.2 million. This has decreased the profit for the year ended 30 June 2020 by $7.8 million. The Consolidated statement of changes in equity for 2020 has been restated to reflect the reduction of $7.8 million in profit for the year.

The Consolidated cash flow statement for 2020 has been restated to reflect higher cash outflows from operating activities (through the payments to supplier and employees) and lower cash outflows from investing activities (through acquisition of intangible assets) by $7.8 million.

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 disclosed in the following notes:

Note 4: Insurance underwriting result
Note 8: Financial assets at fair value
Note 12: Assets held for sale
Note 13: Intangible assets (Accounting judgements and estimates)
Note 14: Property, plant and equipment (Revaluation of land and buildings)

Section 2: Operating performance

4 Insurance underwriting result
(a) Insurance underwriting result

	Notes	2021 $'000	2020 $'000
Gross written premiums		1,634,704	1,623,812
Movement in unearned premiums		(7,164)	7,192
Health Insurance premium revenue	4(b)	1,627,540	1,631,004
Claims expenses		(1,574,685)	(1,572,349)
Risk equalisation		115,553	128,009
Net claims expense		(1,459,132)	(1,444,340)
Gross underwriting margin		168,408	186,664
Claims handling expenses		(33,258)	(32,928)
Acquisition costs	5	(24,359)	(36,218)
Other underwriting costs		(186,407)	(128,136)
Underwriting expenses		(244,024)	(197,283)
Underwriting result after expenses		(75,616)	(10,619)

Health Insurance premium revenue recognition accounting policy
Health Insurance premium revenue is recognised in the consolidated statement of comprehensive income when the amount can be reliably measured, and it is probable that future economic benefits will flow to the entity. Health insurance premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight-line basis between the date HBF accepts the risk from the insured under the insurance contract and the date the premium has been paid up to. Health Insurance premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.

The Australian Government contributes a rebate towards an eligible policyholder's premium and pays this directly to HBF. This rebate is recognised within premium revenue in the consolidated statement of comprehensive income. Rebates due from the government but not received at balance date are recognised as trade and other receivables.

Claims expenses accounting policy
Claims expenses consists of amounts paid and payable to members, hospital, medical and ancillary providers, changes in claims liabilities, and applicable state levies. Claims liabilities (outstanding claims) are discussed in Note 4(b)(ii).

Risk equalisation accounting policy
Risk equalisation relates to amounts recoverable from the Risk Equalisation Special Account (RESA) which is administered by the APRA. The RESA is a scheme to subsidise health insurers for high cost claims and age-based claims amongst health insurers. Risk equalisation is recognised based on the amounts received during the year and the amount receivable at financial year end as calculated by APRA.

4 Insurance underwriting result (continued)
(b) Insurance liabilities

	Notes	2021 $'000	2020 $'000
Unearned premium liability	(i)	224,172	217,008
Outstanding claims liability	(ii)	117,949	115,911
Deferred claims liability	(iii)	40,119	94,296
GapSaver	(iv)	89,353	91,272
		471,593	518,487
Current		423,319	469,311
Non-current		48,274	49,176
		471,593	518,487

(i) Unearned premium liability

	Notes	2021 $'000	2020 $'000
Unearned premium at beginning of year		217,008	224,200
Premium written during the year		1,634,704	1,623,812
Premium earned during the year	4(a)	(1,627,540)	(1,631,004)
Unearned premium at end of year		224,172	217,008
Current		223,806	216,713
Non-current		366	295
		224,172	217,008

Unearned premium accounting policy
Premiums received 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. The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as unearned premium liability.

Unexpired risk liability accounting policy
A liability adequacy test (LAT) is required to be performed in respect of the unearned premium liability and insurance contracts renewable before the next pricing review (constructive obligation). The purpose of the test is to determine whether the insurance liability, net of related deferred acquisition costs, is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance contracts. An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

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

The entire deficiency is recorded immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the consolidated 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. 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.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2021 or 30 June 2020. The LAT did not include the deferred claims liability at 30 June 2021 or 30 June 2020.

4 Insurance underwriting result (continued)
(b) Insurance liabilities (continued)

(ii) Outstanding claims liability

	2021 $'000	2020 $'000
Central estimate of outstanding claims liabilities	121,653	121,627
Claims handling expenses	2,555	2,554
Risk margin	4,098	3,376
Risk equalisation	(10,357)	(11,646)
	117,949	115,911

Reconciliation of movement in claims liabilities

	2021 $'000	2020 $'000
Opening balance	115,911	123,940
Claims incurred during the period	1,576,582	1,476,510
Claims paid during the period	(1,555,135)	(1,478,319)
Adjustments to claims incurred in prior years	(21,421)	(5,278)
Claims handling costs	1	(46)
Risk margin	722	(20)
Risk equalisation	1,289	(876)
Closing balance	117,949	115,911

Outstanding claims liability accounting policy
The outstanding claims liability provides for claims received but not assessed and claims incurred but not received. It is based on an actuarial assessment that considers historical patterns of claim incidence and processing. It is measured as the central estimate of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by HBF, plus a risk margin reflecting the inherent uncertainty in the central estimate.

The liability also allows for an estimate of claims handling costs, which comprise all direct expenses of the claims department and general administrative costs directly attributable to the claims function.

The maturity profile of outstanding claims for the current and prior financial years is within one year.

Deferred claims are not included in the calculation of the outstanding claims liability. The deferred claims liability is presented separately in Note 4(b)(iii).

4 Insurance underwriting result (continued)
(b) Insurance liabilities (continued)
(ii) Outstanding claims liability (continued)

Key estimates related to valuation of the outstanding claims liability
The outstanding claims liability as at 30 June 2021 covers 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. This 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 liability is in large part determined with reference to claims patterns in the months immediately preceding year-end. In the prior reporting period, any shortfall in the outstanding claims liability was offset by the deferred claims liability (DCL) as the two liabilities together represented 100% of the total claims expected to arise as a result of events prior to 30 June 2020. However, as at 30 June 2021, the outstanding claims liability and deferred claims liability are determined separately and the outstanding claims liability provides for claims expected to occur under ordinary operating conditions as if the health insurance business is operating in line with pre-COVID-19 trading conditions. Refer to note 4(iii) for further assessment of remaining deferred claims.

(a) Central estimate
The central estimate is an estimate of the level of claims liability.

Central estimates for each class of business are determined by reference to statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A separate estimate is made of risk equalisation funds payable to or receivable from the Private Health Insurance RESA.

In estimating the central estimate consideration is generally given to historical trends in the speed of settlement of claims, trends in claim characteristics such as frequency and average size, and changes in the size of exposure measured by number of persons covered, earned premiums and product benefits.

(b) Claims handling expenses
Claims handling expenses were calculated by analysis of actual expenses over the last 12 months. The allowance for claims handling expenses applies a rate of 2.1% (2020: 2.1%) of the outstanding claims liabilities.

(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 estimate of the net liability is adequate to a minimum of 80% (2020: 80%) i.e. such that there is a four in five probability that enough provision has been made to cover the liabilities. The risk margin applied to increase the level of sufficiency of the central estimate to 80% is 3.6% (2020: 3.0%). The risk margin has increased to reflect that HBF Group is not using data on claim payments made in July 2021 (i.e. one month hindsight) in this year's valuation but rather only using data on claim payments up to June 2021 (i.e. zero month hindsight).

The measurement of variability uses techniques similar to those used in determining the central estimate to estimate theoretical claims over different periods. These techniques determine a range of possible outcomes of future payments and compare it to actual 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 sufficiency.

(d) Risk equalisation
Risk equalisation was calculated by analysis of actual claims and risk equalisation received over the last 12 months. The allocation of risk equalisation applies a rate of 9.1% (2020: 10.2%) of the outstanding claims liabilities.

(e) Discounting
Given the short weighted mean term of the liability (less than two months) and low interest rate environment, no explicit allowances for discounting have been deemed necessary.

4 Insurance underwriting result (continued)
(b) Insurance liabilities (continued)
(ii) Outstanding claims liability (continued)

Impact of changes in key variables on the outstanding claims provision
The central estimate, claims handling expenses and risk margin are the key outstanding claims variables. The following sensitivity analysis shows the impact on profit if the central estimate and other key outstanding claims variables including risk margin and claims handling expenses had moved, with all other variables held constant.

	Movement in variable	Profit/Equity $'000
30 June 2021		
Central estimate	+10%	(12,165)
	-10%	12,165
Risk margin and claims handling expenses	+1%	(67)
	-1%	67
30 June 2020		
Central estimate	+10%	(12,163)
	-10%	12,163
Risk margin and claims handling expenses	+1%	(59)
	-1%	59

(iii) Deferred claims liability

	2021 $'000	2020 $'000
Opening balance	94,296	-
DCL utilised for deferred claims paid	(34,201)	-
DCL utilised for hardship waiver	(2,567)	-
Additional deferred claims recognised	23,268	99,102
Claims handling expenses	(1,176)	2,081
Risk equalisation adjustment	3,036	(6,887)
Transfer to payables for payments to members	(41,900)	-
Transfer to payables for cost of processing payments to members	(638)	-
	40,119	94,296

Restrictions on medical services and social distancing requirements introduced by the Australian Government in March 2020 in response to COVID-19 affected claims by HBF members between March and early June 2020. During this time members were precluded from accessing treatment and other benefits and as a result, a liability of $94.3 million was recognised at 30 June 2020 as an estimate for these deferred claims that would have otherwise been incurred.

During the current reporting period, members incurred a portion of these claims and the liability was utilised, however claiming patterns have not reverted to expected pre-pandemic levels. Although the claims experience varies across different modalities, it is clear that there are a number of different factors affecting the recovery of deferred COVID-19 claims. These include an unwillingness by members to seek treatment during a pandemic as well as the need for treatment no longer arising. In keeping with our commitment not to profit from the pandemic, we are returning $41.9 million of the original deferred claims liability to members during July and August 2021. We are maintaining $16.9 million of the original deferred claims liability to cover claims that are still likely to occur.

4 Insurance underwriting result (continued)
(b) Insurance liabilities (continued)
(iii) Deferred claims liability (continued)

In the period subsequent to 30 June 2020 there have been unusual claim utilisation patterns which can be attributed in part to voluntary deferral of claims due to members not seeking treatment during an ongoing pandemic, as well as lockdowns in different jurisdictions at different times. Analysis of the claims trend is ongoing, however in order to ensure we have adequate coverage of the estimated claims for the 2021 claims that could yet return, a further provision of $23.3 million has been recognised at 30 June 2021.

The final balance as at 30 June 2021 includes $16.9 million of the original deferred claims liability and $23.3 million deferred claims liability for 2021 claims that could return.

Deferred claims liability accounting policy
The deferred claims liability is calculated with regard to the claims that were expected to occur during the current and previous financial periods but did not eventuate due to the pandemic. Consideration has been given to forecast claims adjusted for changes in membership and/or product mix, the level of claims considered to have returned in FY21, and the proportion of claims that are not expected to return. Management will continue to monitor claims utilisation patterns to determine the appropriate level of deferred claims liability to be maintained.

Key estimates related to valuation of the deferred claims liability
The key risks surrounding this estimate and recommended provision are the accuracy of the HBF underwriting forecast, and the assumption of the portion of claims deferred in this financial year which are assumed to occur next financial year.

The estimation of the deferred claims liability at 30 June 2021 is highly judgemental given the unprecedented health pandemic that continues to impact Australia. The actuarial analysis has estimated the remaining provision with reference to:

(i) Pre-COVID-19 baseline forecast, adjusted for changes in the business;
(ii) Expected COVID-19 deferred claims recovery forecast;
(iii) Detailed analysis of claims by modelling with comparison to (i) to (ii) above;
(iv) APRA guidance;(v) Identification of total claims difference between forecast and actual claims results in FY21;
(vi) Expected recovery of claims with reference to experience in FY21.

Impact of changes in key variables on the deferred claims liability
The key variable in the deferred claims liability estimate is the portion of deferred claims that will return. The following sensitivity analysis shows the impact on profit if the portion of deferred claims expected to return had moved, with all other variables held constant.

	Movement in variable	Profit $'000
30 June 2021		
Claims deferred, expected to return	+10%	(4,397)
	-10%	4,397
30 June 2020		
Claims deferred, expected to return	+10%	(10,100)
	-10%	10,100

4 Insurance underwriting result (continued)
(b) Insurance liabilities (continued)

(iv) GapSaver liability

	2021 $'000	2020 $'000
Movements in provisions		
Balance at beginning of year	91,272	91,246
Member deposits	49,088	51,597
Member withdrawals	(52,542)	(52,193)
Present value adjustment	169	748
Adjustment for cancellations	1,366	(126)
Balance at end of year	89,353	91,272
Current	40,713	42,391
Non-current	48,640	48,881
	89,353	91,272

GapSaver liability 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.

Key estimates related to valuation of the GapSaver liability
In estimating the valuation of the GapSaver liability, consideration is given to the projected hospital and general treatment claims utilisation and average claims size and the cancellation rate.

5 Deferred acquisition costs

	Notes	2021 $'000	2020 $'000
Deferred acquisition costs at beginning of year		5,665	11,804
Acquisition costs incurred		41,535	30,079
Acquisition costs charged to profit and loss	4(a)	(24,359)	(36,218)
Deferred acquisition costs at end of year		22,841	5,665
Current		8,257	3,233
Non-current		14,584	2,432
		22,841	5,665

(a) Acquisition costs charged to profit and loss

	Notes	2021 $'000	2020 $'000
Amortisation of deferred acquisition costs		(5,225)	(6,139)
Brand and distribution costs expensed		(19,134)	(30,079)
	4(a)	(24,359)	(36,218)

Deferred acquisition costs accounting policy
Acquisition costs incurred in obtaining insurance contracts are expensed immediately, except where they can be specifically attributed to policy acquisition and product growth (such as the acquisition of policies outside of Western Australia) in which case they 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. The HBF Group amortises these costs on a straight line basis over a period of 5 years (2020: 5 years).

6 Other revenue

	2021 $'000	2020 $'000
Commission income	10,281	12,414
Sale of general insurance distribution arrangement	15,000	-
Rental revenue	281	279
Other non-operating revenue	511	3,767
	26,073	16,460

Insurance commission income accounting policy
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 ongoing obligation satisfied over time rather than a series of different obligations. Commission rates are fixed within the contract and the commissions are earned when payments for products sold or renewed are received. Commission income is recognised when payments are made by policyholders to the insurers, upon which the right to receive the commission is established.

Section 3: Investment portfolio and capital

7 Net investment income

	2021 $'000	2020 $'000
Unrealised gain/(loss) on change in fair value of investments	55,463	(1,442)
Interest from other corporations	6,680	21,379
Distributions from other corporations	17,816	14,738
	79,959	34,675

Investment income accounting policy

Unrealised gains reflect the change in the fair value of the investment portfolio that has yet to be realised. Interest revenue is recognised as it accrues using the effective interest rate 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.

8 Financial assets at fair value

	2021 $'000	2020 $'000
Defensive		
Cash investments	546,496	892,566
Australian fixed interest	42,410	42,390
Global absolute return bonds	271,452	251,021
Short duration credit	244,795	166,843
Growth		
Equity related investments	274,297	279,904
Global unlisted infrastructure	110,347	100,248
	1,489,797	1,732,972

All financial assets are considered to be current as they are redeemable within one year of the reporting date.

The HBF Group's long-term strategic asset allocation of their actively managed investment portfolio is 30% growth and 70% defensive assets. HBF investment objectives considers the circumstances, investment beliefs and the Group's risk appetite.

Investments are managed in accordance with the Investment Management Standard and for the purpose of meeting the investment return objective as set by the Board within risk appetite tolerances.

As a major Australian health fund, HBF recognises the importance of being financially sustainable as well as being environmentally and socially responsible. In line with this, HBF's investment portfolio is managed in a way which supports the health and community values of HBF and reflects its commitment to social responsibility, while maintaining its investment principles and objectives.

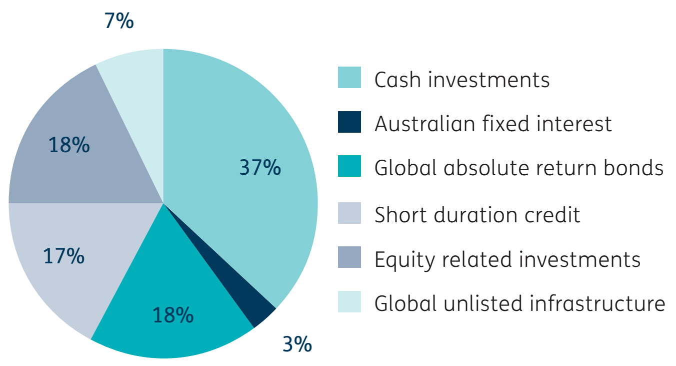
8 Financial assets at fair value (continued)

Investments are managed in accordance with HBF's Investment Management Standard and prescribed strategic asset allocation, as presented in the portfolio composition below:

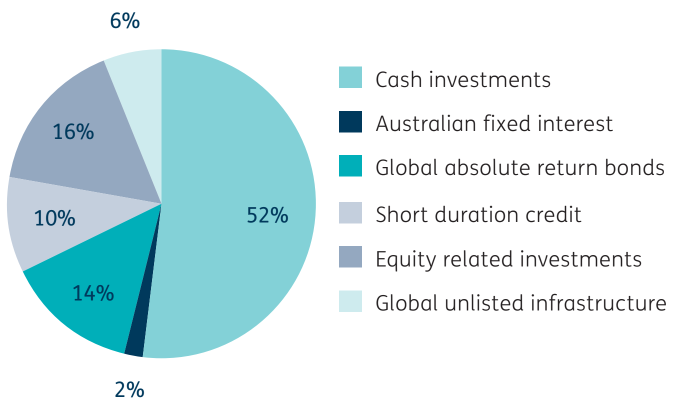
Portfolio composition:

	Benchmark	Allowable range	2021	2020
Defensive				
Cash investments	65.0%	35%-100%	36.7%	51.5%
Australian fixed interest	2.5%	0.0%-20.0%	2.8%	2.4%
Global absolute returns bonds	2.5%	0.0%-20.0%	18.2%	14.5%
Short duration credit	0%	0.0%-20.0%	16.4%	9.6%
	70.0%	**60.0% - 100.0%**	**74.2%**	**78.1%**
Growth				
Equity related investments	18.0%	0.0%-20.0%	18.4%	16.1%
Global unlisted infrastructure	6.0%	0.0%-12.0%	7.4%	5.8%
Australian direct property	6.0%	0.0% - 12.0%	-	-
	30.0%	**0.0% - 40.0%**	**25.8%**	**21.9%**
	100.0%	**100.0%**	**100.0%**	**100.0%**

30 June 2021



30 June 2020



8 Financial assets at fair value (continued)

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.

Investments accounting policy
HBF Group's financial assets were measured at fair value through profit or loss 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 cash, term deposits with banks, listed equities, units in unlisted unit trusts which invest in financial instruments and equities, and infrastructure investments funds. Cash investments are cash which is invested in Call Accounts or Term Deposits with an HBF-approved Authorised Deposit Taking Institutions (ADI). Fixed interest comprises corporate bonds, global absolute return bonds and short duration credit.

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 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 investments 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 manager's 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 HBF Group retains the right to receive cash flows from the asset and either HBF Group has transferred substantially all the risks and rewards of the asset or HBF Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Key estimates related to the valuation of investments
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 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 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 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.

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Notes to the financial statements
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8 Financial assets at fair value (continued)

Fair value hierarchy
The fair value of HBF Group investments are measured according to the following fair value measurement hierarchy, 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, 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.

The following table presents the HBF Group's financial assets measured and recognised at fair value on a recurring basis:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2021				
Cash investments	546,496	-	-	546,496
Australian Fixed interest	-	42,410	-	42,410
Global absolute return bonds	-	271,452	-	271,452
Short duration credit	-	244,795	-	244,795
Equity related investments	112,472	161,825	-	274,297
Global unlisted infrastructure	-	-	110,347	110,347
	658,968	720,482	110,347	1,489,797
As at 30 June 2020				
Cash investments	892,566	-	-	892,566
Australian Fixed interest	-	42,390	-	42,390
Global absolute return bonds	-	251,021	-	251,021
Short duration credit	-	166,843	-	166,843
Equity related investments	105,905	173,999	-	279,904
Global unlisted infrastructure	-	-	100,248	100,248
	998,471	634,253	100,248	1,732,972

There were no transfers between levels during the 30 June 2021 or 30 June 2020 financial years.

Level 2 fair value
The level 2 fair value of fixed interest-related investments and equity-related investments are valued at quoted market prices provided by fund managers at the reporting date.

Reconciliation of Level 3 fair value

	2021 $'000	2020 $'000
Opening balance	100,248	48,070
Purchases	-	49,348
Fair value gains recognised in profit and loss	10,099	2,830
Closing balance	110,347	100,248

8 Financial assets at fair value (continued)

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
JP Morgan Infrastructure Investments Fund	54,247	Income Approach	Discount rate	8.6%-18.5%
IFM International Infrastructure Wholesale Fund II	56,100	Discounted Cash Flow	Discount rate	7.9%-13.12%
	110,347			

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

A 10% increase/ decrease in the fair value of Global unlisted infrastructure would result in a $11.0 million decrease/ increase to profit (2020: $10.0 million).

9 Risk management

HBF Health Limited has a comprehensive enterprise-wide risk management framework and processes that are consistent with the ISO 31000; risk management.

(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 Group Audit Committee, the Group Risk Committee, the Group People, Culture and Remuneration Committee, the Group Transformation Committee, the Group Product and Pricing Committee, the Group Clinical Governance Committee, and the Group Conduct and Risk Committee.

The Audit Committee oversees the compliance of financial reporting practices, accounting practices and audit and assurance. The Risk Committee oversees the implementation of the risk management framework of the HBF Group. The role of the People, Culture and Remuneration Committee is to assist the HBF Board in overseeing people, culture and remuneration policies and practices across the Group. The primary objective of the Transformation Committee is to assist the Group Board in fulfilling its responsibilities relating to governance of the HBF Business Transformation program, including providing oversight of the adequacy and effectiveness of the Business Transformation program and the key initiatives within it.

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.

9 Risk management (continued)

(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 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 regular basis.

HBF Health Limited has a Capital Management Policy (which includes a Capital Management Policy 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 Standard 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 objects and risk appetite of the Board, and the explicit link between capital, pricing, investments and liquidity.

(c) Insurance contracts risk

HBF provides private health insurance products including hospital cover and extras cover, as stand-alone products or packaged products that combine the two.

Insurance risks and the holding of capital in excess of prudential requirements are managed through the use of claims management procedures, close monitoring of experience, the ability to vary premium rates, and risk equalisation.

(i) Claims management and claims provisioning risks
Strict claims management ensures the timely and correct payment of claims in accordance with the policy conditions and provider contracts. HBF Group's approach to determining the outstanding claims provision is set out in Note 4. The Chief Actuary assesses the HBF Group's outstanding claims provision reported at reporting date.

(ii) Experience monitoring
Monthly financial and operational results, including portfolio profitability and prudential capital requirements, are reported to management committees and the Board. Results are also monitored against industry for insurance risks and experience trends as published by the regulator, APRA.

(iii) Prudential capital requirements
All private health insurers must comply with prudential capital requirements to provide a buffer against certain levels of adverse experience. The HBF Board has a target level of capital which exceeds the regulatory requirement.

(iv) Ability to vary premium rates
Actuarial-based methods and models use historical data to calculate premiums and monitor claims patterns. HBFrequires regulatory approval prior to implementing annual rate increases.

(v) Risk equalisation
Private health insurance legislation requires resident private health insurance contracts to meet community rating requirements. This prohibits discrimination between people on the basis of their health status, gender, race, sexual orientation, religious belief, age (except as allowed under Lifetime Health Cover provisions), increased need for treatment or claims history. To support these restrictions, all private health insurers must participate in the RESA.

(vi) Concentration of insurance risk
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 RESA.

9 Risk management (continued)

(d) Financial risk management
The key objectives of the HBF Group's capital management strategy are 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 that 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 an 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. 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 Management Plans, a minimum level of cash at bank is held and 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 claims provisions. Trade payables and accruals mature within three months of the balance date. Outstanding claims mature within one year of the balance sheet date.

(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 market concentration risk. Independent consultants annually measure fund manager performance and periodically review the investment asset allocation.

(iii) Currency risk
Investments in foreign currency denominated assets, such as international equities and global unlisted infrastructure, carry the potential for currency movements (relative to the Australian dollar) to impact returns and volatility, both positively and negatively. Exposure to foreign currencies is to be managed at both an asset class and fund manager allocation level through the percentage of exposure which is hedged back to Australian dollars and unhedged (subject to movements in foreign currency relative to the Australian dollar).

It is expected that decisions regarding the preferred long-term currency exposure for an asset class will consider the purpose of the investment, the characteristics of the asset class, the long-term relationship between asset class returns and currency movements as well as any potential benefits or risks.

	Movement in variable	Exposure $'000	Profit $'000
30 June 2021			
Unhedged			
International equities	+10%	41,883	4,188
	-10%	41,883	(4,188)
30 June 2020			
Unhedged			
International equities	+10%	63,362	6,336
	-10%	63,362	(6,336)

9 Risk management (continued)
(d) Financial risk management (continued)

(iv) Price risk
HBF Group is exposed to price risk on fixed interest-related investments, equity-related investments and global unlisted infrastructure. This arises from investments held on the statement of financial position and classified at fair value through profit or loss. The Board approves limits on the proportion of the investment portfolio held in fixed interest, international equities, domestic equities and infrastructure thereby limiting exposure to price risk.

The analysis below demonstrates the impact on the profit of a movement in market prices with all other variables (including interest rates and currency risk) held constant.

	Movement in variable	Exposure $'000	Profit $'000
30 June 2021			
Cash investments	+10%	546,496	54,650
	-10%	546,496	(54,650)
Australian Fixed interest	+10%	42,410	4,241
	-10%	42,410	(4,241)
Global absolute return bonds	+10%	271,452	27,145
	-10%	271,452	(27,145)
Short duration credit	+10%	244,795	24,480
	-10%	244,795	(24,480)
Equity related investments	+10%	274,297	27,430
	-10%	274,297	(27,430)
Global unlisted infrastructure	+10%	110,347	11,035
	-10%	110,347	(11,035)
30 June 2020			
Cash investments	+10%	892,566	89,257
	-10%	892,566	(89,257)
Australian Fixed interest	+10%	42,390	4,239
	-10%	42,390	(4,239)
Global absolute return bonds	+10%	251,021	25,102
	-10%	251,021	(25,102)
Short duration credit	+10%	166,843	16,684
	-10%	166,843	(16,684)
Equity related investments	+10%	279,904	27,990
	-10%	279,904	(27,990)
Global unlisted infrastructure	+10%	100,248	10,025
	-10%	100,248	(10,025)

(v) Credit risk
Credit risk is the risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of the financial asset. The nature of HBF Group's insurance business does not expose it to credit risk concentrations from its products and services. HBF Group considers credit exposure when entering significant counterparty contracts with suppliers and intermediaries.

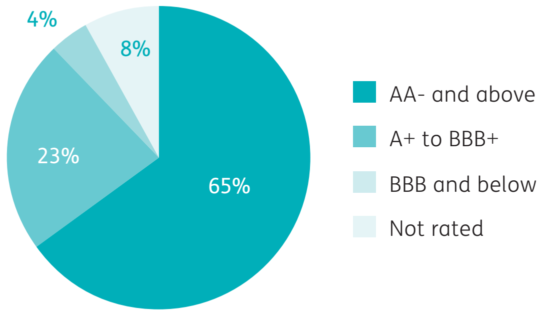
9 Risk management (continued)
(d) Financial risk management (continued)
(v) Credit risk (continued)

To limit investment portfolio exposure to credit risk for direct investment in cash, a minimum long-term credit rating from Standard and Poor's BBB+ is required prior to investment. To control the overall credit quality of direct investments in cash, HBF Group applies a credit framework limit of 100% (AA- and above), 40% (A+ to BBB+) and 0% (BBB and below). If the credit rating of an ADI is downgraded and no longer meets the minimum long-term requirement, no further investments will be made, however existing investments will be held until maturity.

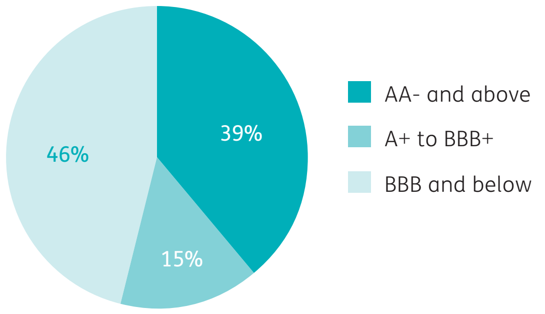
The table below provides information regarding the credit risk exposure according to the entity's categorisation of counterparties by Standard and Poor's credit rating.

	Notes	AA- and above $'000	A+ to BBB+ $'000	BBB and below $'000	Not rated $'000	Total $'000
As at 30 June 2021						
Cash and cash equivalents	20(b)	276,820	-	-	-	276,820
Financial assets at fair value	8	869,027	421,996	78,302	120,472	1,489,797
Government rebate receivable	11	34,762	-	-	-	34,762
Risk equalisation receivable on paid claims	11	29,213	-	-	-	29,213
Premium receivable	11	-	-	-	2,912	2,912
Sundry debtors and prepayments	11	2,133	-	-	19,627	21,760
Commission income accrued	11	-	-	-	800	800
Investment interest receivable	11	32	226	43	-	302
		1,211,987	422,222	78,345	143,810	1,856,366
As at 30 June 2020						
Cash and cash equivalents	20(b)	62,334	-	-	-	62,334
Financial assets at fair value	8	619,788	272,778	-	840,406	1,732,972
Government rebate receivable	11	33,406	-	-	-	33,406
Risk equalisation receivable on paid claims	11	22,627	-	-	-	22,627
Premium receivable	11	-	-	-	3,523	3,523
Sundry debtors and prepayments	11	1,409	-	-	11,737	13,146
Commission income accrued	11	-	-	-	726	726
Investment interest receivable	11	1,597	1,522	-	-	3,119
		741,161	274,300	-	856,392	1,871,854

30 June 2021



30 June 2020



10 Reserves and retained earnings

	2021 $'000	Restated* 2020 $'000
Attributable to HBF Health Limited		
General reserve	111,513	111,513
Retained earnings	1,363,086	1,345,396
Asset revaluation reserve	15,450	15,644
	1,490,049	1,472,553

*See Note 2(d) for details regarding the restatement of comparative financial information.

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 14.

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 2021 and 30 June 2020.

Section 4: Other assets and liabilities

11 Receivables

	2021 $'000	2020 $'000
Government rebate receivable	34,762	33,406
Risk equalisation receivable on paid claims	29,213	22,627
Premium receivable	2,912	3,523
Sundry debtors and prepayments	21,760	13,170
Commission income accrued	800	726
Investment interest receivable	302	3,119
Total gross receivables	89,749	76,571
Allowance for impairment loss	-	(24)
Net receivables	89,749	76,547
Current	89,749	76,547
Non-current	-	-
	89,749	76,547

The carrying value of Receivables approximates fair value.

11 Receivables (continued)

The following table provides information regarding the carrying amount of the HBF Group's financial assets ageing:

	Neither past due nor impaired $'000	Past due but not impaired 0 to 3 months $'000	3 to 12 months $'000	Past due and impaired $'000	Total $'000
As at 30 June 2021					
Government rebate receivable	34,762	-	-	-	34,762
Risk equalisation receivable on paid claims	29,213	-	-	-	29,213
Premium receivable	-	2,912	-	-	2,912
Sundry debtors and prepayments (gross)	21,760	-	-	-	21,760
Commission income accrued	800	-	-	-	800
Investment interest receivable	302	-	-	-	302
	86,837	2,912	-	-	89,749
As at 30 June 2020					
Government rebate receivable	33,406	-	-	-	33,406
Risk equalisation receivable on paid claims	22,627	-	-	-	22,627
Premium receivable	-	3,523	-	-	3,523
Sundry debtors and prepayments (gross)	13,146	-	-	24	13,170
Commission income accrued	726	-	-	-	726
Investment interest receivable	3,119	-	-	-	3,119
	73,024	3,523	-	24	76,571

Government rebate receivable accounting policy
Government Rebate receivable represents the rebate component of members' insurance cover owed and expected to be received from Services Australia. Contributions (rebates) from Services Australia are recognised as income in the period to which they relate.

Risk equalisation receivable accounting policy
Risk equalisation relates to amounts recoverable from the RESA which is administered by the 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.

Premium receivable accounting policy
Premiums receivable represent monies owed and expected to be received for insurance policies during the financial year. Premiums 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.

Commission income accrued accounting policy
Commission income accrued relates to revenue earned on HBF's distribution of general insurance products on its capacity as a broker. Remaining commission income has been accrued as at 30 June 2021 and settled in the following month.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2021

12 Assets held for sale

	2021 $'000	2020 $'000
Land	1,525	13,100
Buildings	2,234	85,701
	3,759	98,801

(a) Land and buildings
As at 30 June 2020, HBF Group was engaged in negotiations for the sale and leaseback of its head office building located at 570 Wellington Street, Perth WA 6000. Fair value of $98.8 million was determined with reference to the proposed sale and leaseback agreement. Given that the sale of the building is unlikely to be completed and settled within the next 12 months, HBF Group has reclassified the land and buildings from an Asset Held for Sale to Property, Plant and Equipment as at 30 June 2021.

During the year HBF Group has made a decision to sell branch buildings located in Bunbury and Kalgoorlie. The Kalgoorlie property will be sold outright, and the Bunbury property will be executed as a sale and leaseback arrangement. The sales are expected to be completed within the next financial year and therefore these assets are classified as held for sale as at 30 June 2021. Fair value of $3.8 million has been determined with reference to the proposed sale and leaseback agreement where applicable.

Assets held for sale 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.

13 Intangible assets

	Transformation program $'000	Computer software $'000	Work in progress $'000	Total $'000
30 June 2021				
Cost				
Opening balance	4,296	22,000	28,143	54,439
Additions	-	-	36,400	36,400
Transfers from work in progress	2,413	2,027	(4,440)	-
Closing balance	6,709	24,027	60,104	90,839
Amortisation				
Opening balance	356	20,617	-	20,973
Amortisation	1,765	943	-	2,708
Closing balance	2,121	21,560	-	23,681
Net book value at end of the year	**4,588**	**2,467**	**60,104**	**67,158**
30 June 2020				
Cost				
Opening balance	-	21,299	-	21,299
Additions (Restated*)	-	-	33,140	33,140
Transfers from work in progress	4,296	701	(4,997)	-
Closing balance	4,296	22,000	28,143	54,439
Amortisation				
Opening balance	-	17,919	-	17,919
Amortisation	356	2,698	-	3,054
Closing balance	356	20,617	-	20,973
Net book value at end of the year	**3,940**	**1,383**	**28,143**	**33,466**

* See Note 2(d) for details regarding the restatement of comparative financial information.

Intangible assets with a cost of $20.0 million (2020: $17.1 million) have been fully amortised and are still in use.

Transformation program assets relate to HBF's mobile app, the initial release was brought into use in the year ended 30 June 2020 with additional features brought into use in the year ended 30 June 2021.

Work in progress largely relates to HBF's ongoing transformation program.

13 Intangible assets (continued)

Intangible assets accounting policy
HBF is undertaking a business transformation program which includes the transformation of HBF's business in Western Australia, HBF's continued growth in East Coast markets, and the building and replacement of a major part of HBF's IT systems environment to support the business changes and provide the best digital experience for members, providers and employees. HBF has engaged leading software vendors and implementation partners, combined with internal subject matter experts, to deliver the program.

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Costs that do not generate future benefits or relate to software that is not controlled by the HBF Group, are classified as operating expenses (mostly under professional services fees). Costs capitalised include external direct costs of materials and services and direct payroll and payroll-related costs of employees' time spent directly on the transformation program. As disclosed in Note 2(d) HBF changed the accounting policy on Software as a Service (SaaS) platforms during 2021 and as a result, balances recognised in Work in Progress in the prior reporting period totaling $7.8 million have been reclassified to operating expenses, mostly under professional services fees. The opening balance for 2021 reflects this change in accounting policy.

Assets generated from the transformation program are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the expected useful life of the program assets, which ranges from 3 to 10 years. Amortisation is recognised in other operating and administration expenses in the statement of comprehensive income.

Impairment of intangible assets accounting policy
The HBF Group assesses whenever events or changes in circumstances indicate that the carrying value of the transformation program and related work in progress assets may not be recoverable. Management assesses the development of the project and considers whether there continues to be significant future economic benefits as a result of the project. An impairment loss, which is recorded in the statement of comprehensive income, is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Accounting judgements and estimates
Note 2(d) describes HBF Group's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements. In the process of applying the Group/Company's accounting policy, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements.

Determining whether cloud computing arrangements contain a software licence intangible asset
HBF Group evaluates cloud computing arrangements to determine if it provides a resource that HBF Group can control. HBF Group determines that a software licence intangible asset exists in a cloud computing arrangement when both of the following are met at the inception of the arrangement:
- HBF Group has the contractual right to take possession of the software during the hosting period without significant penalty.
- It is feasible for HBF Group to run the software on its own hardware or contract with another party unrelated to the supplier to host the software.

Capitalisation of configuration and customisation costs in SaaS arrangements
Where HBF Group incurs costs to configure or customise SaaS arrangements and such costs are considered to enhance current on-premise software or provide code that can be used by HBF Group in other arrangements, HBF Group applies judgement to assess whether such costs result in the creation of an intangible asset that meets the definition and recognition criteria in AASB 138 Intangible Assets.

Determination whether configuration and customisation costs provide a distinct service to access to the SaaS
HBF Group applies judgement in determining whether costs incurred provide a distinct service, aside from access to the SaaS. Where it is determined that no distinct service is identifiable, the related costs are recognised as expenses over the duration of the service contract. HBF has identified a distinct service and so costs are recognised as an expense as incurred.

14 Property, plant and equipment

	Land $'000	Buildings $'000	Right-of-use assets $'000	Plant and equipment $'000	Branch renovations $'000	Work in progress $'000	Total $'000
30 June 2021							
Cost or valuation							
Opening balance	2,125	2,664	1,055	10,559	20,758	2,117	39,278
Additions	-	-	9,550	-	-	7,531	17,081
Revaluations	-	(194)	-	-	-	-	(194)
Transfer out of work in progress	-	-	-	1,792	4,291	(6,083)	-
Transfer from assets held for sale	13,100	85,701	-	-	-	-	98,801
Transfer to assets held for sale	(1,525)	(2,234)	-	-	-	-	(3,759)
Disposals	(600)	(236)	(732)	(977)	(646)	-	(3,191)
Closing balance	13,100	85,701	9,873	11,374	24,403	3,565	148,016
Depreciation							
Opening balance	-	-	625	6,825	6,532	-	13,982
Depreciation expense	-	4	1,871	1,403	2,283	-	5,561
Depreciation on disposals	-	(4)	(732)	(970)	(646)	-	(2,352)
Closing balance	-	-	1,764	7,258	8,169	-	17,191
Net book value at end of year	**13,100**	**85,701**	**8,109**	**4,116**	**16,234**	**3,565**	**130,825**
30 June 2020							
Cost or valuation							
Opening balance	2,125	2,600	-	8,578	20,479	1,284	35,066
Additions	-	-	1,055	-	-	3,093	4,148
Revaluations	-	64	-	-	-	-	64
Transfer out of work in progress	-	-	-	1,981	279	(2,260)	-
Closing balance	2,125	2,664	1,055	10,559	20,758	2,117	39,278
Depreciation							
Opening balance	-	-	-	4,803	4,116	-	8,919
Depreciation expense	-	-	625	2,022	2,416	-	5,063
Closing balance	-	-	625	6,825	6,532	-	13,982
Net book value at end of year	**2,125**	**2,664**	**430**	**3,734**	**14,226**	**2,117**	**25,296**

Property, plant and equipment with a cost of $5.2 million (2020: $4.7 million) have been fully depreciated and are still in use.

Property, plant and equipment 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.

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.

14 Property, plant and equipment (continued)

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 is included in the statement of comprehensive income in the year the item is derecognised.

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.

Land and buildings held as at 30 June 2021 relate to HBF's Head Office located at 570 Wellington Street in Perth. This asset was classified as an "Asset Held for Sale" in the prior period but given that the sale of the building is unlikely to be completed and settled within the next 12 months, the HBF Group has reclassified the land and buildings to Property, Plant and Equipment as at 30 June 2021.

The fair value of land and buildings at 30 June 2021 has been determined by the Directors. The Directors have considered whether the building's reclassification or market conditions caused by COVID-19 would trigger a specific need to undertake a valuation of the property. Given that the land and building have been occupied by HBF Head Office staff since 2016 and occupation will continue for the foreseeable future, it is considered that neither the reclassification nor the current market conditions are likely to generate a significant reduction in the value of the land and buildings. Therefore, the Directors assessed the fair value as consistent with the prior year being the proposed sale price of the building which was determined by valuation in 2019.

Leases accounting policy

Group as a lessee

HBF Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease and are measured at cost, less any accumulated depreciation. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

Buildings:	2 to 5 years
Plant and equipment:	3 years

(ii) Lease liabilities

At the commencement date of the lease, HBF Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the incremental borrowing rate at the lease commencement date is used because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accreditation of interest and reduced for the lease payments made.

(iii) Short-term leases and leases of low-value assets

The short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value recognition exemption are applied. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

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. Any impairment loss is recorded in the statement of comprehensive income.

14 Property, plant and equipment (continued)

Reconciliation of Level 3 fair value

	2021 $'000	2020 $'000
Opening balance	4,794	4,794
Depreciation for the year	-	(64)
Level 3 revaluation (loss) / profit on revaluation at year end	(194)	64
Transfer from assets held for sale	98,801	-
Transfer to assets held for sale	(3,759)	-
Closing balance	99,642	4,794

The revaluation of land and buildings resulted in a decrease of the revaluation reserve to $15.5 million as at 30 June 2021 (2020: $15.6 million).

Land and buildings with a fair value of $98.8 million was transferred from Assets held for sale during the year. Refer to Note 12.

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

	2021 $'000	2020 $'000
Cost	105,168	2,672
Accumulated depreciation and impairment	(12,420)	(377)
Net carrying amount	92,748	2,295

15 Trade and other payables

	2021 $'000	2020 $'000
Trade creditors and accrued expenses	31,538	15,495
Employee-related payables	12,210	7,756
Lease liabilities	8,779	444
Other payables	9,181	6,514
Payment to members for surplus COVID-19 deferred claims	41,900	-
Cost of processing payments to members	638	-
	104,246	30,209

The carrying value of Trade and Other Payables approximates fair value. The value of trade payables includes a portion payable to members for deferred claims that did not eventuate, refer to Note 4(b)(iii) for additional information. Lease liabilities have increased by $8.3 million in the current reporting period.

Trade and other payables 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.

HBF Health Limited
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16 Employee benefits

	2021 $'000	2020 $'000
(a) Employee benefits liability		
The aggregate employee benefit liability is comprised of:		
Accrued annual leave	6,804	5,816
Accrued long service leave	8,257	8,016
	15,061	13,832
Current	12,521	11,562
Non-current	2,540	2,270
	15,061	13,832

	2021 $'000	Restated* 2020 $'000
(b) Employee benefits expense		
Included in HBF's employee benefits expense are the following:		
Employee costs (excluding superannuation plan expenses)	113,904	100,225
Defined contribution superannuation plan expenses	9,028	7,502
	122,932	107,727

*See Note 2(d) for details regarding the restatement of comparative financial information.

Employee benefits 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 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.

Section 5: Other

17 Auditors' remuneration

	2021 $	2020 $
Amounts received or due and receivable by Ernst & Young for:		
Audit of the financial reports	347,217	320,928
Other assurance services for regulatory reporting	115,104	121,347
Audit & assurance services	462,321	442,275
Consulting advice	17,270	159,285
Taxation advice	20,575	8,755
Due diligence	363,000	-
Other services	400,845	168,040
Total auditors' remuneration	863,166	610,315

Non-audit services accounted for 46.4% of total auditor's remuneration (2020: 27.5%). 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.

18 Taxation

	2021 $'000	2020 $'000
(a) Reconciliation of tax expense to prima facie tax on accounting profit		
Total profit before income tax	17,690	38,813
Tax at the Australian tax rate of 30% (2020: 30%)	5,307	11,644
Tax effect of tax exempt entity	(5,307)	(11,644)
Aggregate income tax expense	-	-

(b) There are no deferred tax assets and liabilities as at 30 June 2021 (2020: $nil).

Taxation 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.

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.

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2021

19 Commitments

	2021 $'000	2020 $'000
Capital expenditure commitments		
Within one year	10,523	21,300
After one year but not more than five years	4,055	11,012
	14,578	32,312

As at 30 June 2021, HBF had $14.6 million (2020: $31.9 million) in contractual commitments for the software and transformation development of its new IT platform. These commitments are not recognised as liabilities as the assets or services have not yet been received.

20 Cash flow statement

(a) Financing facilities available

HBF Group has the following facilities with the Commonwealth Bank:

a) An overdraft facility of $30.0 million on the operational cheque account. By negotiation, the overdraft must not exceed the balance of other funds held with the Commonwealth Bank. The HBF Group had a debit balance of $11.9 million at 30 June 2021 (2020: $11.8 million).

b) An overdraft facility of $30.0 million with a cash deposit account set off of $30.0 million. The balance of this facility that was utilised at 30 June 2021 was $nil (2020: $nil).

	2021 $'000	2020 $'000
(b) Reconciliation of cash		
Cash and cash equivalents comprises:		
Cash and bank balances	243,820	61,834
Short-term deposits	33,000	500
	276,820	62,334

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

	Notes	2021 $'000	2020 $'000
Cash and bank balances		243,820	61,834
Short-term deposits		33,000	500
		276,820	62,334

20 Cash flow statement (continued)

	2021 $'000	Restated* 2020 $'000
(c) Reconciliation of operating profit after tax to the net cash flows from operations		
Operating profit	17,690	30,988
Depreciation and amortisation	8,269	8,117
(Loss) on disposal of assets	(573)	(596)
Change in value of investments	(55,463)	1,442
Changes in assets and liabilities		
Government rebate receivable	(1,356)	870
Risk equalisation receivable	(6,586)	7,253
Premium receivable	611	1,204
Provision for bad debts	(24)	(2)
Commission income accrued	(74)	430
Sundry debtors and prepayments	(8,590)	627
Investment interest receivable	2,817	5,363
Deferred acquisition costs	(17,176)	6,139
Trade creditors and accruals	74,876	(8,807)
Unearned premiums	5,245	(7,166)
Outstanding claims	2,038	(8,029)
Deferred claims	(54,177)	94,296
Employee benefits	1,229	1,199
Net cash flows (used in)/from operating activities	(31,244)	133,328

* See Note 2(d) for details regarding the restatement of comparative financial information.

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
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Year ended 30 June 2021

21 Related party disclosures

(a) 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 G McGrath
Dr R Moore
Mr B Stewart
Ms D Smith-Gander AO

Executives and senior management;
Mr S Walsh
Ms S Torrance (previously Duncalf)
Mr A Simpson
Mr A Stock
Ms D Carrington
Ms A Stanley
Dr D Heredia (commenced 25 January 2021)

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

(b) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the HBF Group during the 2021 financial year. All transactions were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors or executives during the current or prior financial years.

(c) Key management personnel remuneration

	2021 $	2020 $
Directors		
Short-term benefits	3,170,050	2,845,866
Superannuation	123,485	118,615
	3,293,535	2,964,481
Other key management personnel		
Short-term employee benefits	3,192,561	3,154,919
Superannuation	146,047	131,969
Long-term employee benefits	-	31,762
Termination benefits	-	339,962
	3,338,608	3,658,612
Total	6,632,143	6,623,093

22 Information relating to HBF Health Limited (the Parent)

	2021 $'000	Restated* 2020 $'000
Current assets	1,841,888	1,856,560
Non-current assets	244,374	168,107
Total assets	2,086,262	2,024,667
Current liabilities	552,781	510,188
Non-current liabilities	50,813	51,446
Total liabilities	603,594	561,634
Net assets	**1,482,668**	**1,463,033**
General reserve	111,513	111,513
Retained earnings	1,361,756	1,341,927
Asset revaluation reserve	9,399	9,593
Total equity	**1,482,668**	**1,463,033**

	2021 $'000	2020 $'000
Profit of the Parent entity	19,830	28,690
Revaluation of land and buildings	(194)	64
Total comprehensive income of the Parent entity	**19,636**	**28,754**

*See Note 2(d) for details regarding the restatement of comparative financial information.

The Parent entity has a contingent liability and contingent asset as disclosed in Note 19.

The Parent entity has contractual obligations to purchase plant, equipment and software for $14.6 million at balance sheet date (2020: $31.9 million).

HBF Health Limited
Notes to the financial statements
Year ended 30 June 2021

23 Business combinations

Acquisition of CUA Health Limited

On 13 May 2021, HBF Group and Credit Union Australia Limited signed a binding agreement under which HBF Group will acquire 100% of the shares in CUA Health Limited. The completion date of this transaction is expected to be in the first quarter of FY22, pending conditions being met.

CUA Health Limited is the owner of the private health insurance business known as CUA Health. The acquisition will enhance HBF Group's ability to become national by further strengthening its foothold outside of Western Australia whilst keeping Credit Union Australia Limited (trading as Great Southern Bank) as a distribution partner for its policies.

CUA Health is based in Brisbane and currently serves approximately 79,000 customers with 40,000 policies predominantly on the east coast of Australia.

The final purchase price will be determined by the final net asset position of CUA Health.

As the acquisition date did not occur prior to 30 June 2021, there is no impact to the HBF financial statements for the current financial reporting period. The Group incurred costs for due diligence and other legal fees amounting to $3.3 million and these are recognised in professional services fees for the year ended 30 June 2021.

Further details of the transaction cannot be accurately finalised and disclosed at this stage.

24 Significant events after reporting date

Subsequent to financial year end, HBF commenced distribution of the unutilised portion of the Deferred Claims Liability (DCL) provision which was reserved for the period of time when HBF members were unable to access medical services during the COVID-19 pandemic shutdowns. The DCL was accounted for in the previous financial year, and the unused portion was determined by HBF's Appointed Actuary in conjunction with HBF's Chief Financial Officer using regulatory guidelines. Refer to Note 4(b)(iii).

There have been no other significant events since the reporting date.

25 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 2020. The adoption of these new standards and amendments has had no material impact on the HBF Group's financial statements:

Conceptual Framework AASB 2019-1 Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework	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.

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25 New accounting standards and interpretations (continued)
(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 which is already effective, have not been adopted for the annual reporting period ended 30 June 2021. The nature of each new standard and amendment is described below:

AASB 9, and relevant amending standards Financial Instruments (application date of 1 July 2023)	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 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. 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. Note 9 provides information regarding the credit risk exposure of the HBF Group's financial assets according to the entity's categorisation of counterparties by Standard and Poor's credit rating. As at 30 June 2020 and 30 June 2021 all financial assets were considered to have a low credit risk with no significant credit risk concentration. The fair value of financial assets (refer Note 8) would not be materially impacted by the recognition of expected credit losses if AASB 9 were applied.

25 New accounting standards and interpretations (continued)
(b) Accounting standards and interpretations issued but not yet effective (continued)

AASB 17 Insurance Contracts (application date of 1 July 2023)

AASB 17 replaces AASB 4, 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 reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

In contrast to the requirements in AASB 4, which are largely based on grandfathering previous local accounting policies, AASB 17 provides a comprehensive accounting model for insurance contracts. The core of AASB 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- The concept of a Contractual Service Margin (CSM), representing the unearned profit on the insurance contracts to be recognised in profit or loss over the service 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 service period
- The effect of changes in discount rates are reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components), are not presented in the income statement, but are recognised directly on the balance sheet

Entities are required to adopt AASB 17 using the full retrospective approach, however, if this is impracticable for a group of insurance contracts, either the modified retrospective approach or fair value approach may be used.

Earlier application is permitted, provided that the entity also applies AASB 9 on or before the date it first applies AASB 17.

The HBF Group has not yet completed its full assessment on the impact of AASB 17 adoption on its financial statements.

25 New accounting standards and interpretations (continued)
(b) Accounting standards and interpretations issued but not yet effective (continued)

AASB 2020-5 Amendments to Australian Accounting Standards– Insurance Contracts (application date of 1 July 2021).

To aid implementation of the new insurance standard, the following key amendments were introduced:

- Deferring the effective date of AASB 17 for insurers by two years to annual periods beginning on or after 1 January 2023
- AASB 4 was likewise amended to extend the expiry date of the temporary exemption from applying AASB 9 to annual periods beginning on or after 1 January 2023. This extension allows for continuing use of AASB 139 alongside AASB 4, AASB 1023 and AASB 1038 until AASB 17 becomes effective
- Excluding from the scope of AASB 17 certain credit card contracts that provide insurance coverage for purchases made using the credit card
- Providing an election to apply either AASB 17 or AASB 9 to contracts such as loans that include an agreement by the lender to compensate the borrower - by waiving some or all the payments due from the borrower - if a specified uncertain event occurs (for example, if the borrower dies)
- Requiring insurance acquisition cash flows (such as commissions paid to brokers) to be allocated to related expected contract renewals, recognising those cash flows as an asset until contract renewal takes place
- Requiring the expected profit on insurance contracts to be recognised in a pattern acknowledging both insurance coverage and any included investment-return or investment-related services
- Allowing the use of the risk mitigation accounting option when reinsurance contracts or non-derivative financial instruments measured at fair value through profit or loss, are used to mitigate the effects of the time value of money and other financial risks
- Reducing a potential accounting mismatch by requiring the holder of a reinsurance contract to recognise a gain on that contract when it recognises a loss on initial recognition of an onerous group of insurance contracts covered by the reinsurance contract, or on the addition of further onerous contracts to that group
- Simplifying the presentation of insurance and reinsurance contract assets and liabilities in the statement of financial position using broader portfolios of insurance contracts rather than narrower groups of insurance contracts
- Introducing additional transition relief mechanisms

AASB 2020-3 Amendments to AASB 3 – Reference to the Conceptual Framework (application date of 1 July 2022).

Updates the references to the Conceptual Framework for Financial Reporting instead of to previous versions of the Framework. Also adds a requirement that, for transactions and other events within the scope of AASB 137 Provisions, Contingent Liabilities and Contingent Assets or Interpretation 21 Levies, an acquirer applies those pronouncements (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination. In addition, an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

AASB 2020-3 Amendment to AASB 9 – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities as part of Annual Improvements 2018–2020 Cycle (application date of 1 July 2022).

Under AASB 9, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, measured by the "10 per cent" test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability.

The amendment to AASB 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by them on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.

These amendments are applied prospectively. Earlier application is permitted.

25 New accounting standards and interpretations (continued)
(b) Accounting standards and interpretations issued but not yet effective (continued)

AASB 2020-3 Amendments to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use (application date of 1 July 2022).	The amendment to Property, Plant and Equipment — Proceeds before Intended Use prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
AASB 2020-3 Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract (application date of 1 July 2022).	The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
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 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (application date of 1 July 2023).	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically: • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management intention or expectation does not affect classification of liabilities. • In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. These amendments are applied retrospectively. Earlier application is permitted.

HBF Health Limited
Notes to the financial statements
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25 New accounting standards and interpretations (continued)
(b) Accounting standards and interpretations issued but not yet effective (continued)

AASB 2021-2 Amendments to Australian Accounting Standards - Definition of Accounting Estimates (application date of 1 July 2023).	An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information. The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively. The new definition provides that ‘Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.’ The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error. • For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy. • In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy. The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate. The amendments are applied prospectively. Earlier application is permitted.

The above standards and interpretations are applicable for financial years beginning on or after 1 July 2021 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.

Directors' Declaration
Year ended 30 June 2021

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 2021 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 issued by the International Accounting Standards Board 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

25 August 2021
Perth

Auditor's Independence Declaration

EY
Building a better working world

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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 2021, 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

T M Dring
Partner
25 August 2021

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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 2021, 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 2021 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 (including Independence Standards)* (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.

Deferred claims liability - basis of accounting

We draw your attention to Note 2 to the financial statements. This note describes the incorporation of the published views of the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on the measurement and recognition of a deferred claims liability in response to the unique circumstances arising from COVID-19 pandemic.

In our view, this matter is fundamental to the users' understanding of the consolidated financial report and the financial position and performance of the Group. Our conclusion is not modified with respect to this matter.

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.

HBF Health Limited
Independent Auditor's Report

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.

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.

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- 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.
- 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

T M Dring
Partner
Melbourne
25 August 2021