

Our promise – The best
personal experience possible
for our members

Concise Annual Report **2011**



hbf

This is Emma.

Emma is a busy mum. And she's an HBF member.

"I really wanted the experience that I'd seen my friends have at Mercy, especially when I found out we were having twins!"

Our Values

How do we make personal health service happen for Western Australians?

We care.

*We are **open and honest.***

*We look for even **better ways.***

*We have **community spirit.***

*HBF will lead the way in improving the health and wellbeing of **everyone in the Western Australian community.***

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This document provides a summary of the performance of the HBF Group, which includes HBF Health Limited, HBF Insurance Pty Ltd and HealthGuard Health Benefits Fund Ltd. These entities are also referred to using the abbreviated titles HBF Health, HBF Insurance and HealthGuard.

The commentary by the Chairman and Managing Director, and the concise financials themselves, relate mainly to the performance of HBF Health Limited, reflecting the relative importance of our main health insurance business within the HBF Group.

Further details relating to subsidiary elements of the HBF Group can be found in the section Corporate Governance.

Front Cover:

Meet Mark and Coralie.

A little tired, but proud parents of their daughter Florence. And they're all HBF members.

"We switched to HBF because they covered our visits to Ngala to help Florence sleep better. It was fantastic having that reassurance; to have that support and advice for as long as we needed it."

Chairman's Report



2010/11 was an excellent year for the HBF Group with a strong financial performance and solid membership growth despite considerable economic uncertainty, fierce competition from rival health funds and the threat of adverse government policy towards the sector.

The HBF Group recorded a \$134.2m net surplus after tax thanks to strong operating results by HBF Health, HBF Insurance and HealthGuard. Despite a year of considerable volatility in the financial markets the Group also recorded a strong return on investments, with gains of \$74.6m for the year. At the end of the year HBF remains exceptionally well capitalised with the Group's investments totalling \$825m.

A factor in HBF's strong financial performance was its success in containing costs. HBF Health's management expense ratio was maintained at 9.4% (the same as the previous year) helping to ensure that the management expense ratio for the Group was kept to 10.7% (compared to 10.6% the previous year).

During the year HBF Health reached a notable milestone with contributions for the first time exceeding one billion dollars (\$1,012m). This was driven by a growth in membership from 862,918 to 890,106 as well as an increase in premiums which was in line with the average for the industry as a whole. HBF Health paid a record \$928m to members during the year.

Our subsidiary health insurance business, HealthGuard, also grew membership, lifting contributions by 7% to \$84.8m, while gross benefits to members totalled \$66.9m. HealthGuard's operating surplus for the year was \$8.1m. This was the first year in which HealthGuard had implemented its three year strategy which places simple, straightforward health insurance and member value at the heart of the HealthGuard brand.

This was the last year in which HBF provided its own general insurance products for Western Australians before becoming a distributor of products provided by CGU. In its final year as part of the HBF Group, HBF Insurance performed well. Earned premiums exceeded \$100m and the entity recorded an operating profit of \$10.2m.

Higher benefits, minimal premium increase

While containing administration costs, HBF Health paid significantly higher benefits to members; a record \$928m, 6% higher than the previous year. The growth in utilisation which has accompanied the ageing population in recent years has continued and health costs continue to rise well in excess of CPI.

Amongst the areas where benefits grew noticeably during the year were the following:

- *Neurosurgery procedures*, where benefits for spinal surgery increased by 27% due to a 15% increase in average benefit and a 10% increase in episodes.
- *Cardiothoracic*, where benefits paid for thoracic surgery more than quadrupled, rising by 313%. This was driven by 127% increase in average benefit and an 82% increase in episodes.
- *General procedures* such as skin surgery, for which benefits increased by 19%; the result of a 10% increase in the average benefit and a 8% increase in episodes.
- *Oesophagoscopy* procedures, which increased by 15% driven by a 1% increase in the average benefit and a 13% increase in episodes.

2011 was the year when the first Baby Boomers reached their 65th birthday, highlighting that the much anticipated 'age wave' and the accompanying growth in demand for hospital services is still in its early stages and that health funds must expect members' utilisation of their health cover to increase still further.

Inevitably this places pressure on the premiums health funds must charge if they are to be able to pay the benefits members need. As a not-for-profit fund and Western Australia's leading health insurer we remain determined to keep our members' premiums at a minimum while still providing access to the highest quality healthcare. In 2011 HBF Health's premium increase was 5.85% compared with an average of 5.57% for all Australian health funds. Viewed over the longer term, HBF's success in keeping premium increases to a minimum is very apparent; HBF's average increase over the past eight years is well below our main competitors over the same period. For HealthGuard members the 2011 premium increase was kept well below the industry average at 4.66%.

The sale of HBF's general insurance business

Since 1988 HBF has offered general insurance products such as home, contents, car and travel insurance. While this 'for profit' business has always been secondary to HBF's primary role as a health insurer it has consistently made a financial return to the HBF Group and provided competitive general insurance products at a discount for HBF Health members.

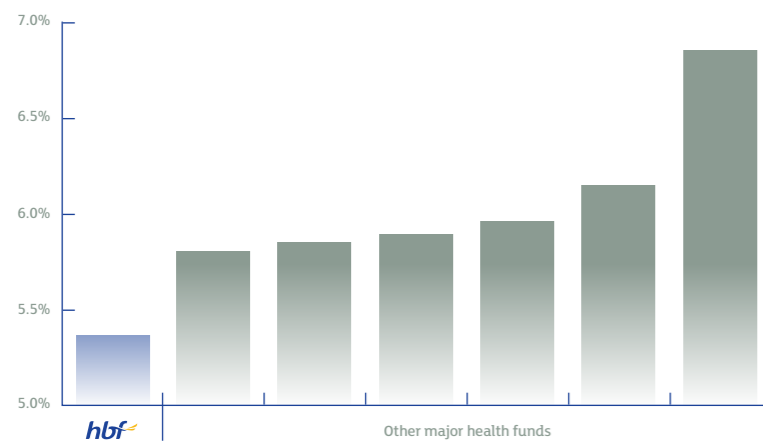
In recent years, however, general insurance in Australia has been increasingly dominated by large



This is David.
He's a businessman but still a big kid at heart. And he's an HBF member.

"I've been with HBF for over 20 years and I can tell you right now, HBF has paid me more than I've ever paid them and they've been there for me every single time."

Average competitor rate increase 2004 – 2011



insurers including global companies and internet-based operators. Without the benefit of significant size and scale, HBF's capacity to compete in this market over the longer term is limited and the HBF Board determined that the interests of the HBF Group and HBF members were best served if HBF becomes a distributor of general insurance products rather than an underwriter.

In June 2011 HBF entered into an agreement to sell its general insurance underwriting business to CGU, a major Australian insurer and a part of one of the country's largest insurance groups, IAG.

Events which occurred during the year brought into sharp focus the inherent unpredictability of the general insurance business and confirmed that the sale of HBF's general insurance business was timely. Natural disasters including Cyclone Yasi in Queensland and serious bush fires in Toodyay and in the hills near Perth have prompted a reassessment of risk by those providing reinsurance to Australian insurers and reinsurance costs have increased sharply.

Under the agreement with CGU, HBF will continue to distribute HBF branded general insurance products underwritten by CGU for the next ten years. This will ensure that while HBF now carries significantly less risk, commissions earned on those sales will ensure an income stream is maintained for HBF. The agreement with CGU also ensures that while HBF is first and foremost a health insurer, our reputation as a trusted local provider of general insurance products will also be safeguarded for the foreseeable future.

The threat from Government

Since 2009 Federal Government policy towards private health insurance has included a policy to means test the 30% rebate which is currently paid to almost all Australians who take out health cover. Despite legislation to effect this change being defeated in the Senate on two occasions this remains government policy and at the time of writing it is expected that this will shortly be reintroduced into Parliament.

The 30% rebate is one of a number of policies which have underpinned

the strong take up of health insurance in recent years so that today over half of all Western Australians have hospital cover and significantly more have cover for general services such as dental and optical. HBF believes that the policy to means test the rebate is short-sighted and threatens to undo much of the good work of recent years in encouraging Australians to take responsibility for their health and relieving pressure on an already stretched public health system.

As detailed in the Managing Director's report, during the past two years HBF has consistently spoken out against this policy and I am proud that of all Australia's health funds, none has been more active in defending members' interests than HBF. Indeed as a not-for-profit fund that seeks always to place the interests of its members first, we believe that it is vital to speak out on behalf of our members against this policy.

An essential partner to the public health system

The threat to the incentives which have encouraged Australians to take up private health cover comes at a time when the Federal Government is struggling to implement long-promised reforms in the public health system. Progress on reducing elective surgery waiting times, improving the operation of emergency departments, introducing Medicare Locals and reaching an agreement with State Governments which 'ends the blame game' has been painfully slow and in many cases seems as distant as ever. Against this backdrop it is disappointing that an efficient private health sector seems to be regarded by this Government with suspicion and its role as a crucial partner to the public system is taken for granted or simply overlooked.

Australians are experiencing economic uncertainty driven by issues over which we have little control. A marked drop in consumer spending, including in Western Australia, confirms that for many the resources boom has brought little tangible benefit and shows that consumer confidence is fragile. As many Australians look to save more and spend less some will be tempted to drop their health cover, ultimately placing greater burden on our public hospitals and compromising their own access to the best quality healthcare.

The best possible experience

During the past two years the competition HBF has faced from eastern states-based health funds has become ever more fierce. In Perth, health insurance is now one of the most heavily advertised products with large funds prepared to invest heavily to establish their brand and win market share in Western Australia. In this intensely competitive environment we are determined to continue to offer our policyholders best value products and services and maintain our status as the first choice in health insurance for Western Australians.

We recognise that in order to compete with funds which have advantages of scale, HBF must be increasingly efficient while continuously improving the quality of service to members. In this context it is pleasing that HBF has succeeded in containing costs and its management expense ratio.

While our competitors have chosen largely to compete on price we believe that HBF's competitive advantage is in offering high value health insurance, so that the experience of

our members is second to none. The HBF Board has reaffirmed HBF's status as a not-for-profit fund (in stark contrast to the eastern states funds now competing for our members) and has endorsed the HBF Promise to provide 'the best personal experience possible for our members'.

So while it is gratifying to report a strong financial performance for the year, the HBF board also pays close attention to other measures which more directly reflect the experience of our members. Despite intense competition HBF's retention of members is amongst the best of any major health fund and above the industry average. Another measure of member satisfaction for health funds is the number of complaints brought to the Private Health Insurance Ombudsman and it is noticeable that there is a consistent difference between funds. Some funds account for considerably more complaints than their share of the health insurance market would predict while other funds generate a significantly lower number of complaints. HBF members account for 7.6% of all Australians with health insurance, but complaints by HBF members to the Ombudsman are just 2.1% of the total.

A wider role

HBF members are our most important stakeholders and ensuring that they can access the best possible healthcare at a fair price will always be our most important role. However, as a long established Western Australian organisation with a proud history of service to this state we believe that we have a responsibility to the wider community also. This year we have again worked hard to encourage all Western Australians to

adopt healthy lifestyles and promote wellbeing beyond our membership. The second *HBF Run for a Reason* was even more successful than the inaugural event in 2010 and has earned it a place in WA's calendar of major community events.

First and foremost, HBF is a fund operated for the benefit of its members. As this report shows, HBF remains financially strong and well-positioned to service the thousands of Western Australians who have placed their trust in us.

I thank my board colleagues for their support through the year and commend Rob Bransby and all HBF employees for their work on behalf of our 890,000 members.

Tony Iannello
Chairman

Managing Director's Report



As the Chairman has reported, this has been a good year for the HBF Group.

It is fair to say that our financial goals for the year covered by this report were set in the expectation of a more settled economic environment than had been experienced in recent preceding years. In the event, the year has seen continued economic uncertainty with West Australians seeking to save a higher proportion of their income and reduce their discretionary expenditure.

In this context HBF's financial results are particularly impressive. The HBF Group's operating profit for the year was \$47m thanks to strong performances by HBF Health, HealthGuard and HBF Insurance. HBF Health recorded an operating surplus of \$23m, against a target of \$19.8m and achieved this while keeping its management expense ratio to 9.4% compared to a target of 9.8%. Our subsidiary health fund, HealthGuard, achieved an operating surplus of \$8.1m against a target of \$5m and in its final year as part of the HBF Group our general insurance business, HBF Insurance, achieved an operating surplus of \$10.2m, well in excess of the target of \$5.8m.

The strong performance of HBF Health, including our success in acquiring new members and improved rates of member retention, confirms that HBF has maintained its position as Western Australia's leading health insurer despite unprecedented competition from other major funds.

Just how fierce the competition within WA's health insurance sector has become can be seen in a simple comparison of the amounts funds are spending today to win new members compared with only a few years ago. In 2009/10 the estimated total advertising spend by health insurers

in Western Australia was \$8.9m. In the 2010/11 year that rose to \$13.2m and the result is that Western Australians are now subjected to a daily barrage of advertising from health insurers.

In this environment it's impossible for HBF to maintain an advertising prominence equal to our share of the WA market. We are consciously resisting the commoditisation of health insurance in Western Australia with its emphasis on price as the overriding driver of sales. Instead, we have concentrated on the core strengths which we believe set HBF apart from our eastern states rivals. In our communications we have concentrated on the quality of our product, the experience we offer members and the value, rather than merely the price, of health insurance.

This focus on quality and on member experience has been more than a communications strategy. A major organisational restructure during the year, which saw the creation of three divisions – Member Relationships, Enabling, and Innovation & Benefits Management – has ensured that our business is clearly focused on delivering a high-quality experience to HBF members.

During the year this was articulated in the form of a new HBF Promise to members, formally adopted by all areas of the business. This promise, to deliver 'the best personal experience possible for members', has meant that member experience is understood to be the highest priority of every HBF employee, in whatever capacity they serve. It's driving numerous changes in processes and systems as well as investments in areas where HBF already has a strong



Meet Isabelle and Archie.

They love their seaside home and picnics on the beach. And they've been HBF members for over 60 years.

"HBF covered me for two hip replacements in one year. I feel as though I'm now alive again. I can do anything." Isabelle



Your health is all that matters.

Managing Director's Report



Young courage on display: The 2011 HBF Bravery Awards

competitive advantage such as our extensive branch network. During the year we opened our nineteenth HBF branch in Belmont, in response to strong local demand and refurbished six others, introducing systems which reduce queuing times and improve the ambience for members.

We have also improved our capacity to deliver a high quality personal experience at the most important time of all for members: when they are in hospital. In the last year we doubled the number of HBF Hospital Liaison Officers on hand to advise and support HBF members while they are in hospital. This service, unmatched by any other health insurer in Western Australia, is perhaps the most tangible demonstration of our commitment to treat HBF members as individuals. When it comes to gauging our

success in delivering the best personal experience possible the only verdict that counts is, of course, that of our members. As the Chairman has reported, during 2010/11 HBF has achieved strong financial results, exceeding our financial targets in every part of our business. Other measures suggest that our focus on member experience is bearing fruit. During 2009/10 we had seen a decline in our member retention rates as other funds actively targeted our members. During 2010/11 this decline was arrested and, according to the March 2011 Private Health Insurance Administration Council report, HBF's member retention is now amongst the highest of any Australian health fund.

As the Chairman has reported, another measure of member satisfaction is also very encouraging; the number of complaints made by HBF members

to the Private Health Insurance Ombudsman remains far lower than our membership would predict.

Product developments

There have been a number of significant product developments during the year, including the launch of HBF Ultimate – a premium hospital and ancillary product which offers the most comprehensive cover available in Western Australia. At the other end of the spectrum, early in the 2011/12 year we launched a new dental only product which we are confident will appeal to many Western Australians who have not previously considered health insurance. This new product, together with planned improvements to physiotherapy, chiropractic and osteopathy benefits will ensure that HBF's ancillary products are noticeably enhanced during the coming year.

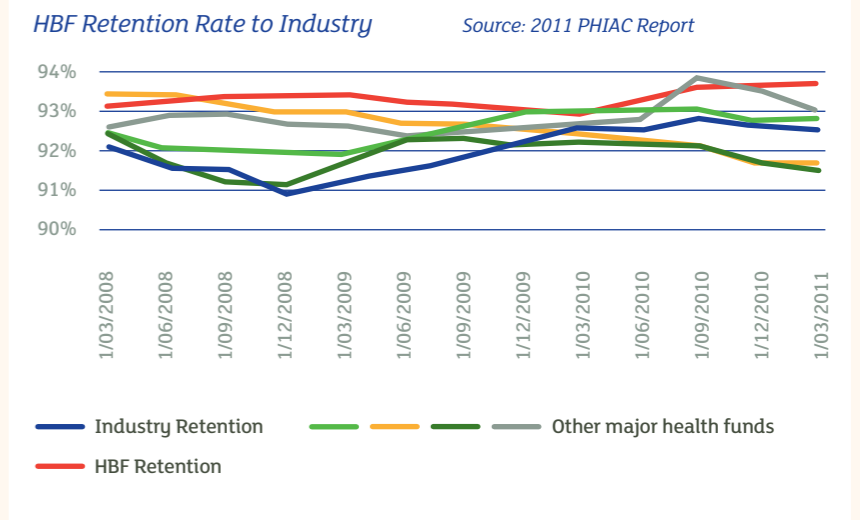
Broader Health

While our primary focus remains to ensure HBF members can access quality healthcare in times of sickness, we have continued to invest in creative broader health initiatives, which help members to better manage their own health.

This includes initiatives such as The COACH Program™ (Coaching patients On Achieving Cardiovascular Health) for HBF members recovering from a recent cardiac event and our Cancer Survivorship program for members recovering from the effects of breast or prostate cancer. During the year we also launched several other new programs including one to address the issue of obesity in the Rockingham – Kwinana region and a chronic disease management program in Albany.

Proudly Western Australian

For seventy years HBF has been the health insurer of choice for Western Australians and we are determined that we will never become simply one of many in WA. During the year we became a major sponsor of the Fremantle Dockers Football Club, a move which signals our determination to 'own the town' as well as our commitment to our home state. This has been one of the most significant sponsorships in our history and one which we believe is absolutely appropriate. Our partnership with the Dockers has provided new opportunities for managing relationships with senior stakeholders and has helped ensure that we maintain a strong local profile. Our sponsorship of the Dockers has in no way distracted us from our main commitment to the wider community of WA. We remain committed to promoting the health and wellbeing of everyone in the WA community,



specifically through activities which address the most prevalent chronic health conditions affecting Western Australians. Our signature event during the year was the second *HBF Run for a Reason*, designed to give all Western Australians the opportunity and motivation to become physically active.

In its second year the *HBF Run for a Reason* attracted almost 14,000 runners and walkers and raised nearly \$370,000 for six local health charities. The event is now well-established in Perth's events calendar and as an investment in the HBF brand it has more than earned its keep. I take enormous pride in the fact that the event is managed by an army of enthusiastic volunteers which is overwhelmingly comprised of HBF employees and family members. We will continue to nurture this event and I have no doubt that the numbers of Western Australians participating will continue to climb.

For several years HBF has also been the main sponsor for another high profile community participation event, the *HBF Freeway Bike Hike for*

Asthma. Again we have taken great pride in supporting an event which raises awareness and funds for a chronic health condition which affects many Western Australians.

The sale of HBF Insurance

One of the most important strategic decisions of the year was the sale of HBF's general insurance underwriting business, HBF Insurance, to CGU. During the last 23 years we have established a solid reputation as a general insurer in Western Australia but this is a category in which HBF's lack of size and scale puts us at a significant disadvantage. The decision to sell our general insurance underwriting business was driven by a recognition that it will be increasingly difficult for HBF to compete as a general insurance underwriter against large national and international insurers. Simply holding our own in such an environment would mean major investments in infrastructure which would be difficult to justify. Meanwhile reinsurance costs for general insurers have risen steeply during the year as a direct result of a series of natural disasters mainly affecting the eastern states.

Managing Director's Report

In selling our general insurance underwriting business we were determined to act in the best interests of our employees as well as our policy holders and health fund members. Under the terms of our agreement with CGU the great majority of HBF's general insurance employees have become CGU employees with significantly enhanced opportunities within the general insurance sector for career development. For the next two years this team will be led by HBF's senior executive, Steve Hollow, who has guided HBF Insurance for most of its recent history. This continuity also ensures that Western Australians can have the same confidence in HBF-branded general insurance products which, under the terms of our agreement with CGU, will continue to be offered at a discount to HBF members.

Government policy and sovereign risk

It is hard to believe that it's now well over two years since the Federal Government announced its intention to apply a means test to the 30% Rebate for private health insurance. During that time HBF, together with other health funds, has consistently spoken out against the proposal on the basis that this is a measure which directly penalises our members, encourages Australians to drop or downgrade their health cover and places pressure on the premiums for those who remain in health insurance.

Since the Government's original announcement, legislation to implement the means test has twice been defeated in the Senate. Following the re-election of the Labor Government, albeit as a minority government dependant on the support of Greens and Independent

Members of Parliament, the Government restated its intention to reintroduce the legislation in the lower house. Since then HBF has argued loudly and publicly on behalf of our members against the measure and 40,000 HBF members have put their name to our Save Your Rebate petition.

As I stated in my 2009/10 report, this issue has been a test of our true priorities. We have no political allegiances but as a not for profit fund which exists for the benefit of our members we believe that we must oppose a measure which is so clearly against our members' interests.

At the time of writing the passage of this legislation is far from assured with independent MPs rightly anxious about the long term impact on health fund membership and the knock-on effects on the public health system. Whether this particular measure passes or not it is clear that health funds can no longer assume (if they ever could) that the benefits of maintaining a strong private health sector as a partner for the public sector are well understood at the highest levels of government.

An engaged team

An engaged workforce, one in which individuals have a clear understanding of their purpose and can be described as 'brand ambassadors', is a vital precondition for any high performance organisation. Since 2008 HBF has measured employee engagement annually, using the internationally recognised Q12 survey developed by Gallup Consulting and has systematically worked to address the issues this survey has highlighted. The 2011 survey recorded an

impressive increase in the level of engagement of our people and over the four years we have used the Q12 survey the transformation has been dramatic. In 2008 HBF had fewer than two truly 'engaged' employees for every one 'actively disengaged' employee. Today the ratio is more than eight to one.

This is not a measure that appears on any balance sheet but I believe this is one of our most telling KPIs – particularly for our people leaders. It also gives me great confidence that we have never been better equipped to meet future challenges.

In closing, I would like to thank HBF councillors, board members and all HBF employees whose collective hard work has resulted in a highly successful year for HBF.



Rob Bransby
Managing Director

Right: Thousands of reasons to run: The 2011 HBF Run for a Reason



Performance at a Glance

HBF Health

Members – **890,106**

Policy growth

up 4.2% to 442,771

Contributions up

up 7.9% to \$1,012.2m

Gross benefits

up 5.9% to \$928.5m

Hospital benefits

up 4.9% to \$685.8m

Essential benefits

up 8.8% to \$242.7m

HealthGuard

Members – **64,742**

Contributions

up 7.3% to \$84.8m

Gross benefits

up 7.5% to \$66.9m

HBF Insurance

Net premium revenue

up 0.2% to \$81.3m

Net incurred claims

up 3.5% to \$48.2m

HBF Health Payments Overview

Major areas of hospital claims

Private Hospitals
\$614,167,781 up 7.9%

Public Hospitals
\$33,951,925 down 5.3%

Licensed Day Surgeries
\$23,382,555 up 24.8%

Medical
\$112,421,877 up 5.7%

Prosthesis
\$93,233,334 up 8.5%

Essentials benefits

Dental
\$140,588,791 up 4.3%

Optical
\$29,382,714 up 7.9%

Physiotherapy
\$16,865,418 up 3.7%

Chiropractic
\$11,360,513 up 2.2%

Podiatry
\$6,305,113 down 0.7%

Pharmacy
\$4,619,344 up 10.3%

Ambulance benefits

Ambulance
\$16,578,555 up 30.5%

Biggest area of growth in hospital benefits

The four groups below made up 52% (\$25m) of the \$48m increase

	Yr on Yr \$ increase 2010/11	Yr on Yr % change 2010/11
General Surgery	\$8,339,454	7.9%

Skin Surgery increased by 19% (\$2.4m) caused by a 10% increase in average benefit and a 8% increase in episodes.

Oesophagoscopy increased by 15% (\$2.0m) caused by a 1% increase in average benefit and a 13% increase in episodes.

Orthopaedic	\$6,919,774	5.8%
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Knee Replacements increased by 8% (\$2.6m) due to a 13% increase in episodes offsetting a 5% decrease in average benefit.

Fractures increased by 22% (\$1.2m) caused by a 15% increase in average benefit and a 6% increase in episodes.

NeuroSurgery	\$5,573,233	22.8%
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Spinal Surgery increased by 27% (\$3.6m) caused by a 15% increase in average benefit and a 10% increase in episodes.

Cardiothoracic	\$4,171,512	6.2%
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Angiograms increased by 25% (\$4.1m) caused by a 10% increase in average benefit and a 15% increase in episodes.

Thoracic Surgery more than quadrupled (increased by 313% (\$830,000)) caused by a 127% increase in average benefit and a 82% increase in episodes.

In July 2011 HBF launched a new product, Dental Saver, which provides low cost cover for dental services only.

Health Insurance

HBF's new dental only product

Cover for the cost of dental treatment is the most important motivator for Western Australians taking out ancillary health insurance. Up to now all HBF's Essentials products have included cover for other services too, such as optical, physiotherapy and chiropractic services.

In July 2011 HBF launched a new product, Dental Saver, which provides low-cost cover for dental services only. The new product is attracting new members to HBF, including many who hadn't previously considered health insurance. Our hope is that it will encourage more Western Australians to visit their dentist regularly and make preventative dental care an affordable priority.

Ultimate peace of mind

A very different product was launched in September 2010: a product which we believe provides the most comprehensive health cover available in Australia. HBF Ultimate provides 100% cover for hospital care, no matter which doctor you see or the hospital you visit, as well as benefits covering 90 – 100% of ancillary services. It's a unique product in the private health insurance market and offers real value for money for people who want total peace of mind.

More HBF participating providers

Using our network of participating dental and optical providers means less out-of-pocket cost for our members and more value from their health insurance. HBF's network of participating dental and optical providers continued to expand during the year with new participating

providers in regional areas improving access to the network for many members in these areas.

Dental prosthetists

In February 2011, HBF introduced new benefits or a wide range of dental services provided by dental prosthetists. Previously HBF members visiting a dental prosthetist were only able to claim a benefit on a limited range of services and now that range is greatly expanded.

Other product changes

In December 2010, HBF removed the restriction on benefits paid for assisted reproductive services on some of our products. Members on our Smart Saver Twin Pack, Healthy Saver Twin Pack and Healthy Saver Hospital products are now eligible for higher benefits for assisted reproductive services, including IVF. With these products recommended to those considering starting a family, this change means that all aspects of maternity are now covered.

Member Relationships

Service update

Our promise to our members is that we will provide "the best personal experience possible". In every contact with members this is our core focus and during the year, there were some notable highlights in our member service offering:

- We continued to extend our Hospital Liaison service during the year, providing more members with personal support from an HBF Hospital Liaison Officer when they are admitted to private hospitals and guiding them through what is often a stressful and complex process. Our Hospital Liaison

Officers are now visiting and contacting even more members in the major private hospitals across the State.

- In response to requests from our members, in November 2010 we opened our nineteenth HBF branch, in the Belmont Forum shopping centre. We also refurbished and upgraded our branches in Geraldton, Carousel Shopping Centre (Cannington), William Street (Perth CBD), Morley, Bunbury and Albany. The upgrades at all these branches have provided members with greater comfort and a more personal and private experience. Further enhancements and upgrades are scheduled for the coming 12 months.
- In addition to the product improvements reported earlier we prepared the way for improvements to the benefits for physiotherapy, chiropractic and osteopathy ancillary services. These improved benefits came into effect early in the 2011/12 year.
- The enhancements that we made to our GapSaver option in April 2010, which allowed members to use their accumulated GapSaver funds to cover out-of-pocket costs for ancillary services as well as their hospital treatments, resulted in an unprecedented take-up by members during the year.
- During 2010/11 we continued to assist members who requested the suspension of their health cover due to changes in their financial position.

We take particular pride in the fact that the 2010 State of the Health Funds Report (published April 2011), an annual independent assessment of the comparative performance of health funds by the Private Health



Recognising our most loyal members: 2011 Pioneer Members' Morning Tea

Insurance Ombudsman, once again reported that our hospital and medical gaps continue to be the lowest of all major health funds in WA.

The same report highlights that the Ombudsman received far fewer complaints from HBF members than our market share would predict and significantly fewer than our major competitors.

Our 'Pioneer Members'

In November we honoured our longest standing members with a special morning tea at the Perth Town Hall, inviting all HBF members who had been with us for 50 years or more. The response was overwhelming and HBF hosted a second event to accommodate this

enthusiastic group of our most loyal members.

Broader Health initiatives

Our Broader Health services are a range of activities that prevent or substitute for a hospital stay. They allow care to be provided in locations that suit the member, with clinical services delivered in safe, out-of-hospital environments. Broader Health also includes preventative services that combine clinical interventions with practical advice and education that help members to better manage their own health.

During the year HBF continued to invest in initiatives that help members suffering with or at high risk of developing a chronic illness.

Year in Review

The COACH Program™ (Coaching patients On Achieving Cardiovascular Health) program became a permanent offering during the year and has now helped more than 700 members in their recoveries following acute cardiovascular interventions. The program was extended in July 2011 to provide access to members with diabetes, with the team of 'cardiac coaches' growing to three to facilitate this.

A formal evaluation reviewing both clinical and quality-of-life outcomes was performed for the Western Australian Cardiac Rehabilitation Service (WACRS) program with results comparable to The COACH Program™ achieved.

Our Cancer Survivors' program commenced and was profiled in *The West Australian* newspaper.

In addition, HBF established four new broader health pilots:

- HBF's first truly preventative health program commenced in conjunction with the Rockingham-Kwinana Division of General Practice. Focussing on obesity, it addresses a significant regional problem which to date has been under-resourced.
- A regional multi-disciplinary Chronic Disease Management Program (CDMP) delivered by the Great Southern GP Network was launched in Albany. Building on Medicare's Team Care Arrangements (TCA) it provides additional allied health treatment and provides support to time poor general practitioners through assisted program coordination to improve efficacy. The evaluation of the pilot later in the year will determine whether it is funded more widely.

- A more comprehensive multidisciplinary CDMP was established with Perth Primary Care Network which adds 10 sessions to Medicare TCA's along with assistance to GPs with care planning and program coordination. Access to treatment in the home was increased for members through the addition of Stanhope Healthcare to the HBF hospital substitution portfolio.

A new Broader Health/CDMP database was established to improve target patient identification and support timely program evaluation and tracking.

Community Health

Our Community Health activities are integral to HBF's Vision to improve the health and wellbeing of the Western Australian community.

We believe that in recent years Community Health initiatives have also significantly enhanced the HBF brand, building loyalty on the part of HBF members and increasing the desire to engage with the HBF brand amongst prospective members. This year, we developed several key projects to increase both the reach and our impact on the WA community. Often working in partnership with other like-minded organisations, we brought the following initiatives to life.

HBF Run for a Reason

The *HBF Run for a Reason*, presented by *The West Australian*, is now one of the fastest-growing events on the WA sporting calendar and our most important community health activity. It promotes physical activity on a large scale while raising vital funds

for six leading charities fighting chronic disease. In 2011 nearly 14,000 people took part and over \$365,000 was raised for Arthritis WA, Asthma Foundation of WA, Cancer Council WA, Diabetes WA, Heart Foundation WA and Lifeline WA.

The iconic course took in sections of the Mitchell and Graham Farmer Freeways and provided a unique opportunity to run or walk through the Northbridge Tunnel. Both the 4.5km and 14km courses finished on the hallowed grounds of the WACA. In the event's second year we tapped into the friendly rivalry between residents north and south of the Swan River, encouraging participants to run for their side of the river. In the end, North dominated the day and took out the honours for the greatest number of participants, highest fundraisers and fastest average time for the 14km event while South took the title for the fastest average time for the 4.5km event.

Participants also had their own personal reasons for being involved. For some it was the physical challenge, for others, the opportunity to fundraise, and for many, simply a desire to become healthier and enjoy the experience with family and friends.

The event would not have been possible without our 450 volunteers, 250 of whom were HBF employees.

HBF Freeway Bike Hike for Asthma

WA's largest cycling event again took place on another iconic course which made use of all three of Perth's freeways as well as the Northbridge Tunnel. Participants could choose from a 60km, 30km or 10km route. Around 8,700 people participated and more than \$150,000 was raised for the Asthma Foundation of WA.



Peddling for health: 2011 HBF Freeway Bike Hike for Asthma

Cancer Council WA

We continued our longstanding partnership with the Cancer Council WA, supporting Daffodil Day in August and Pink Ribbon Day in October, helping to raise awareness and funds for the fight against cancer.

iGeneration and Wellness research projects

Once again in partnership with *The West Australian* we commissioned two major studies which gauged the attitudes, opinions and behaviours of Western Australians in relation to a range of social, health and wellness issues. Key elements of the findings from both studies were published in a series of articles in *The West Australian*.

HBF Insurance

In its final year as part of the HBF Group, HBF Insurance performed well despite the intense competition in the local market from new competitors. New business sales grew by 1.04% over the previous year whilst risks on file grew by 3.97%. Our retention rates continued to improve throughout the year to finish 2.31% ahead of budget. As with our health insurance business we have consciously worked to ensure that we have consistently provided 'the best personal experience possible for members'.

Processing and finalising our members' claims from the March 2010 hail storm was an important focus during the year. This single

event resulted in 17,400 claims with a gross incurred value of \$77m. As at June we had finalised 98% of all claims with the remaining 2% awaiting specialised materials to complete the repairs. We are proud of the manner in which we have been able to support our members during this stressful time with member feedback indicating that over 85% of members are either 'very happy' or 'delighted' with their experience of HBF.

This year also provided new challenges from natural events. Cyclone Bianca which hit the Western Australian coast in January generated \$400,000 in claims. This was followed by the Kelmscott-Roleystone fires in early February where another \$2.2m in claims were recorded.

Year in Review

In February a storm struck the eastern suburbs, tracking down the Darling scarp, resulting in another \$790,000 in claims. Just as after the 2010 March hail storm, we worked hard to ensure that at the times our members needed us most, we provided the best personal experience possible.

Our marketing continued to be directed primarily at HBF Health members with the launch of our new Double Discounts commercials highlighting the discounts that HBF members enjoy. The campaign has had a positive effect with new business sales exceeding target by \$1m.

Life Insurance

Since 2006 HBF has offered a suite of products underwritten by Zurich Australia including term life, trauma protection, funeral cover and income protection. While this accounts for a very small part of the HBF Group's business this product line continued to perform well, with the number of Ezicover policies held growing by 17%.

HBF also continues to refer members requiring full advice on life insurance products product opportunities to Blue Horizon Partners delivering a modest income stream during the year.

HealthGuard

HealthGuard is a subsidiary of the HBF Group and provides health insurance under two brand names: GMF Health and Central West Health.

In 2010/11 HealthGuard commenced a three-year strategy based on providing simple, straightforward health insurance and increasing member value. During the year this was clearly



Before and aftermath: These pictures show the devastating impact of the Kelmscott-Roleystone fires

demonstrated with benefits on the 30 most commonly utilised general dental services increased by an average of nearly 60% per item.

A simplified, operationally-excellent business model is also a key element of HealthGuard's strategy and growth opportunities outside Western Australia were successfully exploited through intermediaries.

New GMF branding was launched half way through the year bringing a vibrant, fresh new look and feel, that included the newly renovated operations centre in Kalgoorlie.

As part of its local area marketing GMF Health became the naming sponsor of the *GMF Health Cyclassic*, a two-stage handicap race across the

Goldfields from Kalgoorlie-Boulder to Menzies and on to Leonora, taking in the historic landscapes of the WA Goldfields. Prize money was over \$40,000 and the event attracted national cyclists.

GMF's member value was recognised in a comparison of Australian Private Health Insurance funds in the June edition of *Your Money Magazine* which compared different funds in each state within three scenarios. GMF Health took out the silver medal in the Medium to High Family Cover category and the bronze medal in the High-Level Hospital and Extras scenario. HealthGuard's other fund, Central West was also mentioned in the High-Level Hospital and Extras in the ACT and NSW.



HealthGuard's average premium increase of 4.84% in April 2011 was among the lowest and significantly lower than the industry average increase of 5.56%.

Our people

A major internal restructure within HBF was an important initiative during the year, reshaping the organisation around our service to HBF members, rather than our own business processes.

The new structure created three work-streams reporting directly to the Managing Director:

- Member Relationships – encompassing all member interactions including the payment

of members' claims and the management of our distribution network.

- Enabling – all those functions including Finance and IT that serve the people who serve our members.
- Innovation and Benefits Management – including all marketing, communications and benefits management teams.

Engaging, developing and rewarding our people

In the second half of the year we undertook our fourth Employee Engagement Survey and were delighted at the results. As highlighted in the Managing Director's report, the survey showed a significant increase in the degree to which our people are truly engaged in the workplace as well

as overall satisfaction levels. As in previous years the detailed results from our engagement survey will be shared throughout the organisation and people leaders will work with their teams to identify and initiate changes that improve the working environment at every level.

HBF's Performance Planning and Development Program (PPDP) introduced in 2009 ensures that all HBF people understand what's expected of them and have the development opportunities they need to progress and grow within the organisation.

In the coming year, the PPDP program will also play a crucial part in our new Remuneration Review system. The new system will allow people leaders

Year in Review

to use an individual's PPDP review to clearly reward performance and link remuneration decisions to HBF's broader business performance.

Our Learning & Development team, in partnership with our people leaders, has continued to provide learning opportunities which are innovative, flexible and strongly aligned to our business objectives and the needs of our people. Key activities for the year have been:

- Training in a standard approach to member interactions.
- Improved 'in-sourcing' of people development programs customised to our particular business needs.
- Growth in our e-learning capability.
- Development of a consistent leadership framework for implementation in the coming year.

Employer of choice

We continue to strive to be an employer of choice for West Australians; enhancing our employee value proposition and supporting initiatives that make a difference to the work-life balance of our people.

Our recognition program, the Gold Ribbon Award, recognises excellence through monthly peer nominations for outstanding performance. It recognises those who perform over and above expectations and the responsibilities of their role. An annual winner is selected from those nominated throughout the year (184 nominations were received in the last year) by a committee with no management intervention. In every sense, this is an award program for the people, by the people.

A large number of our people have a strong desire to work for an organisation that contributes to the community and our Community Spirit program continues to encourage them to support those in need in our community. HBF individuals and teams have volunteered their time and energy, dedicating almost 1,000 hours to a wide range of WA not-for-profit organisations. Our employee Workplace Giving Program achieved a significant milestone during the year as cumulative donations from employees passed the \$500,000 mark.

We have continued to encourage our people to take responsibility to improve their personal health and wellbeing. Our Health & Wellbeing program now includes an extensive range of activities such as fitness classes, healthy heart and weight-loss programs.

Our systems & infrastructure

2010/11 was the final year of HBF's most recent five year strategic plan and concluded the stage we have termed HBF's Get Fit period including a number of initiatives which had been delayed as a result of the global financial crisis. During the year HBF has invested in the following:

- Substantial branch refurbishments allowing for a better member experience;
- Improved document scanning allowing faster processing of manual member and hospital claims; and
- A new management information system providing more accurate and extensive sales reporting.

HBF's newly created Enabling division has also worked towards the following:

- Enhanced member self-service functions on our website;
- A unified communications strategy which includes improved telephony for our Contact Centre; and
- The replacement of our ageing IT platform with more efficient and flexible architecture.

ECLIPSE project

An important project to enable HBF's contracted hospitals to submit claims electronically was launched in January 2011. Phase II of the ECLIPSE (Electronic Claim Lodgement and Information Processing Service Environment) will enable the 'straight-through' automatic processing of hospital claims. In the initial phase claims will be received electronically and then manually processed into the HBF system.

The project follows in the footsteps of similar projects in recent years which introduced e-claiming for medical services (through ECLIPSE) and ancillary services (through HICAPS or iSOFT). The benefits of electronic claiming include the faster resolution of claims and payments, less manual intervention, fewer errors and online verification of Medicare enrolment and health fund membership.

Our aim is for the first hospital site to commence electronic claiming in November 2011 with other hospitals also adopting the system in the following months.

Our Brand

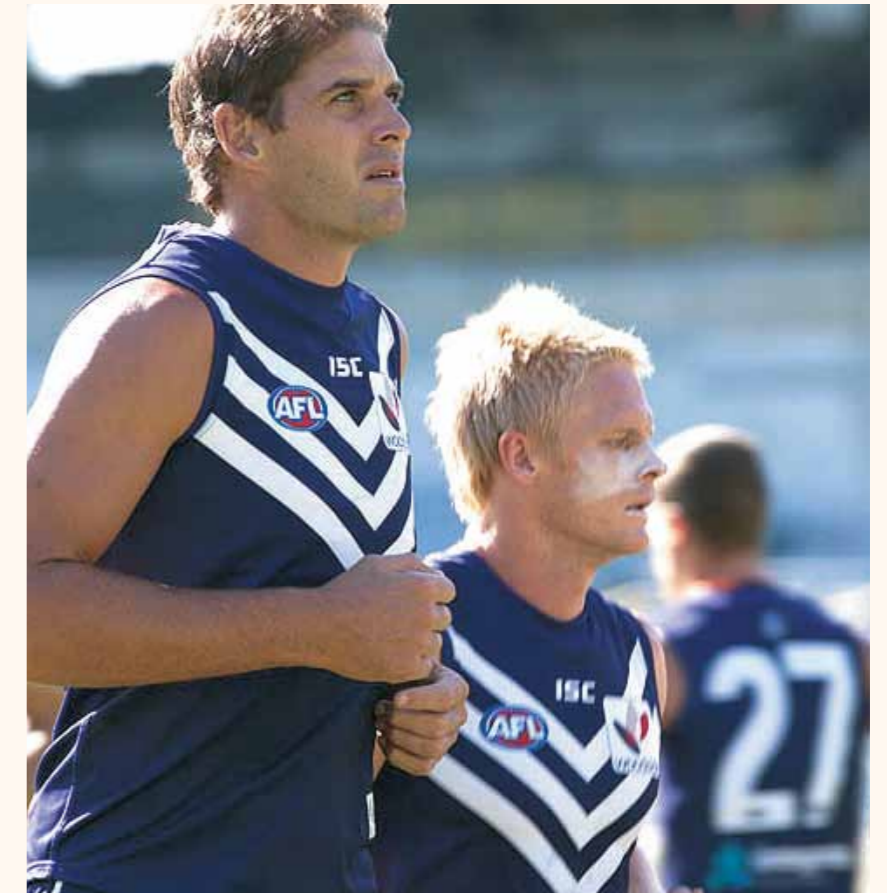
An evolving brand

During the year we continued to communicate HBF's core brand message of 'your health is all that matters', reminding people of the importance of good health. Our members have often shared their own health stories with us and these helped inspire a series of three new commercials capturing moments when individuals realise that the health of a loved one is all-important.

This feedback also prompted us to create a special online site for people wishing to share their health messages with others – hbfmoments.com.au. The website allows people to share their stories through a noticeboard consisting of written, video and voice messages.

2010/11 also saw us consciously introduce 'layers' into our communications. The brand message of 'your health is all that matters' has been supported by outdoor and press advertising which has highlighted the HBF difference. This has reminded members of the key strengths of HBF health insurance compared with that available from competing health funds, particularly in the quality of our hospital cover.

In addition to the rejuvenation of many of our branches, we undertook a number of local area initiatives based around our branches. Examples included the use of the Joondalup branch on the day of the HBF Freeway Bike Hike for Asthma, a local health expo in Geraldton and tailored messages about our provider network promoted through local advertising.



Aaron Sandilands: A giant of the game

Official health provider for the Fremantle Dockers

In November HBF signed a particularly significant sponsorship agreement, becoming a diamond sponsor of one of Western Australia's AFL teams, the Fremantle Dockers. The partnership reflects the many shared values between HBF and the club. Both are member-based organisations which are serious about physical activity and both are renowned for their community focus. The three-year agreement gives HBF the opportunity for a strong presence at WA's premier sporting venue, Paterson Stadium, through signage and match activity.

We were particularly proud to take on the sponsorship of the annual HBF Bravery Awards, an initiative

that the Fremantle Dockers have been supporting for many years. These awards honoured 12 young Western Australians who had shown extraordinary bravery during lengthy stays in hospital.

HBF at Southbound Music Festival

A very different sponsorship took place during three hot days in January. At the Southbound Music Festival in Busselton, HBF offered young festival goers a healthy haven from the sun and excesses that accompany music festival events. HBF's Health Haven was open every day of the festival and soon became recognised as a sanctuary that provided fresh fruit, water, sunscreen, hats, fans and toothbrushes in the comfort of a cool environment.

HBF is committed to good corporate governance. HBF's approach to corporate governance reflects the principles set out in contemporary Australian standards, such as the Australian Stock Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles). HBF applies these principles in a manner consistent with its status as a not-for-profit membership organisation for the purpose of laying solid foundations for management and oversight, promoting ethical and responsible decision making, structuring the Board to add value and recognising and managing risk.

HBF reviews and strives to improve its corporate governance and monitors best practice developments.

HBF sold its general insurance business on 30 June 2011 and any reference in this statement to its governance and compliance obligations for that business relate to those obligations up until that date.

HBF has posted a copy of this statement on its website hbf.com.au.

Role and structure of the HBF Board

HBF Board

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

the Private Health Insurance Administration Council (PHIAC), and the Department of Health and Ageing (DOHA). It also oversees compliance with the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) as well as requirements for general insurance and general corporate operations.

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

Senior executives are appointed by the Managing Director who is responsible for assessing their performance. The Board ensures that members of the management team are appropriately qualified and experienced to carry out their responsibilities.

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

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

- Considered the social, ethical and environmental impact of HBF activities.

In June 2011, the Board also approved the sale of the general insurance business to CGU Insurance Ltd and entered into a 10-year arrangement to distribute CGU insurance products.

The current HBF Board comprises seven non-executive Directors (including the Chairman) and the Managing Director. Emphasis is placed on appointing independent Directors who, working together, have the range of experience, skills and knowledge required for the Board as a whole to effectively govern HBF's strategic direction and business activities. Director profiles are shown on subsequent pages.

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

The Directors select one of the independent Directors to be the Chairman, whose role includes:

- Being clear what the Board has to achieve;
- Providing guidance to the Board;
- Being spokesperson of the Board on governance matters; and
- Regularly reviewing important initiatives and significant issues with the Managing Director.

The current Chairman of the Board is Tony Iannello who has been a Director since 2006 and Chairman since 2009.

The Board determines whether Directors of HBF are independent and when required, Directors must assess and affirm their independence to the Board.

Directors of HBF are considered to be independent when they are independent from management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement. In the context of Directors' independence, materiality is considered from both HBF's and the individual's perspective.

In accordance with these independence criteria and materiality thresholds the following Directors of HBF are considered to be independent:

<i>Director</i>	<i>Term in Office</i>
Mr AM Iannello	5 years
Professor CDJ Holman	9 years
Ms AL Templeman-Jones	7 years
Ms VA Davies	6 years
Mr P Wallace	6 years
Mr BJ Honey	4 years
Ms MA Woodford	4 years

The Constitution of HBF allows for long-term policy holders to be involved in the process for the appointment and removal of Directors, their remuneration and any changes to the Constitution. A Council of Board Councillors, General Councillors and Elected Councillors elects one third of the HBF Board annually on a rotation basis. Six

elected Councillors are nominated and elected by registered policy holders of HBF, who must have been hospital policy holders for a minimum of 10 years.

To qualify for election, Councillors must be independent of hospitals and other providers of services to HBF and its policy holders. The 12 General Councillors are nominated and elected by existing General Councillors and the Chairman and five serving Directors are appointed by the Board as Board Councillors.

The Board has eight scheduled meetings each year and also meets when necessary to deal with specific matters requiring attention. The Board holds an annual planning day to review HBF's strategic direction and set the context for development of the annual business plan. Senior managers attend Board meetings on a rotation basis and the Board meets without executive management every quarter. Minutes are reviewed by the Chairman and Secretary, retained in a register and approved by the Board at the next meeting.

Committees

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

Finance and Investment Committee was disbanded in May 2011 and the Board has resumed responsibility of its functions and powers. Membership of Committees is determined by the Board on advice from the Nomination and Remuneration Committee. Appointments are approved by Subsidiary Boards where this is required for regulatory purposes.

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

Audit and Risk Management Committee

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

The Committee is also responsible for making recommendations to the Board regarding the appointment of external auditors, ratifying the appointment of internal auditors and reviewing the adequacy and

Corporate Governance

independence of audit arrangements and the performance of both the internal and external audit function. The Committee currently comprises three non-executive Directors.

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

During the past financial year, members of the Committee were Barry Honey (Chairman), Anne Templeman-Jones and Peter Wallace. The Committee meets at least four times a year.

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

Fiona Drummond of Ernst & Young is the lead audit partner for HBF Health Limited. During the year Tim Dachs of Ernst & Young was the lead audit partner for HBF Insurance Pty Ltd.

HBF Insurance Pty Ltd

HBF Insurance Pty Ltd, with the approval of APRA, utilised the Audit and Risk Management Committee of the group for audit and risk matters.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is to assist the HBF and Subsidiary Boards in fulfilling their responsibilities relating to the appointment and remuneration

of Directors and senior executive personnel.

The Committee reviews and advises on HBF and Subsidiary Board composition (including succession planning and renewal), Director selection and removal, Board and Director performance and Director skills, training and development. The Committee also assesses and reviews the remuneration policy and its effectiveness, the appropriateness of performance-based arrangements and contractual terms and remuneration arrangements for all senior executive employees.

The Nomination and Remuneration Committee currently comprises three non-executive Directors. The Managing Director attends as secretary.

During the year, the members of the Nomination and Remuneration Committee were Tony Iannello (Chairman), Professor John Wood (until September 2010), Anne Templeman-Jones and Valerie Davies. The Committee meets approximately four times a year and as required.

Finance and Investment Committee

During the year, the primary objective of the Finance and Investment Committee was to assist the HBF and Subsidiary Boards in fulfilling their responsibilities relating to investment portfolio management, capital management, asset management and HBF's default employee superannuation plan. The Committee comprised four non-executive Directors. The Managing Director, senior managers and external consultants attended upon invitation. All Committee members

were to be financially literate and at least two had practical business experience in financial reporting, investment markets and financial markets. Two Committee members were also members of the Audit and Risk Management Committee.

During the year, the members of the Finance and Investment Committee were Peter Wallace (Chairman), Barry Honey, Allan Pental (a Director of HealthGuard Health Benefits Fund Ltd) and Mary Woodford. The Committee met three times in 2010/11. The Committee was disbanded in May 2011 and the Board has resumed responsibility of its functions and powers.

Board Policies

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

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

Ethical standards and corporate social responsibility

HBF has a Code of Conduct, which sets out the expected standards of behaviour for all employees, including Directors. It outlines the principles of honesty and integrity,

equity and fairness, confidentiality, impartiality, respectfulness and courtesy, which are to be demonstrated in all relationships with members, colleagues, suppliers, competitors and the general public. Open and honest behaviour is a core value of HBF. The organisation also has policies on whistleblowing, conflicts of interest and fitness and propriety.

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

HBF supports the community by adopting an environmental protection policy, donating to selected charitable causes, encouraging employees to volunteer their time and energies through special community spirit days and, most of all, in supporting and staging events which actively promote behaviours which address chronic health diseases. Details of our community health activities are provided in the Managing Director's report and in our Year in Review.

Independent professional advice

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

Performance evaluation

The HBF and Subsidiary Boards and their Committees have established processes to assess their composition, performance, individual member performance and to identify areas where improvements can be made. This year, the HBF Board adopted the Board Pulse programme in which Directors are surveyed on their own and the Board's performance at three designated meetings throughout the year. Annual reviews are also coordinated by the Chairman of the relevant HBF and Subsidiary Boards or Committee and external advisors assist with the evaluation every three years.

The process is forward-focused and directed at ensuring the Boards and Committees are equipped with appropriate skills to meet forthcoming requirements.

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

Performance of the Managing Director is assessed by the Board against key corporate, strategic and operational objectives set by the Board in its annual planning and review cycle.

Audit and risk management

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

The framework takes into account the Australian and International Standards on Risk Management and

includes a system for identifying, assessing, monitoring and managing material risk.

The framework ensures a consistent approach across HBF for meeting compliance obligations and reporting. HBF strives for transparency in dealing with regulators on compliance issues and reports breaches of its compliance obligations.

The HBF Board plays a key role in risk management, which is embedded in strategic and business planning and monitoring of organisational performance.

HBF's internal auditors review the effectiveness of the risk management process and the internal compliance control system.

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

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

Remuneration

HBF seeks to provide maximum value to members from the retention of a high-quality Board and executive team by remunerating Directors

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and key executives fairly and appropriately with reference to industry standards and benchmarks.

The remuneration pool for non-executive Directors is subject to approval by the Annual General Meeting of Councillors. HBF also complies with APRA standards on Remuneration Arrangements including those which are performance-based.

Conflict of interest

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

Commitment

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

Confidentiality

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

Board access to information and advice

All Directors have unrestricted access to organisation records and information. Each Director enters into an Access and Indemnity Deed with HBF allowing them seven years access to relevant documents after retirement. The non-executive Directors regularly consult with

and request information from management.

Education and induction

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

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undertake continuing professional development and are provided with resources and training to address skill gaps when identified.

Diversity

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

The proportion of females at the different levels as reported in HBF's Equal Opportunity WA Report at 30 June 2011 was:

- 43% of senior executives;
- 50% of senior managers;
- 65% of managers; and
- 76% of total employees.

Secretary

Nigel Jones is the Company Secretary of HBF. Responsibilities of the secretarial function include preparation and distribution of Board agendas and papers, taking of Board minutes, providing advice to Directors and officers on corporate governance developments and regulatory matters,

implementing and maintaining HBF's Board governance policy and giving practical effect to Board decisions. Directors have access to advice from the Secretary.

Subsidiary boards

HBF Insurance Pty Ltd

Until 30 June 2011, this Board was responsible for the governance of HBF Insurance Pty Ltd, HBF's general insurance subsidiary. The Board governed within the context of the strategic framework and corporate policies determined by the HBF Board. The Board comprised representatives of the HBF Board, including the Managing Director of HBF. The Board was also responsible for compliance with the requirements of APRA, the regulator of the general insurance industry and ASIC the regulator of the financial services industry.

During the year, the Directors of the Board were Anne Templeman-Jones (Chairman), Professor John Wood, Mary Woodford, Barry Honey and Rob Bransby (Managing Director).

HealthGuard Health Benefits Fund Ltd

This Board is responsible for the governance of HealthGuard Health Benefits Fund Ltd, which incorporates GMF Health. The Board governs within the context of the strategic framework and corporate policies determined by the HBF Board. The Board comprises representatives of the HBF Board, senior executives, including the Managing Director of the HBF Group and external independent non-executive Directors.

The Board is also responsible for compliance with requirements of PHIAC, the regulator of the private

health insurance industry.

During the year, the Directors of the Board were Professor D'Arcy Holman (Chairman), Allan Pental, Ron Yuryevich, Nigel Jones, Valerie Davies and Rob Bransby (Managing Director).

HBF Financial Services Pty Ltd

This Board is responsible for governance of HBF Financial Services Pty Ltd. The Board governs within the context of the strategic framework and corporate policies determined by the HBF Board.

The core business of the company is distribution of risk insurance products and comprises representatives of the senior executive team of HBF, including the Managing Director of the HBF Group.

The Board is responsible for compliance with the requirements of ASIC, the regulator of the financial services industry.

During the year, the Directors of the Board were Rob Bransby (Managing Director), Nigel Jones (Company Secretary) and David Ligovich (Chief Financial Officer).

Concise Financial Report

Year Ended 30 June 2011

The concise financial report has been derived from the full financial report of HBF Health Limited for the financial year ended 30 June 2011 and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

Members can obtain further financial information from the full financial report, which is available, free of charge, on request.

Meet Pat.

A proud Western Australian, mother and grandmother. And she's an HBF member.

"Having had health insurance all these years, it was there when I needed it. Whatever you want to do in life, you have got to have your health to do it."

Directors' Report

Your Directors submit their report for the year ended 30 June 2011.

AM (Tony) Iannello

BCom FCPA SF Fin FAICD
(Chairman)



Mr Iannello was appointed Chairman of the Board in November 2009 and has been a Director since November 2006. He is also Chairman of the Nomination and Remuneration Committee. He previously served as a member of HBF's Audit and Risk Management Committee and chaired the Finance and Investment Committee until June 2009 and the Board of HBF Insurance Pty Ltd until September 2009. He is currently a Director of SP Ausnet Group of Companies and ERM Power Ltd and is Chairman of MG Kailis Group of Companies, Energia Minerals Ltd, Intium Energy Ltd and Harrier Resourcing People Pty Ltd. He is also a member of the Murdoch University Senate. Mr Iannello was previously the Managing Director of Western Power and prior to that held a number of senior executive roles at BankWest. Mr Iannello is a graduate of the Advanced Management Program at Harvard Business School, Boston, USA.

Rob Bransby

A Fin GMQ
(Managing Director)



Mr Bransby was appointed CEO of HBF in January 2007 and became Managing Director in December 2007. He is a Director of HBF Financial Services Pty Ltd and HealthGuard Health Benefits Fund Ltd, and was a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business. He is a highly-regarded strategic leader and business developer and has nearly two decades of experience with financial services organisations in both Western Australia and New South Wales. Prior to joining HBF, Mr Bransby was Chief Executive Officer of Medfin Australia Pty Ltd, a subsidiary company of National Australia Bank. Mr Bransby has held a number of positions with National Australia Bank, including Head of Personal Financial Services WA, Head of Business Financial Services NSW, Regional Business Manager Fremantle WA, Area Manager WA and various branch manager positions. He is a Board member and Vice President of the Australian Health Insurance Association, a Director of both United Way Western Australia and United Way Australia and is a Councillor of the Financial Services Institute of Australia.

Valerie Davies

FAICD



Ms Davies was appointed a Director in October 2005. She is also a Director of HealthGuard Health Benefits Fund Ltd and a member of the Nomination and Remuneration Committee. She was on the Board of HBF Financial Services Pty Ltd until March 2009. Ms Davies is the Principal of One.2.One Communications Pty Ltd, specialising in strategic communication and issues management across diverse sectors and industries. A corporate advisor to first tier corporations, she is also a coach, mentor and presentation skills advisor. Ms Davies is a Board member of Youth Focus and a Director of Miners' Promise Inc and Amalgamated Holdings Ltd. She has previously served as a non-executive Director of Iluka Resources Limited Tourism Australia, Integrated Group Limited, Gold Corporation, Asia Research Institute – Murdoch University, Totalisator Agency Board (TAB) WA, ScreenWest, the Board of Management of Fremantle Hospital and Health Service and Relationships Australia. A past winner of the WA Telstra Businesswoman of the Year Award, she has also served on committees for the Association for the Blind WA, as well as the Arthritis Foundation.

Professor D'Arcy Holman

MBBS LLB (Hons) MPH (Harv.)
PhD GAICD FACE FAFPHM FPAA
FAIM



Professor Holman was appointed a Director in 2002 and is the Chairman of HealthGuard Health Benefits Fund Ltd. Professor Holman holds the position of Foundation Chair in Public Health at the University of Western Australia and was the University's inaugural Head of the School of Population Health, one of the nation's most productive research centres in the health field. Professor Holman's record of service to community and government organisations is extensive. In 2006, he was awarded the Sydney Sax Public Health Medal of Australia for solving health problems, advancing community awareness of health measures and advancing equity in the provision of health care.

Barry Honey

BBus FCA MAICD
(Deputy Chairman)



Mr Honey was appointed a Director in October 2007 and is currently Chairman of HBF's Audit and Risk Management Committee. He was a member of the Finance and Investment Committee until June 2011 and a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business. He is a Chartered Accountant and from 1985 – 2004 was a partner in KPMG. He developed his specialist expertise in advising stakeholders in companies on financial performance and solvency issues whilst working on major engagements in Australia and South East Asia. In 2004, Mr Honey retired from KPMG to establish the boutique accounting and advisory firm, Honey & Honey. He is currently a non-executive Director of Plan B Group Holdings Limited, Plan B Trustees Limited and The Bethanie Group Inc. He is also a member of the General Committee of Royal Perth Yacht Club of Western Australia Inc. In addition to sitting as a non-executive Director on each of these boards, Mr Honey also serves on their Finance and Audit Committees. From time to time Mr Honey is also engaged as an independent expert witness to assist the courts on complex financial issues.

Anne Templeman-Jones

BCom ExecMBA (AGSM)
CA MAICD



Ms Templeman-Jones was appointed a Director in July 2004 and was Chair of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business. She is a member of HBF's Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee. Ms Templeman-Jones is currently the Head of Strategy and Sustainability at Westpac Pacific Banking in Sydney. Her career began with Price Waterhouse in Switzerland, Perth and Sydney and after qualifying as a Chartered Accountant in 1987, she commenced a corporate banking career with the Bank of Singapore. Ms Templeman-Jones has previously worked with Challenge Bank Ltd, the Bank of New Zealand and ANZ Banking Group.

Peter Wallace

SF Fin FAICD AFAIM



Mr Wallace was appointed a Director of HBF Financial Services Pty Ltd in 2004 and a Director of the Group Board in October 2005. He was Chairman of HBF Financial Services Pty Ltd until June 2009 and the Finance and Investment Committee until June 2011 and is currently a member of HBF's Audit and Risk Management Committee. Mr Wallace worked with National Australia Bank between 1967 and 1989, where he had extensive involvement in corporate financing activities for major Australian and Japanese companies. From 1989 until his retirement from banking in 2001, Mr Wallace held senior positions with Challenge Bank Ltd (later Westpac Banking Corporation) and was a member of its executive management team, holding positions including Chief Operating Officer and Chief Credit Officer. From 2001 – 2006 he was the Head of Corporate (WA) for Bell Potter Securities Ltd, directing the provision of corporate advisory services, including capital raisings, for both large and small public and private entities. Mr Wallace is currently a non-executive Director of a number of public and private companies and is a holder of an Australian Financial Services Licence.

Professor John Wood

BEC (Hons) DPhil (Oxon)



Professor Wood was appointed a director in 1999 and retired in October 2010. He was also a Director of HBF Insurance Pty Ltd until the general insurance underwriting business was sold in June 2011. An economic strategist, he is the Executive General Manager University Programs of Navitas and Chair of Helm Wood Publishers. Previously, Professor Wood was Deputy Vice Chancellor at Edith Cowan and Notre Dame Universities and has held positions in government and the private sector, including the Office of the Prime Minister. Professor Wood has formerly served on the Board of ECU Resources for Learning, Perth Education City and was a former Chair of the Committee of Economic Development of Australia (WA).

Mary Woodford

LLB MPH BA (Hons) GAICD



Ms Woodford was appointed a Director in August 2007. She was a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business and a Director of HBF Financial Services Pty Ltd and a member of HBF's Finance and Investment Committee until June 2011. She is Senior Legal Counsel at the University of Western Australia, having previously held the role of Consultant, Corporate & Commercial with Jackson McDonald Lawyers. Ms Woodford began her career as a registered nurse and has held a number of senior positions in the public and private sector. She has advised on legal and policy matters as Principal Policy Officer to the Minister for Health and as Director Legal & Policy with the Australian Medical Association (WA). She has served as a member of a number of committees for legislative reviews and reform and in recent years has focused on providing corporate and commercial legal advice to clients in the private sector, including statutory authorities, health and education institutions and not-for-profit organisations. Ms Woodford's key areas of advice have included corporate governance, risk management, compliance and public law. Currently Ms Woodford holds the position of Company Secretary and Legal Counsel to Pindan College Limited and is Chair of John XXIII College Council. She is also a former board member of the Heart Foundation (WA) Inc.

Principal Activities

The principal activities of the consolidated entity during the year involved the underwriting of health and general insurance risk and related investment activities.

In June 2011 HBF entered into an agreement for the sale of its general insurance underwriting business to CGU Insurance Limited, a major Australian insurer and a part of one of the country's largest insurance groups, IAG. The sale transaction completed on 30 June 2011.

Other than the discontinuance of the underwriting of general insurance policies, there have been no other significant changes in the nature of these activities during the year.

Objectives

As Western Australia's leading health fund HBF's primary objective is to ensure that Western Australians have access to the best possible health care in WA by offering competitively-priced, high-quality health insurance products appropriate for Western Australians at all life stages. HBF's vision is to lead the way in improving the health and wellbeing of everyone in the Western Australian community. HBF encourages Western Australians to adopt healthy behaviours and lifestyles through a range of preventative health programs and activities which promote physical activity.

HBF aims to continue to grow its health insurance business and to maintain its position as the number one private health insurer in WA. Through the provision of quality health insurance products and consistent high quality service, HBF aspires to set the benchmark

amongst its peers in member retention and to continue to achieve the largest share of all new policies sold in WA.

In 2010/11, HBF launched a number of new products and improved ancillary benefits including for physiotherapy, chiropractic and osteopathic services. The range of broader health initiatives was expanded and HBF again supported a number of events promoting physical activity. These included the 2011 *HBF Run for a Reason*, which grew significantly both in terms of the number of participants and the funds raised for charity.

Operating and Financial Review

The consolidated entity achieved a surplus for the year after tax of \$134.2m (2010: \$124.3m) on the back of strong operating performance from all group companies.

Health Insurance

In a year of fierce competition, membership of HBF Health and its subsidiary health insurance business, HealthGuard, has grown helping underpin an increase in contributions of 7.9% (\$80.2m) to \$1.1 billion. At the same time, the group paid significantly higher benefits to members, up \$56.6m from last year to \$1.0 billion: HBF Health alone paid out record benefits of \$928.5m. Combined, the total underwriting result for the health insurance business was 12.0% (\$15.5m) higher than last year.

Operating costs grew by 8.9% (\$8.6m) for the year largely due to CPI increases, expenditure on process improvements and professional services costs in support of the sale of the general insurance underwriting business.

Discontinued operations

The general insurance business delivered another solid year's performance with a 4.0% increase in underwriting result. Earned premium increased marginally with strong growth in home policies, while performance on the motor portfolio helped lower net claims. Operating expenses were held at the previous year's levels.

Investments

Investments performed well as a result of improving economic conditions. Gains from financial assets at fair value for the group were \$74.6m (2010: \$86.3m), equivalent to an overall investment return for the year of 8.8%. This return reflects the continued recovery in equity and listed property trust prices and consistently strong returns from the HBF cash portfolio.

Dividends

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

Significant Changes in the State of Affairs

In June 2011 HBF entered into an agreement for the sale of HBF Holdings Pty Ltd and HBF Insurance Pty Ltd to CGU Insurance Ltd, a major Australian insurer and a part of one of the country's largest insurance groups, IAG. The sale transaction completed on 30 June 2011. Under the agreement with CGU, HBF will continue to distribute HBF branded general insurance products underwritten by CGU and receive commission for doing so for the next 10 years. Refer note 2 (page 42) for details.

Directors' Report

DIRECTOR	HBF HEALTH LIMITED BOARD		HBF INSURANCE PTY LTD BOARD		HEALTHGUARD HEALTH BENEFITS FUND LTD BOARD		AUDIT & RISK MANAGEMENT COMMITTEE		NOMINATION & REMUNERATION COMMITTEE		FINANCE AND INVESTMENT COMMITTEE	
	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND
NUMBER OF MEETINGS	11		9		4		3		3		4	
JC Wood	2	3	4	9	—	—	—	—	0	1	—	—
CDJ Holman	9	11	—	—	4	4	—	—	—	—	—	—
AL Templeman-Jones	11	11	9	9	—	—	3	3	3	3	—	—
AE Pental	—	—	—	—	3	4	—	—	—	—	3	3
RH Yurjevich	—	—	—	—	4	4	—	—	—	—	—	—
NT Jones	—	—	—	—	4	4	—	—	—	—	—	—
VA Davies	10	11	—	—	4	4	—	—	2	3	—	—
P Wallace	10	11	—	—	—	—	3	3	—	—	3	3
RE Bransby	11	11	9	9	4	4	—	—	—	—	—	—
AM Iannello	11	11	—	—	—	—	—	—	3	3	—	—
M Woodford	11	11	9	9	—	—	—	—	—	—	3	3
BJ Honey	8	11	7	9	—	—	3	3	—	—	3	3

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

Significant events after balance date

There have been no significant events since the balance sheet date.

Likely developments and expected results

HBF anticipates a continued growth in membership and revenue from the provision of high-quality products and service. There are no plans to diverge significantly from HBF's current activities.

Indemnification and insurance of directors and officers

Having regard to section 199B of the Corporations Act 2001 during

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

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 director shown in the accounts, by reason of a contract entered into by the entity or a related corporation with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director is shown above.

Environmental regulation

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

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Auditor's independence and non-audit services

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

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

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


Signed in accordance with a resolution of the directors



Tony Iannello

Chairman

Perth, 27th day of September 2011



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

We have audited the accompanying concise financial report of HBF Health Limited which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of HBF Health Limited for the year ended 30 June 2011. The concise financial report also includes discussion and analysis and the directors' declaration. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of HBF Health Limited for the year ended 30 June 2011. We expressed an unmodified audit opinion on the financial report in our report dated 27 September 2011. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

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


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

Independence

In conducting our audit, we have met the independence requirements of the Australian professional accounting bodies.

FD:MJ:HBF:357

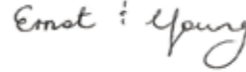
Liability limited by a scheme approved under Professional Standards Legislation




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Opinion

In our opinion, the concise financial report, including the discussion and analysis and the directors' declaration of HBF Health Limited for the year ended 30 June 2011 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.




Ernst & Young



F Drummond
Partner
Perth
27 September 2011

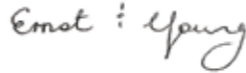
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Auditor's Independence Declaration to the Directors of HBF Health Limited

In relation to our audit of the concise financial report of HBF Health Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of any applicable code of professional conduct.



Ernst & Young



F Drummond
Partner
Perth
27 September 2011

FD:MJ:HBF:358

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Statement of Comprehensive Income

Year Ended 30 June 2011 HBF Health Limited

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
Results from Underwriting		
Net Contributions / Premiums	1,097,014	1,016,768
Benefits / claims expenses	(995,371)	(938,795)
Reinsurance, risk equalisation and recoveries	43,022	39,145
Net Benefits / Claims	(952,349)	(899,650)
Decrease of Unexpired Risk Liability	—	11,801
Acquisition costs	617	782
Other underwriting costs	(403)	(353)
UNDERWRITING RESULT	144,879	129,348
Other Ordinary Activities		
Other revenue	3,050	2,739
Net gains / (losses) from financial assets at fair value through Profit & Loss	67,875	77,698
Salaries and employee expenses	(61,804)	(58,478)
Depreciation and amortisation expenses	(7,542)	(7,359)
Finance Costs	(11)	(13)
Other expenses	(35,826)	(30,757)
	(34,258)	(16,170)
Surplus from Continuing Operations before Income Tax	110,621	113,178
Income Tax Expense	(281)	(279)
Surplus / (loss) after income tax	110,340	112,899
Discontinued Operations		
Profit from discontinued operations after tax	23,816	11,381
Surplus for the period	134,156	124,280
Other comprehensive income, net of tax	—	—
Total comprehensive income / (loss) for the period	134,156	124,280
Total comprehensive income / (loss) for the period is attributable to:		
Members of HBF Health Limited	119,239	108,938
Members of HealthGuard Health Benefits Fund Limited	14,917	15,342
	134,156	124,280

Discussion & Analysis

Trends in underwriting result

Contributions / Premiums increased by \$80.2m compared to the year ended 30 June 2010 due to both policy and membership growth

Benefits / claims increased by \$56.6m compared to last year reflecting growth in payments to members for both hospital and general treatment. .

There is no Unexpired Risk Liability adjustment this year as the unearned premium liability continues to be sufficient to cover all expected cash flows relating to future claims against current insurance contracts.

Trends in other activities

Net gains from financial assets at fair value through Profit and Loss for continuing operations are \$67.9m (2010: \$77.7m). This reflects the recovery in local and global financial markets in the first three quarters of the year as well as consistently strong returns from the HBF cash portfolio throughout the year.

Expenses increased by 8.9% for the year largely due to CPI increases, particularly in respect of employee costs which increased 5.7% after having been held flat in the previous year following the global financial crisis. Other factors included further spend on process improvements, including document workflow automation and professional services costs in support of the sale of the general insurance underwriting business.

Discontinued Operations

Profit from discontinued operations (\$23.8m) is derived from the operating result for the general insurance business for the year (\$9.2m) plus the financial gain from the sale of the business (\$14.6m).

Statement of Financial Position

At 30 June 2011 HBF Health Limited

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
Current Assets		
Cash and bank balances	103,896	48,203
Receivables	74,399	145,618
Financial Assets at fair value through profit and loss	760,630	681,006
Prepaid reinsurance premiums	—	472
Deferred acquisition costs	1,888	3,225
Total Current Assets	940,813	878,524
Non-Current Assets		
Receivables	2,383	7,545
Financial Assets at fair value through profit and loss	64,827	84,318
Property, plant and equipment	22,089	20,078
Deferred tax assets	—	1,775
Intangible assets	15,604	16,235
Total Non-Current Assets	104,903	129,951
TOTAL ASSETS	1,045,716	1,008,475
Current Liabilities		
Trade payables and financial liabilities	13,033	13,396
Current and deferred tax liabilities	896	3,160
Insurance liabilities	287,344	374,818
Employee benefits	5,968	5,493
Total Current Liabilities	307,241	396,867
Non-Current Liabilities		
Insurance liabilities	31,178	38,575
Employee benefits	3,389	3,281
Total Non-Current Liabilities	34,567	41,856
Total Liabilities	341,808	438,723
NET ASSETS	703,908	569,752
Accumulated Surpluses		
HBF Health Limited Members Funds	631,074	511,835
HealthGuard Health Benefits Fund Limited Members Funds	72,834	57,917
TOTAL FUNDS	703,908	569,752

Discussion & Analysis

Significant movements in assets and liabilities

Net Assets have increased from \$569.8m as at 30 June 2010 to \$703.9m as at 30 June 2011 reflecting the net surplus after tax of \$134.2m.

Total Assets have increased by \$37.2m, due to movements in cash and bank balances (\$55.7m increase) and Financial Assets at fair value (\$60.1m increase) reflecting the strong operating results and investment performance. This has been partially offset by a \$76.4m decrease in Receivables largely reflecting the impact from disposal of the general insurance underwriting business.

Total Liabilities have decreased by \$96.9m. This too is mainly due to the disposal of unearned premium and outstanding claim liabilities from the sale of general insurance underwriting business.

Statement of Changes in Equity

Year Ended 30 June 2011 HBF Health Limited

	Consolidated		
	General Reserve \$'000	Accumulated Surpluses \$'000	Total \$'000
At 1 July 2009	8,784	436,688	445,472
Loss attributable to members	—	124,280	124,280
Other comprehensive income	—	—	—
Total comprehensive expense	—	124,280	124,280
At 30 June 2010	8,784	560,968	569,752
Total attributable to:			
HBF Health Limited	—	511,835	511,835
HealthGuard Health Benefits Fund Limited	8,784	49,133	57,917
	8,784	560,968	569,752
Surplus attributable to members	—	134,156	134,156
Other comprehensive income	—	—	—
Total comprehensive income	—	134,156	134,156
At 30 June 2011	8,784	695,124	703,908
Total attributable to:			
HBF Health Limited	—	631,074	631,074
HealthGuard Health Benefits Fund Limited	8,784	64,050	72,834
	8,784	695,124	703,908

There has been no change in composition of the components of equity.

Statement of Cash Flows

Year Ended 30 June 2011 HBF Health Limited

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
Cash flows from operating activities		
Receipt of contributions / premiums	1,200,920	1,129,401
Payments for reinsurance and risk equalisation	(21,111)	(20,204)
Payments of benefits / claims	(1,106,231)	(1,025,591)
Reinsurance, risk equalisation and recoveries	118,325	88,960
Payments to suppliers & employees	(121,598)	(121,732)
Dividends / distributions received	22,017	13,353
Interest received	27,752	15,130
Income tax refunded / paid	(3,692)	385
Goods and services tax received (net)	7,391	6,961
Net cash flows from operating activities	123,773	86,663
Cash flows from / (used in) investing activities		
Cash paid for acquisition of property, plant and equipment	(6,114)	(2,548)
Cash proceeds from sales of property, plant and equipment	—	6
Cash paid for acquisition of intangible assets	(5,772)	(2,113)
Cash proceeds from sales of financial assets	148,197	165,236
Cash paid for purchases of financial assets	(575,160)	(115,076)
Cash disposed of on disposal of subsidiary, net of proceeds	(19,742)	—
Net cash flows from investing activities	(458,591)	45,505
Net increase / (Decrease) in cash and cash equivalents	(334,818)	132,168
Cash and cash equivalents at beginning of year	461,743	329,575
Cash and cash equivalents at end of year	126,925	461,743

Discussion & Analysis

Changes in Cash Flows from Operations

Net cash inflow from operations was \$123.8m compared with \$86.7m for the previous year, represented by:

- An increase of \$71.5m in receipts for contributions / premiums;
- A net increase of \$29.4m in inwards reinsurance and other recoveries;
- A \$12.6m increase in interest received;
- A \$8.7m increase in income distributions received.

This has been partially offset by a \$80.6m increase in benefit / claim payments.

Changes in cash flows from operations include the full year effect of cash flows derived from the general insurance business.

Changes in cash flows from investing activities

The net cash outflow for the year was \$458.6m, compared with a net inflow in 2010 of \$45.5m. The main driver for this is that investments in term deposits made late in 2010/11 have been for periods between 3 and 9 months. This requires the deposits to be classified as financial assets as opposed to cash and cash equivalents (which only applies to term deposits maturing in less than 3 months). Hence cash paid for purchase of financial assets is \$575.2m (compared to \$115.1m in 2010).

Other major movements compared to the previous year include a reduction in proceeds from sale of financial assets of \$17.0m and a net outflow of \$19.8m from the sale of the general insurance business (itself a net of funds from sale proceeds offset by cash acquired by the purchaser as part of the net tangible assets of the business).

Notes to the Financial Statements

Year Ended 30 June 2011 HBF Health Limited

1. Basis of preparation of the concise financial report

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

The financial report is presented in Australian Dollars and all values have been rounded to the nearest thousand dollars under the option available under ASIC Class Order 98/0100.

2. Discontinued operations

(a) Details of operations disposed:

On 2 June 2011, HBF entered into an agreement to dispose of its general insurance underwriting business through the sale of HBF Holdings Pty Ltd and its wholly owned subsidiary, HBF Insurance Pty Ltd to CGU Insurance Limited. The disposal was completed on 30 June 2011, at which time control of the general insurance underwriting business passed to CGU.

Under the agreement with CGU, HBF will continue to distribute HBF branded general insurance products underwritten by CGU for the next 10 years. In doing so, HBF will be eligible to receive commission for products sold as well as a profit share based on performance against pre-defined targets. The agreement also provides for payment by CGU to HBF in respect of portfolio growth above preset targets. The reverse would apply in the event of a decrease in portfolio levels.

In return HBF is required to conduct, manage and fund all marketing activities relating to the general insurance products and will allocate and spend a minimum of an agreed percentage of the prior year's gross written premium.

Under the agreement, HBF has received consideration of \$15m which will be required to be repaid on a pro-rata straight line basis over 10 years in the event that termination

of the agreement occurs as a result of specified primary events. The specified primary events relating to HBF include, being subject to a banning, disqualification, suspension or cancellation order under the Corporations Act; being charged with or convicted with any offence that is likely to bring CGU into disrepute, authorisation to provide financial services becomes void; insolvency, holding an Australian Financial Service licence; change of 15% or more in ownership; disposal of assets other than in the ordinary course of business; material change in conduct of business; and ceasing to be a private health insurer. The specified primary events relating to CGU relate to a change in legal or beneficial ownership by more than 50%.

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

(c) Assets and liabilities and cash flow information of disposed group

Details of the disposal of HBF Holdings Pty Ltd Group are as follows:

The major classes of assets and liabilities of HBF Holdings Pty Ltd Group are as follows:

Assets	
Cash and cash equivalents	29,832
Trade and other receivables	49,803
Financial assets at fair value through profit and loss	20,394
Tax assets	524
Deferred acquisition costs	1,868
	102,421
Liabilities	
Trade payables and financial liabilities	(2,631)
Tax liabilities	(2,418)
Provisions	(77,245)
	(82,294)
Net assets attributable to discontinued operations	20,127
The net cash flows from HBF Holdings Pty Ltd Group are as follows:	
Operating activities	2,125
Investing activities	14,294
Financing activities	40,000
Net cash inflow	(23,581)
Consideration received/receivable:	
Cash	30,484
Receivable	4,643
Consideration received/receivable:	35,127
Less net assets disposed of / cost of investment	(20,127)
Less cost of sale	(358)
Gain on disposal before income tax	14,642
Income tax expense	—
Gain on disposal after income tax	14,642
Net cash outflow on disposal:	
Cash and cash equivalents consideration	30,484
Less cash and cash equivalents balance disposed of	(50,226)
Reflected in the consolidated statement of cash flows	(19,742)

(b) Financial performance of operations disposed

HBF Holdings Pty Ltd Consolidated

	2011 \$'000	2010 \$'000
Premium revenue	102,244	100,885
Reinsurance expense	(20,974)	(19,741)
Net premium	81,270	81,144
Claims expense	(76,753)	(146,252)
Reinsurance and other recoveries	28,534	99,648
Net claims	(48,219)	(46,604)
Acquisition and other underwriting costs	(2,079)	(4,765)
Underwriting result	30,972	29,775
Gain on disposal	14,642	—
Finance costs	(586)	(485)
Other revenue	6,764	8,565
Other expenses	(23,160)	(21,561)
Profit before tax from discontinued operations	28,632	16,294
Tax income/(expense): related to pre-tax profit	4,816	(4,913)
Profit from discontinued operations	23,816	11,381

Contact Details

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Mon to Fri: 8am to 6pm
Saturday: 9am to 12noon

Internet

www.hbf.com.au

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GPO Box C101 Perth WA 6809

HBF Branch Hours

Mon to Fri: 9am to 5pm
*Saturday: 9am to 12.30pm

Metropolitan Branches

Belmont

Belmont Forum Shopping Centre

Booragoon*

Garden City Shopping Centre

Cannington*

Carousel Shopping Centre

Fremantle

82 High Street

Hillarys

Whitford City Shopping Centre

Innaloo

Innaloo Shopping Centre

Joondalup

115 Grand Boulevard

Karrinyup*

Karrinyup Shopping Centre

Mandurah

32 Pinjarra Road

Midland

18/53 The Crescent

Morley*

Galleria Shopping Centre

Perth

96 William Street

Rockingham

Rockingham City Shopping Centre

Subiaco

513 Hay Street

Success

Cockburn Gateway Shopping Centre

Regional Branches

Albany

21 Albany Highway
Telephone: 9845 7000

Bunbury

12 Arthur Street
Telephone: 9722 6300

Busselton

2/90-92 Queen Street
Telephone: 9781 1800

Geraldton

Northgate Shopping Centre
Telephone: 9920 8200

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