



Concise Annual Report 2015

# Making healthy happen



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*This document provides a summary of the performance of HBF Health Limited and its controlled entities ('HBF Group'). The commentary by the Chairman and Managing Director, and the concise financials themselves, relate mainly to the performance of HBF Health Limited and HealthGuard Health Benefits Fund Limited ('HealthGuard'), 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.*

## Making healthy happen

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

Our goal is simple.

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



## For people, not profit

How more than \$3.3 million in benefits was returned to our members, every day

	2014/15 Benefits	Increase %
<b>Major Areas of Hospitals Claims (HBF Health)</b>		
Private Hospitals	\$809.1M	6.5%
Public Hospitals	\$43.3M	0.7%
Licensed Day Surgeries	\$32.4M	6.7%
<b>Major Areas of General Services Benefits</b>		
Dental	\$203.1M	11.9%
Optical	\$38.6M	22.6%
Physiotherapy	\$22.8M	4.1%
Chiropractic	\$15.1M	2.6%
Podiatry	\$6.8M	3.5%
Pharmacy	\$3.5M	4.7%
<b>Ambulance Benefits</b>	<b>\$20.9M</b>	<b>5.3%</b>
<b>Gap Saver Benefits</b>	<b>\$26.5M</b>	<b>22.5%</b>

## Biggest area of growth in Hospital Benefits (HBF Health)

The 4 groups below made up 69% (\$33.8m) of the \$48.9m increase

	2014/15 Yr on Yr \$ increase	2014/15 Yr on Yr % change
<b>Orthopaedic</b>	<b>\$16.1M</b>	<b>8.4%</b>
<b>Knee Replacement</b> benefits increased by \$4.8m (11.4%) and this was caused by a 9.2% increase in episodes and a 2.0% in benefit average.		
<b>Back and Neck Procedure</b> benefits increased by \$1.7m (11.4%) and this was caused by a 6.6% increase in episodes and a 4.5% in benefit average.		
<b>Digestive</b>	<b>\$6.8M</b>	<b>10.6%</b>
<b>Colonoscopy</b> benefits increased by \$2.0m (17.0%) and this was caused by a 13.4% increase in episodes and a 3.3% in benefit average.		
<b>Complex Gastroscopy</b> benefits increased by \$1.0m (10.4%) and this was caused by a 6.1% increase in episodes and a 4.1% in benefit average.		
<b>Cardiovascular</b>	<b>\$6.7M</b>	<b>6.6%</b>
<b>Vascular Procedure</b> benefits increased by \$1.8m (15.8%) and this was caused by a 14.7% increase in episodes and a 0.9% in benefit average.		
<b>Circulatory System Disorder</b> benefits increased by \$0.9m (5.4%) and this was caused by a 2.7% increase in episodes and a 2.7% in benefit average.		
<b>Eye</b>	<b>\$4.6M</b>	<b>13.0%</b>
<b>Retinal Procedure</b> benefits increased by \$2.8m (23.9%) and this was caused by a 76.3% increase in episodes.		
<b>Lens Procedure</b> (eg Cataract) benefits increased by \$1.3m (5.1%) and this was caused by a 2.6% increase in episodes and a 2.4% in benefit average.		



**\$901.9M**

HBF Health Hospital benefits



**\$77.5M**

HealthGuard Hospital benefits



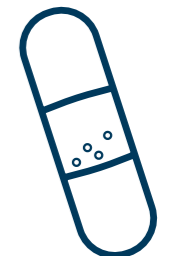
**\$331.9M**

HBF Health General Services benefits



**\$21.4M**

HealthGuard General Services benefits



# Highlights of the Year 2014-2015

## Our national expansion



We adopted a new vision, to become 'Australia's third pillar, not-for-profit health fund, with healthier, happier members.'

We developed a suite of new products specifically for members in Australia's central and eastern states.

We commenced a partnership with iSelect to proactively attract members from beyond the Western Australian border.

Just three months into our relationship with iSelect, we earned their Best New Partner award for 2015.

## Our people



Our annual employee survey placed HBF in the top quartile and, in some areas, the top decile for employee engagement, among hundreds of companies our size.

Four out of five HBF employees took part in our workplace wellness program in 2014.

500 employees attended the 36 health and wellness workshops we delivered for our people.

Since 2012 on a scale of 'poor to excellent' the percentage of our people who think their health is 'poor' or 'fair' has halved.

Our employees volunteered 1,855 hours (251 days) in community service, in addition to the voluntary time almost 300 of our people spent volunteering at HBF Run for a Reason.

Through HBF's workplace giving program our employees personally donated \$52,643.65 to three WA charities.

We received strong internal endorsement of our first-ever Enterprise Agreement, with 94 per cent of employees who voted, voting in favour of it.

## Our members



A record 1,233.8 million in health insurance benefits was provided to HBF Health members.

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

A new ancillary product, Flexi Extras was launched providing HBF members, what we believe is, the most flexible extras cover in Australia.

We again achieved industry leading member retention rates (92.06%).

We ranked well ahead of all other major funds for customer satisfaction (Roy Morgan, April 2015).

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

## Our Health Partner offering



Friendlies became the only pharmacy chain in Australia where health insurance members can claim instantly in-store.

We welcomed Clarkson, Banksia Grove and Dianella Friendlies Pharmacies into our Group.

This flu season our Friendlies pharmacists administered more than 10,000 flu vaccinations, up from 1,800 in 2014.

HBF Fitness spring and summer registrations grew by 45 per cent.

3,500 eligible HBF members who participated in our six-month HBF Active Connect pilot program increased their physical activity levels by 56 minutes per week, on average.

80 per cent of participants in HBF Coach (a program that helps members manage a heart condition or diabetes) avoided hospitalisation during the 12 months after completing the program.

## Brand, reputation and leadership



For the first time, we consolidated our health partner initiatives under one overarching name – Momentum.

Our new advertising campaigns shared inspiring stories of Western Australians 'making healthy happen.'

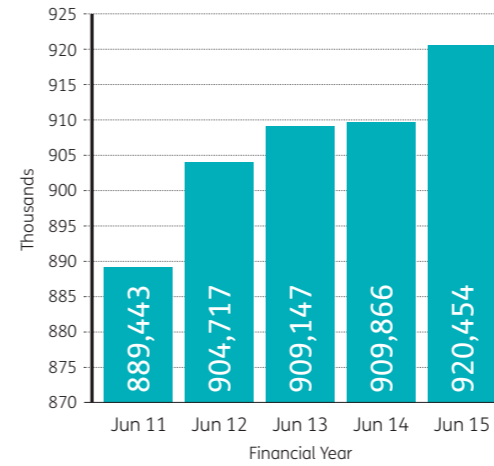
We won two out of three categories in Canstar's 2014 independent review of health insurance in Western Australia – for 'Outstanding Value' for both Hospital & Extras cover and Extras cover.

HBF was a major sponsor of both the Fremantle Dockers and West Coast Eagles football clubs.

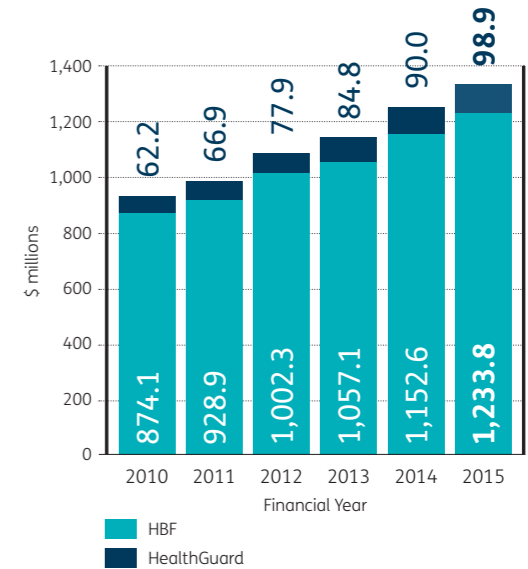
HBF Run for a Reason became Western Australia's largest community running and walking event. 31,000 Western Australians took part.

# Giving more back

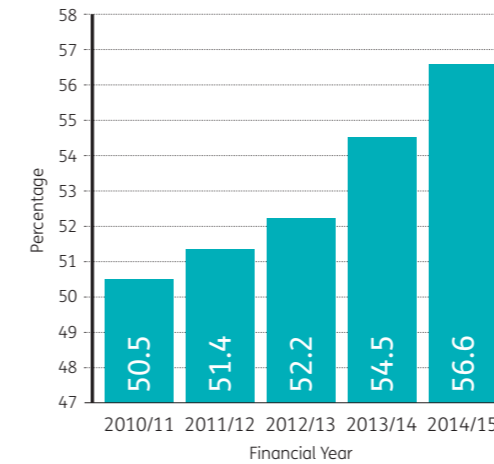
Number of HBF Health members



Benefits paid to HBF Health and HealthGuard members

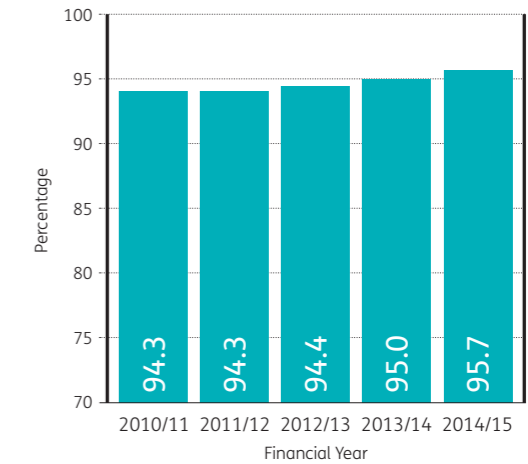


Percentage of General Treatment covered for HBF members in WA



Source: PHIAC

Percentage of Hospital related charges covered for HBF members in WA



Source: PHIAC

# Chairman's and Managing Director's Report

*Australia's third pillar, not-for-profit health fund, with healthier, happier members.*



2015 was the third year in a five year plan to evolve HBF into a trusted health partner for our members.

While our vision to create 'a community whose members are renowned for being healthier and happier people' drove the majority of initiatives in this report, many were also driven by a new vision we adopted this year that reflected our national aspirations.

Our new vision is to become 'Australia's third pillar, not-for-profit health fund, with healthier, happier members.'

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



Tony Iannello  
Chairman



Rob Bransby  
Managing Director

### Financial overview

HBF ended the 2014/15 year in a strong financial position with a net surplus of \$80.0 million for the HBF Group and \$72.8 million for HBF Health Ltd.

HBF Health contributions were 4.7 per cent higher than the prior year, despite competition from foreign and eastern states based funds, the increased use of intermediaries (a driver of decreasing member loyalty) and low consumer confidence.

The challenging environment resulted in a flattening in sales of core hospital and ancillary products but this was offset by industry leading member retention rates. This year we again widened the gap between the proportion of our members that chose to stay with us (92.06%, at June 2015) compared to the proportions that chose to stay with all other major funds. While we continue an upward trend in member retention, all other major funds have decreased or plateaued in this area.

Despite significant investment in our wellness capabilities, including our expansion of Friendlies Pharmacies described later, costs were controlled and we achieved an administrative ratio of 11.4 per cent. During the year special attention was paid to identifying opportunities for loss prevention, resulting in savings of just over \$6.7 million.

HBF's agency income from general and life insurance totalled \$14.6 million and our group investment income totalled \$61.0 million.

Our subsidiary fund, HealthGuard, operating under the brand names GMF Health and Central West, increased contributions by 9.1 per cent. Later, we describe how HealthGuard merged with HBF on 30 June 2015.

### Member experience

This financial year, for the first time in our 74-year history, HBF Health provided more than \$3.3 million in health insurance benefits to members, every day. In total, HBF Health paid a record \$1,233.8 million in benefits.

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

Other measures of performance and the experience delivered to our members were favourable. The independent 2014 State of the Health Funds Report (SOHFR) issued by the Private Health Insurance Ombudsman confirmed the Ombudsman received significantly fewer complaints from HBF members than from other major funds, relative to market share. The same report showed that on average we covered more Hospital Related Charges in WA and Dental Costs nationally than our major competitors.

Roy Morgan's latest survey of private health insurance members painted a similar picture, ranking us well ahead of all other major funds for customer satisfaction.

We believe these results reflect our determination to constantly look for ways to improve our products and services for our members. One example, and a highlight for the year, was our launch of an entirely new extras (ancillary) health insurance product.

Our research had told us very clearly that people choosing ancillary private health insurance sought two things – greater value and more control over their cover. Our response was to develop and launch a product in February 2015 called Flexi Extras, a first of its type and, we believe, an industry game-changer that gives our members optimum value from their ancillary cover.

Choosing from an extensive list of health services, members with Flexi Extras can choose what they're covered for and how much they will receive back when they claim. And they can swap the services they are covered for at any time. We believe it is Australia's most flexible extras cover.

A large portion of those who have signed up for Flexi Extras are existing members who have upgraded their general cover, defying the national trend of increasing product downgrades. It's confirmation that members respond to value, not just price, when choosing their cover. New members have been quick to recognise the product's value too, with a particularly strong first-quarter of sales and a solid performance pre-June 30.





HBF Fitness registrations grew by 45% in spring and summer, compared to the same period last year.



Even prior to our launch of Flexi Extras, our hospital and general health cover options were attracting industry recognition. We bucked the national trend by winning two out of three categories in Canstar's annual independent review of health insurance in Western Australia. In other states, national and multi-national funds shared the majority of awards.

Canstar reported that of the 14 health funds they assessed in WA, only HBF offered 'Outstanding Value' for both Hospital & Extras cover and Extras cover – the types of cover held by the overwhelming majority of our members.

Canstar said our "hard-working" product combinations consistently scored well on price and features, meaning lower out of pocket costs and the best access to quality healthcare for our members. The awards were our second and third from Canstar in as many years, and confirm our success in delivering the best quality cover for our members.

### Our world today

Multiple factors have made growing our membership and retaining our existing members harder than ever before.

The rising cost of healthcare (reflected in premium increases by insurers that significantly outstrip CPI); Government focus on cost savings in health; and the growing role of health insurance brokers has resulted in declining member loyalty, industry-wide.

The economic down-turn of the resources sector in WA and Government policy of means testing and indexing the Australian Government Rebate on private health insurance have also impacted private health insurance affordability. As a result, funds are seeing more members downgrade their cover to seek cheaper, less comprehensive cover. Industry-wide, Private Healthcare Australia reported 985,000 policy downgrades between February 2012 and December 2014, and 1.5 million policies were cancelled. Our concern is that if this trend continues, our most financially vulnerable members are the ones most likely to experience large out of pocket costs due to inadequate cover.

We are focussed on working with Government to address this concern in pursuit of a more sustainable model for private health insurance. We also stand ready to explore ways our sector can help facilitate higher quality healthcare, at the primary care level specifically, to improve the health of Australians, keep them well for longer and, by doing so, reduce the social and financial burdens associated with poor health. It was encouraging that during the year the Managing Director was invited to be part of the Federal Government's Primary Health Care Advisory Group. In addition our leadership role with Private Healthcare Australia continues to give us considerable influence on health insurance and wider health reform.

During the year the Federal Government completed its private listing of Medibank Private – the nation's largest health insurer. As anticipated, Medibank's focus has since shifted strongly to delivering shareholder return, and increasing efficiencies, evidenced in its approach to hospital negotiations.

We expect it won't be long before we see a further consolidation of the national private health insurance sector, with large funds highly likely to merge with, or acquire, smaller funds, as the smaller funds struggle to remain viable alongside a big few. This occurred when Bupa bought established not-for-profit funds, such as MBF and HBA, soon after it entered the Australian market. More recently in 2012, Medibank Private and AHM merged, as did HCF and Manchester Unity in 2011.

We are determined to ensure all Australians will have the option of being with a not-for-profit health fund. That's why in February this year we played a leading role in the creation of Members Own Health Funds.

We combined forces with 14 fellow not-for-profit and mutual health funds to create a counterbalance to the insurers that dominate Australia's health insurance sector today.

Although comprised of mainly small funds, Members Own Health Funds has a combined membership of over 2.5 million – 20% of all Australians with health insurance.

There is a tangible difference in the experience Members Own receive, compared to members of Medibank, Nib and Bupa. According to an independent report tabled this financial year, Members Own Health Funds on average give more back to their members; have higher member satisfaction; and their members are less likely to leave their fund, compared to Medibank Private, Bupa and Nib.

It is the task of Members Own Health Funds to share these insights with all Australians who are considering private health insurance.



# Chairman's and Managing Director's Report

## Our national ambition

In an era when small not-for-profit funds are take-over targets for larger for-profit funds, we believe the time is right for a major not-for-profit fund to provide an alternative in Australia's central and eastern states. We believe we have the size and sophistication to be a viable alternative to the large eastern states-based funds in our own right.

In preparation for a national expansion, we consolidated the HBF Group during the year. Our small Central West Health brand was closed and its members migrated to GMF (the brand familiar to almost all HealthGuard members). At the end of the financial year we merged the HealthGuard fund with HBF Health Ltd. Our combined membership elevated us to be Australia's fourth largest health insurer. Importantly, the merger of HBF and HealthGuard has given GMF members the assurance they will remain in the care of a well-resourced not-for-profit.

Our greatest opportunity for growth exists in markets we have not previously targeted and the merger of our two funds signalled our intent to secure our home base of Western Australia, while looking to grow our business beyond our state border.

This year we developed a suite of new products specifically for members in Australia's central and eastern states. They were designed to be competitive against the products offered by others and to meet a broad range of health insurance needs.

From May we activated a partnership with intermediary iSelect, while also attracting east coast members through our own website. We opted for this mode of acquisition as a cost-effective initial way to attain members without investing heavily in brand building in the east.

To date, sales via iSelect are tracking to target and we have been pleased with the percentage of national memberships converted via our own website and member call centre. We haven't actively advertised our products outside WA, beyond having a sales function for eastern and central states members on our website and by listing our products on iSelect. Our strong percentage of website and call centre sales suggests our partnership with iSelect is working in more ways than one. Some members are opting to join us directly through our own channels after learning of us through iSelect.

Just three months into our relationship with iSelect, we earned their Best New Partner award for 2015. The award recognised our successful launch into their business, which had their people highly engaged with our brand and products, right from the outset.

Our aspiration to grow nationally, while maintaining our focus on our home fortress of WA, was reflected in organisational changes this year. A Chief Operating Officer role was created to oversee our existing operations and a Corporate Office was established to identify strategic opportunities to grow our business over east.

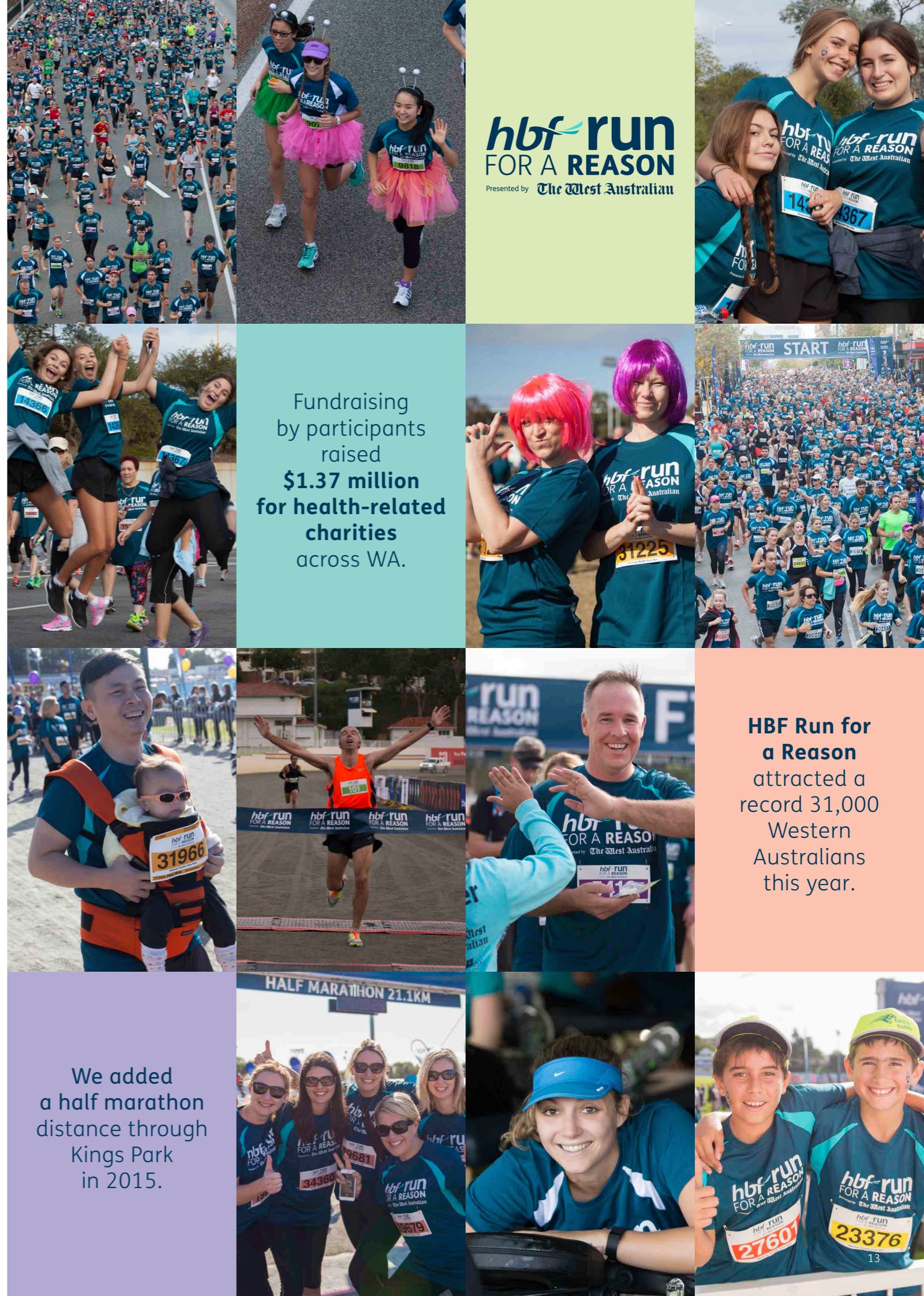
## Fortress WA

We are determined to keep WA our own and believe being a Health Partner for Western Australians is crucial to retaining our mantle as the State's health insurer of choice. This Health Partner strategy took significant steps forward this financial year.

For the first time, we consolidated our Health Partner initiatives under one overarching name – Momentum. We monetised their collective value enabling us to clearly communicate the 'added value' our members receive through services including (but not limited to): professionally run free fitness sessions; discounted entry to gyms and fitness facilities including HBF Stadium and HBF Arena; and fully covered health checks and flu vaccinations and benefits toward Friendlies Pharmacies' 12-week health program for eligible members.

The health services we provide members through Friendlies Pharmacies have been increasingly popular, and we are working hard to grow the range of programs we offer in pharmacy. We improved our member experience in Friendlies too, by becoming the only pharmacy chain in Australia where health insurance members can claim instantly in-store.

In 2014/15 we welcomed Clarkson, Banksia Grove and Dianella Friendlies Pharmacies into our Group, taking our total number of pharmacies to 15 and we opened our first co-located HBF and Friendlies branch in Subiaco. We expect to establish more co-locations in the future to more explicitly highlight the benefits our members receive through Friendlies.



Fundraising by participants raised **\$1.37 million** for health-related charities across WA.

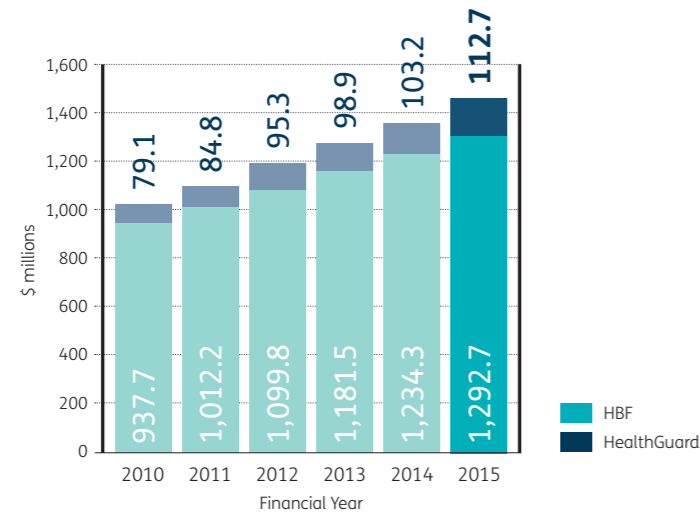
**HBF Run for a Reason** attracted a record 31,000 Western Australians this year.

We added a half marathon distance through Kings Park in 2015.

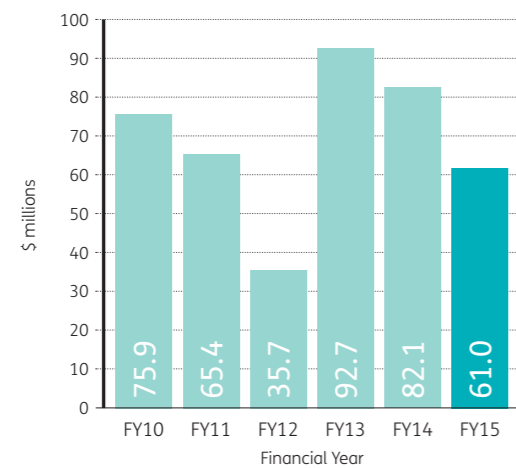




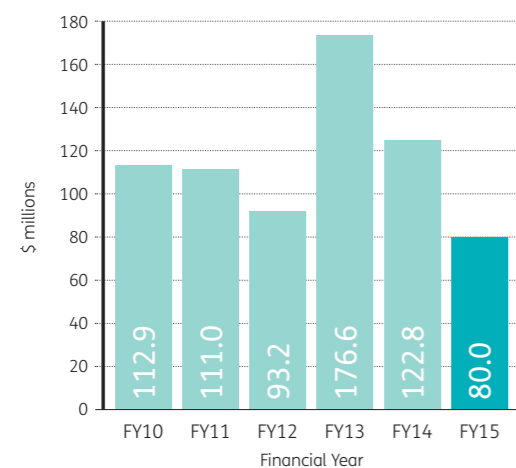
Premium contributions  
2010 – 2015



Group Investment Income  
2010 – 2015



Group Net Surplus  
2010 – 2015



Take-up of our Friendlies health services has far exceeded expectations. This flu season our Friendlies pharmacists administered more than 10,000 flu vaccinations, up from 1,800 in 2014. By offering fully covered health checks in Friendlies we also helped hundreds of HBF members catch the warning signs early of type 2 diabetes and cardiovascular disease.

Alongside Friendlies, we've also grown our flagship Health Partner initiative – HBF Fitness. To encourage more of our members to lead active lives, we increased the number of free outdoor fitness locations in spring and summer to 20 and introduced an indoor winter program giving members year-round access to HBF Fitness. Our members responded in droves – in spring and summer alone, HBF Fitness registrations grew by 45 per cent compared to the same period last year.

Likewise, HBF Run for a Reason was again remarkably successful this year. Highlights included: the addition of a half marathon distance through Kings Park; our creation of a pre-event training and fundraising mobile app; and, most importantly, record participation. At a time when fitness events are growing in number nationally, but declining in participation (on average by 10 per cent), this was nothing short of outstanding. In 2015 HBF Run encouraged a record 31,000 Western Australians from pre-schoolers to nonagenarians to get active, through HBF Fitness training in the lead-up and on event day. Fundraising by participants raised \$1.37 million for health-related charities across WA, helping improve thousands of lives through care and research.

The sheer number of runners and walkers seen wearing HBF Run t-shirts all year-round is one indicator of the positive impact our event has had.

In another move this year to help our members be more active and socially connected, we gave 3,500 eligible members from Perth, Geraldton, Bunbury and Albany the opportunity to participate in our HBF Active Connect pilot program. The program helps members set and achieve their own physical activity goals through telephone coaching, access to HBF Fitness, and access to a website directing them to activities, sports and other facilities near their homes and workplaces. Members who completed the six-month program increased their physical activity levels by 56 minutes per week, on average, which represents a considerable health benefit for those members according to our health consultants who ran the program.

In another program aimed at improving our members' health, we partnered with Medibank Private and the WA Department of Health to trial an integrated care program, CarePoint, for privately insured and non-insured inpatients.

We know a relatively small percentage of Western Australians who suffer from multiple chronic conditions account for a very substantial proportion of hospital admissions. This is the issue CarePoint aims to address.





CarePoint is a two-year trial which provides care in the community for people with chronic disease who are recurrent users of private and public hospital services. Clinical care coordinators in participating GP practices work closely with the GPs to develop and coordinate holistic and evidence-based Care Plans aimed at keeping patients well for longer, keeping them out of hospital and improving their overall quality of life.

The trial will enrol 1,200 people in Perth's northern suburbs. Of those, up to 500 will be public non-insured inpatients, and the remainder will be HBF and Medibank Private members. The trial will be evaluated next year by the University of WA.

This year we continued delivery of chronic disease management programs, Heart Care and Coach. Heart Care helps our members recover from a cardiac event and Coach helps members manage an existing heart condition or diabetes.

Both programs produced very pleasing results this year. 80 per cent of Coach participants avoided hospitalisation 12 months after completing the program. And we continued to see a reduction in hospitalisation rates for Heart Care participants, four years after they completed the program.

This year we helped a growing number of Western Australian businesses look after the health of their employees. We are proud of our comprehensive corporate health insurance and corporate wellness offering and value the partnerships we have with employer organisations.

### Our people

It isn't easy to be healthy and happy, and have balance in everything we do. But we believe our vision to help our members be healthier and happier must start with us.

This year we expanded HBF Balance – our internal corporate wellness program that empowers and supports our employees to live healthy and happy lives, at work and at home. The program takes a holistic view and gives our people access to physical, career, community, financial, emotional and social support.

Four out of five employees (approximately 750 people) took part in HBF Balance in 2014. And since 2012 on a scale of 'poor to excellent' the percentage of our people who think their health is 'poor' or 'fair' has halved.

We believe feeling part of a well-functioning team at work plays a huge role in a person's overall wellness, so every year we eagerly review the results of our annual Engagement Survey of employees. The survey measures how closely our employees feel they are connected with and understand our organisation, our goals, and their own roles within HBF.

This year our Engagement results were outstanding. Out of hundreds of companies our size, we ranked in the top quartile for engagement and in some areas we are in the top decile.

We know from a growing body of research that workplace design also significantly impacts people's health and wellness. Australia's national Guidelines for Physical Activity and Sedentary Behaviour tell us sitting for long periods can cancel out the benefits of exercise, and significantly increases the risk of obesity and developing type 2 diabetes and cardiovascular disease.

While our head office in Murray Street has served us well for over 35 years, it's time for a healthy change. Plans are underway for almost 800 head office employees to relocate to our new Kings Square office during the first half of 2016.

In our new office all employees will have sit-stand desks, there will be a central staircase to encourage us to take the stairs instead of lifts, and there will be plenty of collaboration spaces to encourage us to get up and move more often than our existing office allows. End of journey facilities such as bike storage and change room facilities will also be much improved. We believe these features, and a design that allows much more natural light through our building, will help us all improve our health and happiness.

It's a pleasure to report on a year when we have made real progress with our Health Partner strategy, improved our health insurance offering and maintained our strong financial position. It is an exciting time for our business as we embark on national growth.

We take this opportunity to thank our Board colleagues, HBF Councillors and HBF employees for their part in the achievements reported above. We also extend our full support to Mr Barry Honey who has commenced his first term as HBF Board Chairman. To Barry in your new role, and to all of our colleagues, Councillors and members, we wish you continued success in the year ahead.

Rob Bransby  
Managing Director

Tony Iannello  
Chairman

### A message from the Managing Director

*I would like to place on the record my personal thanks and gratitude to outgoing Chairman, Mr Tony Iannello for his valued contribution to HBF during nine years as an HBF Director, including the past six years as Chairman. I would also like to thank outgoing Director, Mr Peter Wallace who has served on the HBF Board for ten years. Tony and Peter have provided invaluable guidance and direction to HBF through a transformative period for our business. On behalf of my Board colleagues and all HBF employees, I wish Tony and Peter every success in the future.*

Rob Bransby  
Managing Director

# Corporate Governance



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

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

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

*We have posted a copy of this statement on our website, [hbf.com.au](http://hbf.com.au)*

## Council

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

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

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

## HBF Board

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

From 1 July 2015 responsibility for the prudential regulation of the private health insurance industry transferred to the Australian Prudential Regulation Authority (APRA). The Board also oversees compliance with the Department of Human Services (DOHS), the Department of Health (DOH) and the Australian Securities and Investments Commission (ASIC) requirements and general corporate operations, as well as requirements for distribution of our general insurance products that are underwritten by CGU and life risk insurance products that are provided by Charter Financial Services Pty Ltd.

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

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

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

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

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

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

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

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

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

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

## Committees

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

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

## Audit and Risk Management Committee

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

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

The Committee currently comprises five non-executive directors. At least two committee members are to have practical business experience in financial reporting, application of accounting standards and audit requirements and all members must be

## Corporate Governance

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), Peter Wallace, Mary Woodford, Rod Moore and Richard England (from April 2015). The Committee meets at least four times per year.

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

Greg Meyerowitz of Ernst & Young was the lead audit partner for HBF Health Limited.

### Nomination and Remuneration Committee

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

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

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

### 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 and as required.

#### **Ethical standards and corporate social responsibility**

HBF has a Code of Conduct, which sets out the expected standards of behaviour for all employees, including directors. It outlines the principles of honesty and integrity, equity and fairness, confidentiality, impartiality, respectfulness and courtesy, which are to be demonstrated in all relationships with members, colleagues, suppliers, competitors and the general public. Open and honest behaviour is one of our core values. The Code of Conduct is aligned with employment legislation and the obligations this places on HBF and our employees.

The organisation also has policies on whistleblowing, conflicts of interest, social media 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 Private Healthcare Australia Voluntary Code of Conduct for Private Health Insurers.

We actively support 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, by supporting and staging events which promote healthy lifestyles and behaviours. Details of our community health activities are provided in the Chairman's and Managing Director's Report.

#### **Independent professional advice**

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

#### **Performance evaluation**

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

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

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

#### **Audit and risk management**

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

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

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

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

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

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

#### **Remuneration**

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

#### **Conflict of interest**

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

#### **Commitment**

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

#### **Confidentiality**

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

#### **Board access to information and advice**

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

#### **Education and induction**

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

In order to achieve continuous improvement in Board performance, all directors are 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 and we have appropriate gender diversity at board, senior management and management levels as well as a culture that supports diversity throughout the organisation.

The proportion of females at the different levels as reported in HBF's EOWA Report at 31 March 2015 was:

CEO/Head of Business	0%
Key Management Personnel	56%
Other Executives/General Managers	100%
Senior Managers	40%
Other Managers	63%
Total employees	73%

37.5% of the non executive directors on the HBF Board are also females.

#### **Secretary**

Julie Keene is the Secretary of HBF with Nigel Jones having retired in November 2014. Responsibilities of the secretarial function include preparation and distribution of Board agendas and papers, taking of Board minutes, providing advice to directors and officers on corporate governance developments and regulatory matters, implementing and maintaining HBF's Board governance policy and giving practical effect to Board decisions. Directors have access to advice from the Secretary.

### Subsidiary boards

#### **HealthGuard Health Benefits Fund Limited**

This board is responsible for the governance of HealthGuard Health Benefits Fund Limited, 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 and senior executives, including the Managing Director of the HBF Group.

The board is also responsible for compliance with requirements of PHIAC (APRA from 1 July 2015), the regulator of the private health insurance industry.

During the year, the directors of the board were Valerie Davies (Chairman), Tony Crawford, Nigel Jones (until November 2014), Julie Keene (from November 2014), Peter Wallace and Rob Bransby (Managing Director).

From 30 June 2015, all health fund assets, liabilities and policies of HealthGuard Health Benefits Fund Limited transferred to HBF Health Limited under a merger arrangement approved by PHIAC. HealthGuard the Company has yet to be deregistered, however the Board size was reduced to the required minimum of three with the resignations of Peter Wallace and Tony Crawford effective 30 June 2015.

#### **Minor operating and non operating entities**

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

# Directors Report

*Year ended 30 June 2015*

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



Your directors submit their report for HBF Health Limited (HBF) and its controlled entities (HBF Group) for the year ended 30 June 2015.



**AM (Tony) Iannello (Chairman)**  
BCom FCPA SF Fin FAICD

Mr Iannello was appointed Chair of the Board in November 2009 and has been a Director since November 2006. He is also Chair of the Nomination and Remuneration Committee. He previously served as a member of the HBF Group 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.

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

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



**Rob Bransby (Managing Director)**  
SF Fin, FAIM

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

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

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

Mr Bransby is President of Private Healthcare Australia (PHA), a Director of Synergy, Goldfields Money Ltd, Pioneer Credit and Members Own Health Funds. Until April 2014 he was a Board member of the Australian Institute of Management (WA). Mr Bransby is a member of the International Federation of Health Plans' (IFHP) Council of Management.



**Tony Crawford**  
LLB, BA, GAICD

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

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

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



**Valerie Davies**  
FAICD

Ms Davies was appointed a Director in October 2005 and appointed Chair of HealthGuard Health Benefits Fund Limited in May 2012. A current member of the Nomination and Remuneration Committee she also served on the Board of HBF Financial Services Pty Ltd until March 2009.

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

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



**Richard England**  
FCA, MAICD

Mr England was appointed a Director in February 2015 and is also a member of the HBF Group Audit and Risk Management Committee. For the past 20 years, Mr England has served as a non-executive Director and Chair of listed and unlisted companies as well as not for profit organisations. Currently he is Chair of Ruralco Holdings Limited and until April 2015 was a Director and Chair of Chandler Macleod Group Limited. He is a non-executive Director of Japara Healthcare Limited, Macquarie Atlas Roads Limited and Nanosonics Limited.

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

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



**Barry Honey** (Deputy Chairman)  
BBus, FCA, MAIC

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

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

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

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



**Dr Rod Moore**  
MBBS, Grad Dip Sp Med, GAICD

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

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

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



**Anne Templeman-Jones**  
BCom, ExecMBA, CA, FAICD

Ms Templeman-Jones was appointed a Director in July 2004 and retired from the Board in October 2014. During that time she was Chair of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business in 2011, a member of the HBF Group Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee.

Since 1995, Ms Templeman-Jones served on the Boards and chaired the Audit and Risk Committees of McCusker Foundation for Alzheimers Research, the Travel Compensation Fund and currently serves on the boards of Cuscal Limited and APN News and Media Limited.

From 2007 to 2013, Ms Templeman-Jones held a number of senior executive positions at Westpac, including Director of Corporate and Institutional Banking, Director Group Risk Reward, Head of Strategy and Governance for Pacific Banking and Head of Private Bank (NSW). She previously held senior executive positions in Switzerland, Belgium, Perth and Sydney with AIESEC International, PwC, The Bank of Singapore, the Bank of New Zealand and ANZ Banking Group.

Ms Templeman-Jones is a Fellow of the Australian Institute of Company Directors and a member of the Institute of Chartered Accountants in Australia.



**Peter Wallace**  
SF Fin, FAICD, AFAIM

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



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

Ms Woodford was appointed a Director in August 2007 and is also a member of the HBF Group Audit and Risk Management Committee. 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 until 2009 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).

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

Ms Woodford also has experience as a Company Secretary and Chair for not for profit organisations. She is currently Chair of Mercycare Limited and Chair of Durack Institute of Technology. She was formerly a Director of the Heart Foundation (WA) Inc. and a Director and Chair of John XXIII College Inc.

**Principal activities**

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

**Objectives**

As a not for profit organisation and Western Australia’s leading health fund, our ultimate objective is to improve the health of our members. This year, for the first time in our 74-year history, we set out to become a national health insurer. Our vision is to become Australia’s third pillar, not-for-profit health fund, with healthier, happier members.

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

In our home state of WA we remain committed to become the preferred health partner for Western Australians. To do this, we believe we need to do more than just pay our members’ medical bills. This includes: helping members at risk of developing chronic health conditions to adopt healthier lifestyles; helping members with health issues manage their conditions to improve their quality of life; and enabling members needing complex care to access a range of appropriate healthcare options outside the hospital environment.

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

**Performance measures**

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

**Operating and financial result**

HBF Group achieved a surplus for the year after tax of \$80.0m (2014:\$122.8m) as a result of sound operating performance from all group companies and strong investment returns.

**Health insurance**

Membership growth, helped by strong retention of members has underpinned an increase in contributions of 5.1% (\$67.9m) to over \$1.4 billion. This increase took place during a year when HBF’s premium increase was below the national average for the third consecutive year.

Across the Group, benefits provided to members increased 7.3% from the prior year to \$1.33 billion (2014: \$1.24 billion). The amount of benefits paid as a percentage of contributions received has also increased for the Group from 92.9% last year to 94.8% this year.

Expenses increased by \$8.0m reflecting continuing investment in strategic objectives aligned to the transition from health insurer to health partner, increases in labour costs and expenditure on infrastructure and process improvements to improve efficiency and member experience.

**General and life insurance**

During the current financial year the Group earned commission income of \$14.6m (2014: \$15.5m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products from a selection of underwriters.

**Investments**

Although investment income fell slightly in comparison to the prior year primarily as a result of market conditions, the portfolio performed better than benchmark. Gains from financial assets at fair value for the group were \$61.0m (2014: \$82.1m), equivalent to an overall investment return for the year of 4.4% (2014: 6.9%). This return reflects the continued strong performance of equity investments and sound cash investment returns.

**Dividends**

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

**Share options**

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

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the consolidated group during the year other than the merger of HealthGuard Health Benefits Fund Limited with HBF Health Limited on 30 June 2015.

**Significant events after reporting date**

There have been no significant events since the reporting date other than settlement of the remaining 90% of the purchase price for Kings Square.

**Likely developments and expected results**

In 2015/16 we anticipate continued growth in health insurance membership and revenue and expect to remain Western Australia’s market leader in health insurance.

We anticipate that there may be a small decline in our market share in Western Australia but that this will be more than offset by increases in market share in other states, so that our national market share will increase. Our national growth strategy will continue to utilise intermediaries rather than through large scale marketing of our products and services outside Western Australia.

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

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

Number of Meetings	Meetings of Committees					
	Directors’ meetings		Group Audit & Risk Management		Group Nomination & Remuneration	
	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend
	7		4		3	
A L Templeman-Jones	3	3	1	1	1	1
VA Davies	7	7			3	3
P Wallace	7	7	4	4		
RE Bransby	7	7	4	4	3	3
AM Iannello	7	7			3	3
M Woodford	7	7	4	4		
BJ Honey	7	7	4	4	3	3
R Moore	7	7	4	4		
AF Crawford	7	7				
RAF England	3	3	1	1		

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

To address the budget deficit and the steep growth in health expenditure, we expect the Federal Government will continue to seek cost savings and improved efficiencies in health. We will continue to play an active role in national healthcare reform, particularly through Managing Director, Rob Bransby’s role on the Government’s Primary Healthcare Advisory Group and his Presidency of Private Healthcare Australia.

**Indemnification and insurance of directors and officers**

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

**Indemnification of auditors**

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

**Directors’ benefits**

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit in connection with the management of the affairs of the entity, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the accounts in note 24, by reason of a contract entered into by the entity or a related corporation with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

**Directors’ meetings**

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

**Environmental regulation**

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

**ASIC relief regarding disclosure of separate information on the company**

This financial report includes the financial statements of the Consolidated Entity and the Company. The Company is the kind of company referred to in the class order 10/654 issued by ASIC. As a result, the financial position and result of operations of the Company has been presented as part of this report.

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

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

Signed in accordance with a resolution of the directors:



Director, HBF Health Limited  
Perth, 22nd day of September 2015





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

### Report on the concise financial report

We have audited the accompanying concise financial report of HBF Health Limited which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and related notes, derived from the audited financial report of HBF Health Limited for the year ended 30 June 2015. The concise financial report also includes discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

### Directors' responsibility for the concise financial report

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

### Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of HBF Health Limited for the year ended 30 June 2015. We expressed an unmodified audit opinion on the financial report in our report dated 22 September 2015. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

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

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

### Independence

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

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GHM:JTHBF:021



### Auditor's opinion

In our opinion, the concise financial report, including the discussion and analysis of HBF Health Limited for the year ended 30 June 2015 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Ernst & Young

G H Meyerowitz  
Partner  
Perth  
22 September 2015



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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 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz  
Partner  
Perth  
22 September 2015

HBF Health Limited  
Consolidated Statement of Comprehensive Income  
Year ended 30 June 2015

	2015 \$'000	2014 \$'000
<b>Results from underwriting</b>		
<b>Contributions / premiums</b>	1,405,386	1,337,517
Benefits / claims expenses	(1,332,710)	(1,242,605)
Risk equalisation	92,690	84,007
Claims handling expenses	(25,839)	(24,918)
<b>Net benefits / claims</b>	(1,265,859)	(1,183,516)
Acquisition costs	(32,183)	(26,296)
Other underwriting costs	(93,285)	(91,884)
<b>Underwriting result</b>	14,059	35,821
<b>Other activities</b>		
Commission income	14,636	15,450
Other revenue	3,939	3,261
Net gain from financial assets at fair value through profit or loss	61,038	82,142
Other operating and administration expenses	(13,811)	(14,025)
	65,802	86,828
<b>Surplus before income tax</b>	79,861	122,649
<b>Income tax benefit</b>	132	200
<b>Surplus for the period</b>	79,993	122,849
Other comprehensive income, net of tax	—	—
<b>Total comprehensive income for the period</b>	79,993	122,849
<b>Total comprehensive income for the period is attributable to:</b>		
HBF Health Limited	73,125	112,782
HealthGuard Health Benefits Fund Limited	6,868	10,067
	79,993	122,849

**Trends in underwriting result**

Contributions / premiums increased by \$67.9m compared to prior year due to growth in both policies and the number of members covered along with the annual premium increase which was below the national average for the third consecutive year.

Benefits / claims increased by \$90.1m reflecting growth in payments to members for both hospital and general treatment.

Monies received from the Risk Equalisation Trust Fund grew by \$8.7m over the prior year due to an increase in eligible benefits relative to the industry and an increase in total claims paid.

Acquisition costs increased by \$5.9m largely as a result of marketing and other acquisition related expenditure supporting the strategic objectives of the Group, while the \$1.4m growth in other underwriting costs reflects increases in labour costs and expenditure on infrastructure and process improvements to enhance member experience.

**Trends in other activities**

Net gains from financial assets at fair value through profit and loss were \$61.0m (2014: \$82.1m). This reflects the continued strong performance of equity investments and stable cash investment returns.

During the current financial year the Group earned Commission income of \$14.6m (2014: \$15.5m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products from a selection of underwriters.

HBF Health Limited  
Consolidated Statement of Financial Position  
At 30 June 2015

	2015 \$'000	2014 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and bank balances	54,686	105,587
Receivables	100,442	91,796
Financial assets at fair value through profit or loss	1,377,466	1,240,803
Current tax assets	432	297
Deferred acquisition costs	95	3,783
Non-current assets classified as held for sale	7,150	7,150
<b>Total current assets</b>	1,540,271	1,449,416
<b>Non-current assets</b>		
Receivables	3,979	3,686
Other financial assets	10,247	10,006
Property, plant and equipment	18,647	16,618
Intangible assets	22,783	13,700
Deferred tax asset	—	6
Deferred acquisition costs	—	14
<b>Total non-current assets</b>	55,656	44,030
<b>Total assets</b>	1,595,927	1,493,446
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and financial liabilities	14,168	14,091
Insurance liabilities	351,259	335,417
Employee benefits	10,031	8,239
<b>Total current liabilities</b>	375,458	357,747
<b>Non-current liabilities</b>		
Insurance liabilities	41,493	36,507
Employee benefits	2,481	2,690
<b>Total non-current liabilities</b>	43,974	39,197
<b>Total liabilities</b>	419,432	396,944
<b>Net assets</b>	1,176,495	1,096,502
<b>HBF Health Limited equity</b>		
General reserve	111,513	—
Retained earnings	1,064,982	991,857
<b>HealthGuard Health Benefits Fund Limited equity</b>		
General reserve	—	8,784
Retained earnings	—	95,861
<b>Total equity</b>	1,176,495	1,096,502

**Significant movements in assets and liabilities**

Net assets have increased from \$1,096.5m as at 30 June 2014 to \$1,176.5m as at 30 June 2015 reflecting the net surplus after tax of \$80.0m.

Growth in total assets of \$102.5m is reflected by the increase in financial assets at fair value (\$136.7m) partially offset by a decrease in cash and bank balances. The increase in financial assets at fair value arises from both investment performance and reinvestment of operating surpluses.

Total liabilities by contrast have only increased by \$22.5m. This is mainly due to an increase in insurance liabilities of \$20.8m, driven by an increase in unearned premium liabilities.

HBF Health Limited  
Consolidated Statement of Changes in Equity  
Year ended 30 June 2015

	General reserve \$'000	Retained earnings \$'000	Total \$'000
<b>At 30 June 2013</b>	8,784	964,869	973,653
Surplus after income tax	—	122,849	122,849
Other comprehensive income	—	—	—
Total comprehensive income	—	122,849	122,849
<b>At 30 June 2014</b>	8,784	1,087,718	1,096,502
Surplus after income tax	—	79,993	79,993
Other comprehensive income	—	—	—
Total comprehensive income	—	79,993	79,993
Net assets recognised on merger of HealthGuard Health Benefits Fund Limited with HBF Health Limited	102,729	(102,729)	—
<b>At 30 June 2015</b>	111,513	1,064,982	1,176,495

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

HBF Health Limited  
Consolidated Statement of Cash Flows  
Year ended 30 June 2015

	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>		
Receipt of contributions / premiums	1,429,063	1,339,156
Receipt of commission income	15,167	14,993
Payments of benefits / claims	(1,333,140)	(1,243,101)
Risk equalisation receipts	88,738	80,418
Payments to suppliers & employees	(128,675)	(115,846)
Acquisition costs paid	(28,481)	(25,840)
Distributions received	24,068	11,248
Interest received	36,770	32,005
Income tax paid	3	(159)
Goods and services tax received (net)	6,139	5,177
<b>Net cash flows from operating activities</b>	109,652	98,051
<b>Cash flows used in investing activities</b>		
Cash paid for acquisition of property, plant and equipment	(6,323)	(7,036)
Cash paid to escrow	—	(10,006)
Cash paid for acquisition of intangible assets	(17,327)	(6,533)
Cash proceeds from sales of financial assets	774,153	497,179
Cash paid for purchases of financial assets	(911,056)	(586,237)
<b>Net cash flows used in investing activities</b>	(160,553)	(112,633)
<b>Net decrease in cash and cash equivalents</b>	(50,901)	(14,582)
Cash and cash equivalents at beginning of year	105,587	120,169
<b>Cash and cash equivalents at end of year</b>	54,686	105,587

**Changes in cash flows from operations**

Net cash inflow from operations was \$109.7m compared with \$98.1m for the previous year, represented by:

- A net increase of \$89.9m in receipts for contributions / premiums as a result of the growth in policies, annual premium increase and a rise in prepayments in advance of the 1 April 2015 rate increase.
- A \$90.0m net increase in benefits paid for both Hospital and General Treatment.
- A \$8.3m increase in risk equalisation receipts.
- A \$12.8m increase in payments to suppliers and employees.
- A \$12.8m increase in distributions received through the investment portfolio.

**Changes in cash flows from investing activities**

The net cash outflow for the year was \$160.6m, compared with a net outflow in 2014 of \$112.6m. This difference is largely due to growth in the net movement of cash into financial assets of \$47.9m and an increase in the acquisition of tangible and intangible assets of \$10.0m.

**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.



