Annual Report 2018

Contents

Chairman's Report

I am pleased to present HBF's annual report for the 2018 financial year.

This was the first full year under Chief Executive Officer John Van Der Wielen and a largely new executive leadership team, reflecting the demands and challenges HBF faces today.

The changes in HBF's senior management have significantly strengthened the organisation in some key areas including risk and governance.

The 2017-18 year was a testing one for the Australian health insurance sector, with a decline in the percentage of the population holding private health cover.

While HBF's membership fell slightly during the year, we paid a record $1,634.7m in benefits to our members, highlighting the impact of rising health costs on claims. Of this total, hospital benefits totalled $1,223.1m (an increase of 4.6% over 2017), while payments towards extras services were $411.6m (up 4.0%).

Despite widely reported concerns among Australian health fund members about private health insurance affordability, service coverage and out of pocket costs, HBF continues to record high levels of member satisfaction. During the year we worked hard to contain operating costs and improve efficiency and it is pleasing to note a decrease in our management expense ratio. At the same time, we have enhanced member service, with significantly improved service levels from our member contact centre.

Since our founding in 1941 HBF's member base has overwhelmingly been a Western Australian organisation for Western Australians. Health insurance accounts for a very high percentage of the HBF Group's business and the HBF Board recognises that this dependence on a single geographical market and single business sector carries risks. During the year HBF explored an opportunity for a merger with HCF, another large not-for-profit fund, and while this did not proceed to completion inorganic expansion will be an important part of HBF future strategy. The Board continues to explore opportunities that will ensure HBF is well-placed for future success as well as delivering value to our members. We are committed to retaining our status as a not-for-profit insurer, which we believe is in the best interests of our members.

During the year Valerie Davies, retired from the HBF Board after serving as a non-executive Director since 2005. I want to place on record my sincere thanks to Valerie for her valued contribution to HBF and her personal commitment to this organisation.

I would like to thank John Van Der Wielen, the executive team and all HBF employees for their work throughout the year, the results of which are evident in this report. The achievements of the year and work that is ongoing means HBF is well-placed to succeed in a challenging environment and continue to meet the needs and expectations of our members.

Tony Crawford
Chairman

CEO's Report

This annual report covers my first full financial year as Chief Executive Officer of HBF. Our latest annual report is more comprehensive so that our members and the financial community can understand with more transparency the financial and governance performance of our fund. The Board of HBF has adopted a higher level of disclosure because we believe this is important to our members and stakeholders and we take pride in holding ourselves to the highest standards of governance. This is particularly important at a time when members of Australian health funds are increasingly concerned about rising premiums and worried about the cover they receive. More than ever, Australians are closely evaluating the value for money provided by private health insurance. At HBF we believe that as a not-for-profit fund we are best positioned to deliver the highest payment ratios and the best value for money to our members.

HBF's financial performance improved during the 2017-18 year despite the headwinds faced by all health insurers. A stronger underwriting result offset lower investment returns. This reflected a focus on financial performance and our long-term business sustainability rather than simply sales growth and the acquisition of new members.

We have worked hard to reduce our costs, and this resulted in a decrease to operating expenses for the first time in a decade. We also reviewed elements of our business model, taking the decision to end our relationship with east coast-based broker sites during the year. Our acquisition of members outside Western Australia has depended heavily on comparison sites in recent years but this is an expensive acquisition strategy and while, in the short term, this decision limits our potential to grow outside Western Australia, it has significantly reduced our acquisition costs and enables us to bring a greater focus on serving our long term members in WA.

Our focus on existing members meant we removed costly practices to attract new members such as providing short term incentives and the waiver of waiting periods. Whilst these practices are common in the health insurance sector, HBF has renewed its commitment to prioritise existing members first.

While reducing these costs, we have committed extra resources to the servicing of our existing members. We saw a noticeable improvement in our service to members in our contact centre and branches in the second half of the year. Our rate of member complaints to the Private Health Insurance Ombudsman also continues to be particularly low compared with other major health insurers.

The ultimate objective of much of the work of the past year has been to minimise future pressure on members' premiums, while also ensuring that the core promise of quality health insurance is delivered. We are determined to respond to member concern about rising premiums and to do all in our power to keep future premium increases to a minimum. A good deal of work has been done to simplify HBF's product portfolio and rectify product anomalies. HBF has for too long maintained too many products, including a large number of closed products, adding complexity and cost to our business. During the year we reduced the number of HBF products, and made changes to ensure that specific services are offered under the appropriate level of cover. This has relieved pressure on the cost of our hospital products and will help us to keep future premium increases to a minimum. This work also positions us well for the launch of the Gold, Silver, Bronze, and Basic product categorisation in 2019.

In Western Australia, HBF is much more than an insurer. It is one of the best known and most trusted brands in the community. As well as being a trusted health insurer for members, there is an expectation among Western Australians that we will be a force for good in the broader community. We gladly accept this responsibility and undertake a range of activities that reflect our commitment to the WA community. In nine years HBF Run for a Reason has raised over $9 million for Western Australian health-related causes including Lifeline, Heart Foundation WA, Cancer Council WA and Diabetes WA. We also continue to provide professionally managed fitness training at a range of Perth and regional locations. Preventative health services such as flu vaccinations and health checks, delivered through our growing network of Friendlies Pharmacies, are helping West Australians to stay healthy.

A little-known initiative managed by HBF is our support for new parents through our Direct Advice for Dads website. Since launching two years ago, over one million parents have visited the website that has amassed over 73,000 Facebook followers, and received numerous national and international awards.

Our focus in the coming year will be on existing HBF members and making sure that premium increases are kept to a minimum. We intend to invest in our online capabilities and commence a new technology program. HBF will need to invest significantly in upgrading its technology platform. This investment is well overdue and will be designed to reduce cost and improve service.

The health insurance sector continues to face significant challenges in the short and medium term, amongst them the difficulty of minimising premium increases while health costs rise faster than member wages. However, I am confident the work we have undertaken during the year will allow HBF to become even more competitive, while remaining the best health fund in Australia at delivering on the moments that matter to our members.

John Van Der Wielen
Managing Director & Chief Executive Officer

About HBF

HBF is a not-for-profit organisation incorporated under the *Corporations Act 2001* and a Private Health Insurer under the *Private Health Insurance Act 2007*. Founded in Perth in 1941, HBF has provided private health insurance to generations of Western Australians. Today, HBF is Australia's second-largest not-for-profit health fund providing hospital, ancillary and general insurance to more than one million members nationwide.

Summary Group income statement

	2018 $'000	2017 $'000	Change %
Contributions / premiums	1,695,002	1,620,406	4.6%
Net benefits / claims	(1,560,437)	(1,511,126)	3.3%
Underwriting expenses	(133,417)	(133,846)	-0.3%
Underwriting result / (loss)	**1,148**	**(24,565)**	**104.7%**
Commission income	14,956	14,910	0.3%
Other revenue	3,659	4,993	-26.7%
Net investment income	56,664	77,842	-27.2%
Other operating and administration expenses	(15,185)	(13,635)	11.4%
Surplus before income tax	**61,242**	**59,543**	**2.9%**
Income tax expense	(432)	-	0.0%
Surplus after income tax	**60,810**	**59,543**	**2.1%**

HBF's surplus after income tax increased by $1.3 million (2.1 per cent) from the $59.5 million achieved in 2017. This was primarily due to an improved underwriting margin for the Health Insurance business, partially offset by a decrease in net investment income.

Premium revenue increased by $74.6 million (4.6 percent), driven by the Government-approved average premium rate increases of 5.96 per cent effective from 1 April 2017 and 3.75 percent effective from 1 April 2018. The Health Insurance business contributed 98.9 percent to the Group's total revenue (excluding net investment income) in 2018, with almost all of the revenue being generated from health insurance policies sold to Australian residents and only a small amount generated from overseas visitors' health cover policies.

HBF's membership base decreased during 2018 in a market which continues to see participation rates dropping due to affordability issues causing consumers to question the value of their health insurance. As a result, HBF's West Australian and national market share dropped to 53.05 percent (-1.26 percent) and 7.82 percent (-0.19 percent) as at 30 June 2018.

Net claims incurred by HBF members represented 92.1 percent of contributions in 2018, increasing by $49.3 million (3.3 percent) to $1.56 billion in spite of a reduction in the number of members covered. The key drivers behind the increase in incurred claims were:

- An increased utilisation of both hospital and general treatment benefits.
- An increase in members utilising their private health insurance in public hospitals.
- An increase in the average claim size for hospital stays.

A decrease in the average claims size for prosthetic benefits as a result of the changes to the Prosthesis list partially offset the above increase.

As disclosed in Note 5 of the Financial Report, Health Insurance operating expenses fell by $2.7 million (1.6 per cent) in 2018 reflecting the improved operating efficiencies gained as part of the strategic "Get Fit" objectives. Total expenses however increased by $0.4 million in 2018 (0.2 per cent) largely due to the additional costs incurred as part of the terminated merger discussions with the Hospital Contributions Fund of Australia Limited (HCF) and the partial impairment of HBF's equity investment in Whitecoat Operating Pty Limited.

Commission income earned by HBF relates to the sale of general and life insurance products to its members. HBF general insurance products are underwritten by Insurance Australia Group Limited (IAG), while the life insurance products are provided by Zurich Australia Limited. Commission income for 2018 was relatively unchanged from last year, as a highly competitive market put pressure on new sales and affordability issues resulted in members downgrading to lower priced products.

Other revenue fell by $1.3 million, primarily due to a reduction in the profit share payment due to HBF as per the Distribution and Services Agreement for general insurance policies with IAG. Despite growing the general insurance book in 2018, negative claims experience has meant HBF is due a reduced profit share payment in 2018. Additionally, rental revenue for the Group dropped by $0.2 million as a result of reduced rent yields on owned properties and delays in obtaining tenants for vacant tenancies due to the current condition of the WA rental market.

Net Investment income

Net investment income decreased by $21.2 million (27.2 percent) in 2018 due primarily to lower returns from equity markets when compared with 2017 and the continued low interest rate environment which affected term deposit returns. The overall investment return for the year was 3.9% (2017: 5.4%).

Group financial position and capital management

	2018 $'000	2017 $'000	Change %
Assets			
Cash and cash equivalents	50,593	43,675	15.8%
Receivables	110,443	98,341	12.3%
Financial assets at fair value through profit or loss	1,514,378	1,453,288	4.2%
Property, plant and equipment	134,682	146,378	-8.0%
Intangible assets	7,883	14,605	-46.0%
Non-current assets classified as held for sale	7,150	7,150	0.0%
Deferred acquisition costs	20,694	20,826	-0.6%
Investments	500	1,500	-66.7%
Current tax assets	-	432	-100.0%
Total assets	**1,846,323**	**1,786,195**	**3.4%**
Liabilities			
Insurance liabilities	462,468	464,439	-0.4%
Trade and other payables	16,160	17,870	-9.6%
Employee benefits	12,545	12,915	-2.9%
Total liabilities	**491,173**	**495,224**	**-0.8%**
Net assets	**1,355,150**	**1,290,971**	**5.0%**
Equity			
General reserve	111,513	111,513	0.0%
Retained earnings	1,220,727	1,159,917	5.2%
Asset revaluation reserve	22,910	19,541	17.2%
Total equity	**1,355,150**	**1,290,971**	**5.0%**

During the 2018 financial year HBF's net assets increased by $64.2 million (5.0 percent). The major balance sheet movements during the year were:

- A $61.1 million increase in financial assets at fair value through profit or loss, primarily due to the strong performance of investments in domestic and international equities.
- An increase in receivables as a result of a higher risk equalisation receivable, following an increase in Hospital claims paid in the final quarter of 2018 compared to the same quarter in 2017.
- An $11.6 million decrease in property, plant and equipment as a result of the sale of the William Street property and depreciation charges during the year.
- A decrease in insurance liabilities of $2.0 million following a reduction in the provision for outstanding claims resulting from the higher amount of Hospital claims paid in the final quarter of the year.

HBF is well capitalised and in a strong financial position. As at 30 June 2018, assets exceed both the amount required by APRA and HBF's internal capital requirement. As a not-for-profit health fund HBF does not have access to capital markets and consequently holds a higher level of capital to ensure that members' needs are protected in the short and long term. In doing this, HBF looks to maintain the balance between providing value to members (in terms of the services received for the premiums paid) whilst maintaining the financial integrity of the Fund.

Strategy

HBF's commitment is to provide high quality, health insurance that delivers value for money and peace of mind for members. We also aspire to provide member service that's second to none.

In recognition of growing concerns about the affordability of health insurance, in 2018 HBF placed a special emphasis on containing premium increases. Measures such as ending sponsorships, closing branches where member demand had fallen, and the creation of a flatter, more efficient management structure delivered operating cost reductions. Savings were also achieved through the termination of HBF's agreements with comparison sites iSelect and Compare the Market as well as ending short term incentives to attract new members. These savings were passed on to members through one of the lowest premium increases of any fund in 2018.

In common with other health funds, HBF has limited control over increases in medical costs including hospital and specialist fees and the cost of prosthetics and other medical devices. In 2017, the Federal Government implemented reforms to reduce the cost of prostheses to private hospital patients and the savings from this reform were passed on in full to HBF members.

HBF conducted a comprehensive review of our portfolio of health insurance products and made changes to our hospital products to ensure products are sustainable, easier to understand while still providing flexibility and choice. The changes included making sure high cost procedures are claimable on higher level products, so that claims by a small minority don't push up premiums for all members.

We've invested in member service by employing more people in our Perth based call centre, improving digital service experience and opening a new Perth branch in July 2018.

Affordable premiums

- 3.75% average premium increase on 1 April 2018 – better than industry average and one of the lowest average premium increases in almost 10 years
- $17m savings from Federal Government prostheses reforms passed on to members in full – equivalent to a 1% reduction in average premiums.

Quality health cover

- Record $1.6 billion paid out in hospital and ancillary claims to members in 2017-18
- 91 cents in every premium dollar returned to members as benefits (Commonwealth Ombudsman State of the Health Funds Report 2017)
- 96% of WA members' hospital-related charges fully funded by HBF (Commonwealth Ombudsman State of the Health Funds Report 2017).

Future prospects

In 2019 HBF will continue to focus on affordability, efficiency and making sure our product portfolio meets member needs. We are determined to keep members' premium increases to an absolute minimum.

Work on our product portfolio will continue, with a particular focus on our Extras products, and the launch of new products. Changes to benefits will enable our products to be more sustainable, and relieve pressure on future premium increases, without compromising the core promise of health insurance. We also plan to increase benefits for some popular services like Physiotherapy, Chiropractic, Osteopathy and Podiatry.

These changes will incorporate Federal Government reforms, such as the removal of benefits for some natural therapies, and ensure that HBF is prepared for the implementation of the Government's Gold, Silver, Bronze and Basic product categorisation that will apply to all health insurance products from April 2019.

Of all Extras services, dental services are by far the most claimed and many members enjoy the benefits of our Dental Member Plus program. In 2019 we will make changes to our dental arrangements to make the program fairer and more equitable for dentists and members.

Under our future strategy HBF will remain a not-for-profit, WA-based health insurer but with a greater presence outside Western Australia. We also expect to embark on complementary lines of business that will make us financially stronger, and deliver added value to our members.

Sustainability

HBF's approach to sustainability is guided by our commitment to care for each other, our members and the community in which we live and work.

Workforce

At HBF, we're serious about helping our employees live well, both at work and at home. We understand our people have family and other personal commitments outside of work and we encourage a healthy work-life balance. In addition to providing competitive remuneration packages, HBF encourages employees to look after their health and wellbeing by offering free preventative health benefits including annual health checks, flu vaccinations, weight loss and quit smoking programs, two paid days off each year to look after their health and access to free counselling and psychological support 24-hours a day. Employees are encouraged to contribute to our community through blood donation drives, paid volunteering days and workplace giving programs.

Members

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

In 2018, Friendlies Pharmacies delivered 25,000 free flu vaccinations and 2,000 health checks to HBF members. Over 25,000 participated in free exercise programs and 1,114 received assistance via our health support programs.

Community

The HBF Run for a Reason symbolises our commitment to care for the communities in which we work and live. Since launching in 2010, this WA annual event has grown to become the State's most popular community walking and running event and the second-largest event of its type in Australia.

In 2018, 35,000 participants raised more than $1 million for WA charities.

Through our investment in Whitecoat.com.au, HBF seeks to empower Australians to make informed decisions about their healthcare. In 2018, the website's directory expanded to over 210,000 health providers and over 250,000 individual reviews from consumers.

HBF's Direct Advice for Dads website reflects our commitment to empower individuals to further improve their health and wellbeing. Launched in 2016, this pioneering website offers practical advice to new Dads. In 2018, the website picked up new international awards and increased followers on Facebook to more than 73,000 followers.

Environment

The HBF Group's head office building at 570 Wellington Street in Perth was once again awarded a five star NABERS Energy Base Building rating. The rating confirms this facility achieves excellence in energy efficiency which means fewer greenhouse gas emissions.

Material business risks

The HBF Board is responsible for reviewing and approving the Risk Management Strategy, which describes HBF's material risks and the approach to managing them, including determining a risk appetite for each material risk and forming a view on the risk culture which supports operating in line with this risk appetite. The Board has also approved a Group Risk Management Framework and Group Internal Controls Framework.

As at the reporting date, HBF has identified and is managing risks in the material risk categories described within The Australian Prudential Regulation Authority's (APRA) *Prudential Standard CPS 220 Risk Management* as listed below and described in summary form in the table below.

- Credit Risk
- Market and Investment Risk
- Liquidity Risk
- Insurance Risk
- Operational Risk
- Legal & Compliance Risk and
- Risks arising from the strategic objectives and business plans of the HBF Group (as defined within HBF's Group Strategic Risk Register).

Credit risk	HBF's key exposure to credit risk is via its investment portfolio. HBF manages its risk by limiting exposure to counterparties in-line with Board approved Risk Tolerances.
Market and Investment risk	Exposure to Market risk is limited to approved direct and indirect investments in asset classes as set out within the Group Investment Policy. *Investment Risk* includes HBF failing to manage our investment portfolio to meet risk and return objectives.
Liquidity risk	In order to ensure that assets are sufficiently liquid to meet financial obligations at all times (including in a stressed environment during which there are timing and cash-flow mismatches), minimum liquidity requirements are set out within a Board approved Liquidity Management Plan (contained with the Capital Management Policy).
Insurance risk	Insurance risk at HBF is managed within three key areas of focus, being Product Development risks, Pricing risks and Claims Management risks. HBF aims to achieve sustainable profitable growth in the delivery of Private Health Insurance to members. HBF undertakes activities that improve the PHI offering to ensure members want to choose HBF over other funds based on PHI value proposition (product, price, service and brand).

Operational Risks

Business Interruption risk	HBF recognises the potential strategic, operational, financial and reputational risks associated with service interruptions and the importance of maintaining a viable capability to continue HBF's business processes with minimum impact in the event of an emergency or major disruption.
Financial Loss Prevention, Detection and Recovery risk	Fraudulent and inappropriate benefit payments can arise from internal or external sources, and expose HBF to the risk of financial loss and reputational harm if not managed adequately. HBF maintains a Fraud and Corruption Control Plan and Fraud Risk Assessment which documents its process for managing fraud risks.
Technology and Cyber risk	Information Technology assets are required to meet HBF's strategic and business objectives, and ultimately, provide member service. Technology operational risks, such as continuity of service, inappropriate or unauthorised systems access, system availability and Disaster Recovery, and Cyber Security risks are maintained and managed within Group Divisional risk registers. In addition, data loss and misuse of sensitive member information due to external or internal cyber attack leading to non-compliance with Privacy Act requirements is an identified strategic risk. HBF has a range of strategies in place for fraud detection, prevention and post detection sanction.
Health, safety and wellness	Health, Safety and Wellness risk includes a failure to provide and maintain a safe working environment that actively promotes a positive culture of Safety, Health and Wellbeing. HBF is committed to the health, safety and wellbeing of our employees and their protection from physical or psychological harm.
Clinical	HBF is exposed to a number of clinical risks in the provision of Health Programs and Services to its members and via its investment (as Franchisor) in the Friendlies Pharmacy Franchise. HBF manages this area of risk within a Clinical Governance Framework.
Legal and Compliance risks	*Sovereign risk* recognises the risk of unanticipated change in government policy which impacts HBFs fiscal or competitive position, including changes to taxes, rebates and control on price that could severely damage the PHI industry. *Regulatory risk* recognises the risk of not meeting legislative, regulatory and statutory license requirements resulting in possible regulator action and reputational damage.

Strategic Performance risks

Geographic risk	*Geographic concentration risk* recognises that HBF currently has a majority of its policies supplied in WA and derives a majority of its PHI revenue from WA. HBF needs to address geographic concentration risk as the industry becomes more competitive, and traditional market (State-based) boundaries no longer offer the barriers to entry they have in the past.
Market Sector risk	*Market sector risk* recognises that HBF currently has 99% of its revenue generated from the PHI business. HBF must address market sector risk as the industry is coming under increasing pressure to maintain participation in light of affordability challenges and ongoing sovereign risk.
Compet-itiveness risk	*Competitiveness risk* recognises that an erosion of market position results in an increased competitiveness risk of a weakened negotiating ability, less competitive products, loss of members, and decline in financial performance leading to further loss of market share to competitors.

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

HBF applies these principles in a manner consistent with its 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.

Governance structure

Corporate governance is the process by which HBF is directed, controlled and those in control are held to account. The Council and Board are integral to the corporate governance of the HBF Group. Corporate governance processes are detailed in the *HBF Constitution, Governance Regulations* and *Board Charter* which are available on the HBF website.

Council

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

The HBF Council comprises:

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

Councillors must be independent of hospitals and other entities that provide goods or services to HBF policy holders.

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

Elected Councillors	General Councillors	Board Councillors
David Brown	Suzanne Ardagh	Tony Crawford
David Carvosso	Steven Cole	Richard England
Anthony Evans	Jeff Dowling	Helen Kurincic
Michael Gurry AO	Fiona Kalaf	Rod Moore
Dr Moira Watson	Richard Krasnoff	Brent Stewart
	Will Moncrieff	Mary Woodford
	Peter Moore	
	Wendy Newman	
	Mark Paganin	
	Kenneth Perry	
	Tri Suseno	

Board

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

The Board is accountable to members via the Council for the performance of the HBF Group's businesses. In performing its role, the Board aspires to excellence in governance standards. The Board has regular meetings and committee meetings scheduled each year and holds additional meetings as required to deal with specific matters requiring attention. The Board holds planning days to review HBF's strategic direction and set the context for development of the annual business plan.

Roles and responsibilities of the Board and management

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

The *HBF Constitution* permits the Board to delegate some of its functions. Specific responsibilities have been retained by the Board in the areas of strategy, governance, executive appointments, financial approvals, risk management and remuneration policy. The Board has, under the HBF Delegation of Authority Policy, delegated responsibility for the operation and administration of HBF to the CEO and management.

The Chair is responsible for the integrity of the board process and the functioning of the Board. The Chair is also responsible for fostering a positive and constructive relationship with members and other stakeholders and representing and communicating the Board's position on relevant matters.

HBF has a written agreement with each Director setting out the term of their appointment, remuneration, time commitment and other arrangements and obligations. Directors are expected to make effective and appropriate contributions so that the Board may in turn carry out its role effectively. The role of Directors is further detailed in the *Board Charter*. Directors must also comply with the duties imposed on directors by the *Corporations Act 2001* and relevant regulators. Directors agree to be bound by the *HBF Code of Conduct* and the *Australian Institute of Company Directors Code of Conduct*.

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

Structure and composition of the Board

The *HBF Constitution* requires the Board to have a minimum of six and no more than nine members of whom a majority must be independent. As of the date of this report, the Board comprised an independent non-executive Chair, six independent non-executive Directors and the Managing Director / CEO. Professional biographies for each Director including their length of service can be found in the Directors' Report. The Board regularly reviews composition to ensure optimal skills mix, diversity including diversity of thought and the continued flow of new ideas and fresh thinking.

Independence

Directors are required to bring an independent judgement to bear on Board decisions at all times, and understand the business risks facing the HBF Group and the frameworks and processes employed to mitigate and manage these risks. The Board assesses the independence of Directors on appointment and annually by an attestation by each Director. In making its assessment, the Board applies criteria prescribed by APRA and recommended by the ASX Corporate Governance Council and detailed in the *Board Charter.*

Appointment and re-election of directors

The *HBF Constitution* requires Directors to be elected to the Board at the Annual General Meeting of Councillors. Unless otherwise resolved by the Board, nominees for Board positions must be nominated in writing by a Councillor. Where Board positions are contested, the individual who receives more votes in favour and fewer votes against their appointment is deemed elected. In the event of a casual vacancy, the Board may appoint an individual by ordinary resolution for a term that expires on commencement of the next Annual General Meeting.

When a vacancy on the Board arises, the Nomination and Remuneration Committee identifies and assesses competencies that maintain the skills, experience and expertise required for the Board. When recruiting new Board Directors, and before recommending a candidate for appointment as a Director, appropriate checks are performed to confirm eligibility criteria, including independence, are met.

Non-executive Directors are engaged through a letter of appointment. Directors retire from the Board in rotation. One third of Directors (or the next highest integral number of Directors) who have served in their present term of office for longer periods than the other Directors cease to be Directors on commencement of the Annual General Meeting. Directors are eligible for re-election to the Board. A resolution of a General Meeting of Councillors is required to remove a sitting Director from office.

Director induction, education and access to information

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

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

Board skills mix

The *HBF Constitution* requires the Board to have the necessary skills, experience and knowledge to guide the business of the HBF Group and in meeting its legal and prudential obligations. This includes collective skills, experience and knowledge of health services, insurance, commerce, finance, accounting, corporate and general management, marketing and law. For the 12 months preceding the date of this report, the Board collectively had extensive skills, experience and knowledge in each of these areas.

Board performance evaluation

The Board and its committees have established processes to regularly assess and review their composition, performance and opportunities for further improvement. These include annual surveys, one-on-one meetings coordinated by the Chairs and an external review conducted every three years. Processes are forward-focused and directed at ensuring the Board and its committees are equipped with appropriate skills to meet future challenges.

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

Committees of the Board

The Board has established three standing committees to assist it to fulfil its obligations:

- Audit Committee
- Nomination and Remuneration Committee
- Risk Committee.

The Terms of Reference for each committee are available from the HBF website. Each committee comprises Non-Executive Directors (a majority of whom must be independent), an independent Chair, and meets approximately four times per year and additionally as required.

From August 2017 to May 2018, an HBF-HCF Merger Sub-Committee was established, of which all Directors were members.

Audit Committee
Role: *Oversight of financial reporting, internal and external audits and actuarial performance.*
Members: Richard England (Chair), Helen Kurincic, Dr Rod Moore, Lisa Palmer

Nomination and Remuneration Committee
Role: *Oversight of Board and Director performance, remuneration policy and arrangements for executives and senior managers.*
Members: Tony Crawford (Chair), Richard England, Mary Woodford

Risk Committee
Role: *Oversight of risk management, internal control, compliance and insurance.*
Members: Helen Kurincic (Chair), Lisa Palmer, Brent Stewart, Mary Woodford

HBF-HCF Merger Sub-Committee
Role: *Oversight of the HBF-HCF merger project.*
Members: Tony Crawford (Chair), Valerie Davies (until 24 October 2017), Richard England, Helen Kurincic, Rod Moore, Lisa Palmer, Brent Stewart, Mary Woodford

The individual attendance of Directors at the various standing committee meetings held during the year is set out on page 19 of the Annual Report.

Executive Leadership Team

The following individuals were senior executives at 30 June 2018:

Mr John Van Der Wielen	*Chief Executive Officer*
Ms Selina Duncalf	*General Manager Member Experience*
Mr David Gollan	*General Manager Technology*
Mr Pascal Kasimba	*Group Governance Officer*
Mr Neil Le Febvre	*General Manager Marketing*
Mr Warren Linnell	*General Manager Finance*
Mr Llewellyn Rogers	*General Manager People and Culture*
Mr Simon Walsh	*General Manager Strategy and Ventures*

Ethical standards

All Board members, executives and employees are required to observe the highest standards of ethical, moral and legal business conduct. The Board requires Directors to act in accordance with the *Australian Institute of Company Directors Code of Conduct* and the *HBF Code of Conduct*. The *Australian Institute of Company Directors Code of Conduct* requires directors to act honestly, in good faith and in the best interests of the company as a whole and to comply at all times with the spirit, as well as the letter, of the law and with the principles of the Code. The Board requires Directors to properly manage any actual, potential or perceived conflict as per the *Corporations Act 2001* and the *Australian Institute of Company Directors Code of Conduct*. A Director who has a material personal interest in a matter that relates to the affairs of the HBF Group must give the other Directors notice of such interest. The Company Secretary maintains a register of interests of Directors and reports these to the Board as necessary. A Director who has a material personal interest in a matter being considered at a meeting of the Directors is not permitted to be present at the meeting while the matter is being considered or vote on the matter except as permitted by the *Corporations Act 2001*.

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

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

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

Diversity

HBF values diversity in the workplace, where everyone - colleagues, members, suppliers or other third parties - is treated with respect, equality and dignity. By valuing diversity and the differences that everyone brings to the workplace, HBF can better meet our members' needs.

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

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

HBF's Gender Equality Indicators are reported to the Workplace Gender Equality Agency annually in accordance with the *Workplace Gender Equality Act 2012*. As of 31 March 2018, females accounted for:

- 70% of the workforce
- 25% of executives
- 35% of senior managers
- 36% of all manager promotions
- 54% of all non-manager promotions.

At the date of this report, three out of eight (37.5%) Board members are female.

Integrity of financial reporting

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

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

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

Financial reporting assurances

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

HBF has opted to comply with the requirement under section 295A of the *Corporations Act 2001* for listed companies and, in line with it, the Board receives a declaration from the Chief Executive Officer and the Chief Financial Officer that the financial records of the company have been properly maintained and that the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. This includes a written declaration that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the full year ended 30 June 2018.

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

Internal audit

HBF's internal audit function is performed by KPMG. The internal auditor provides an independent and objective internal audit review of the adequacy and effectiveness of the HBF risk management framework and the internal control systems in relation to the scope of individual audits defined in the annual Internal Audit Plan. The annual Internal Audit Plan which is approved by the Board is developed using a risk based approach and is driven by HBF's strategy and risk profile. The internal audit charter provides that internal audit shall have full access to all records, properties and personnel of HBF and reports to the Audit Committee.

Risk management framework

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

The framework reflects Australian and international best practice for managing business risk and complies with all HBF Group regulatory obligations including:

- The Australian Prudential Regulation Authority (APRA) Prudential Standard CPS 220 Risk Management (CPS 220) and Prudential Practice Guide CPG 220 Risk Management
- AS/NZS ISO 31000:2018 Risk management – Guidelines
- Enterprise Risk Management—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2017 (COSO ERM).

The Risk Management Framework includes the Risk Appetite Statement, the Risk Management Strategy, the Capital Management Policy and the policies, procedures and resources required for the management of HBF's material risks.

The Risk Management Strategy facilitates successful delivery of the HBF Group's strategic and operational business objectives. The strategy is reviewed annually as part of strategic and business planning to ensure significant risks are identified. The strategy also sets out risk culture objectives designed to guide management activities to continuously improve risk culture.

Actions to treat or control the risks are included in the Group and Divisional business plan and budgeted accordingly. The Board sets the HBF Group's risk appetite including risk tolerance, risk limits and triggers to be actioned by management.

The Risk Management Framework was reviewed by the Risk Committee and approved by the Board in February 2018.

HBF's exposure to material economic, environmental and social sustainability risks and how that exposure is managed is provided in the Material Business Risks section of the Operating and Financial Review in the Annual Report.

The Corporate Governance Statement is accurate and up-to-date as at 25 September 2018 and has been approved by the Board.

The Risk Committee provides a non-executive review of the effectiveness of HBF's risk and internal controls framework, and assists the Board in carrying out its responsibilities for the oversight of the adequacy and effectiveness of the implementation of the risk management framework and internal control systems to identify, assess, manage and report on the risks that might prevent the Group from achieving its objectives and could have a material impact on the business.

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

This is the first time HBF has provided a Remuneration Report for HBF's Executive Director (Chief Executive Officer) and Non-Executive Directors. While as a not-for-profit entity, HBF is not required to provide this information under our regulatory obligations, we believe this is an important part of increasing the transparency in our reporting to our stakeholders and, in particular, our members.

Our Remuneration Approach

During 2017 we reviewed our approach to executive remuneration. The private health insurance and financial services environments in which HBF operates are highly competitive. The responsibilities of managing a business that returns over one and a half billion dollars to members, means HBF must attract and retain executives of the highest calibre. This is balanced against our recognition that, as a not-for-profit fund, we operate for the benefit of members above all other stakeholders, and that our members rightly expect us to manage our business as cost effectively as possible.

The Board has determined that executive remuneration must be closely linked to the key strategic objectives of the organisation and reflect individual performance. This is the basis of a new remuneration approach which includes a Short and Long-Term Incentive Schemes as detailed in the report that follows. We believe the new approach, with a balanced scorecard and incentive ranges, will drive improved performance and appropriately recognises the contribution of our executives.

In the highly challenging environment for all Australian health insurers, our ability to deliver on our strategic objectives will depend on having an engaged, high performing workforce. The Board recognises that the major changes associated with executing a new strategy, in order to deliver improved affordability for our members and growth on a national basis, will require HBF to have the best people, and that appropriate remuneration represents an investment in the company's long-term sustainable future.

Tony Crawford
Chair, HBF Board and Nomination & Remuneration Committee

1. Key terms

Throughout this Report, "Company" means HBF Health Limited and "Total Fixed Remuneration" or "TFR" means the combination of annual base salary and superannuation.

2. Remuneration Governance

Nomination & Remuneration Committee

The role of the Nomination and Remuneration Committee ('Committee') is to assist the HBF Board and its subsidiary Committees in fulfilling their responsibilities relating to the remuneration of the Board and Executive Director. This role includes reviewing and making recommendations regarding the Non-Executive Director remuneration pool; the remuneration and performance arrangements for the Chief Executive Officer and his direct reports; and the Remuneration Policies, including incentives, of the Group. The remuneration pool for Non-Executive Directors is periodically reviewed and approved by HBF Councillors. The Committee, on behalf of the Board, monitors market and competitor remuneration to ensure that the business is not at risk of losing key personnel.

In addition, the Committee makes recommendations to the Board on key elements of HBF's people strategy to ensure the organisation is developing our talent, engaging our people and has robust succession plans that always puts our members first and acts to minimise any risk to the operation. The Committee, which meets four times a year, is composed of three Non-Executive Directors, all with experience in remuneration:

- Tony Crawford (Chair)
- Mary Woodford
- Richard England

However, there is a standing invitation for all Non-Executive Directors to attend Committee meetings. Further information regarding the Committee Members can be found later in the Directors' Report and the Terms of Reference for the Committee can be found on the HBF website.

Remuneration Advisors

The Committee has been supported during the 2018 financial year by Deloitte, who have acted as remuneration advisors regarding the development of revised incentive programs for the executive and senior leadership team; remuneration benchmarking; incentive assurance; and, preparation of the annual Remuneration Report. Deloitte have supported the Committee in their recommendations to the Board on the remuneration payable without undue influence from the executive.

3. Remuneration Framework

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

HBF's remuneration framework applies to all Directors, officers and employees within HBF. It includes a remuneration policy which outlines how contribution to, and achievements in the organisation are rewarded. The Committee, as required, reviews the policy and, with input from external advisors, has applied governance to drive an equitable and transparent framework that promotes the right behaviour for performance and risk management in HBF. The principles that drive the approach to remuneration include an assessment of acceptability of the remuneration to the community and market and, as HBF is a member driven organisation remuneration must be aligned to member expectations.

The guiding principles in the policy have been built on over the years, and as of the 2018 financial year are:

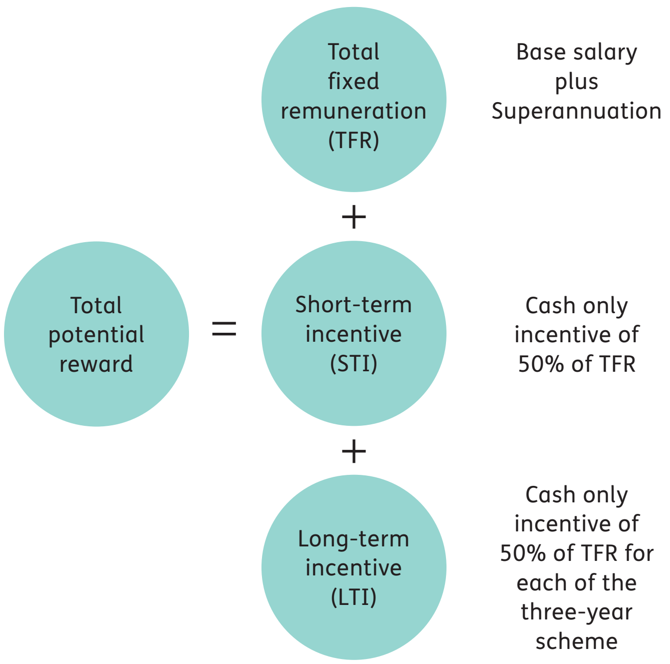
- Balance fixed and variable rewards to inspire behaviour that supports the long-term, strategic, sustainable and financial development of HBF.
- Establish achievable goals and apply measures of performance which support HBF's strategy and approach to risk management.
- Attract, engage and retain skilled employees with competitive rewards.

4. Executive Director Remuneration Framework

HBF's remuneration framework is a mix of fixed and variable remuneration. There are three units of remuneration:

- Fixed remuneration, which comprises the base salary and superannuation;
- Short-term incentives that are based on Key Performance Indicator targets, predetermined and agreed by the Board; and
- Long-term incentives based on efficiency, member value and financial stability targets predetermined and agreed by the Board.

The following fixed and variable remuneration provides the components for the Executive Director's remuneration:



HBF, as a not-for-profit entity, does not issue shares or options, and therefore all remuneration when paid, both for fixed and variable, is cash based. It is not possible for the Executive Director to have shares or options in HBF.

Variable remuneration is designed to drive a performance culture; any incentive payments are intended to be self-funding with the results of the measures creating the funds to incentivise the participants. When considering the remuneration framework the Committee takes regard for non-financial objectives such as risk management, customer satisfaction and employee engagement.

Total Fixed Remuneration

Fixed remuneration comprises base salary, superannuation and other benefits; the fixed remuneration package is benchmarked on a bi-annual basis against the national jobs market and is determined for each executive based on the responsibilities of the position.

The Committee annually reviews the Executive Director's remuneration to ensure consistency with HBF's remuneration policy. Where required, external remuneration advisors are appointed to support the review.

Variable Remuneration

During 2017 HBF sought to refine the variable elements of the remuneration policy. This review looked at the level of short and long-term incentive and how the Company measures performance to determine reward. These improvements were implemented with respect to the FY18 Short Term Incentive Scheme and the FY18-20 Long Term Incentive Scheme. These schemes are explored in more detail in the following sections.

The Committee may, at its full discretion, recommend to the Board, a modification downwards and to zero if necessary, the variable components of remuneration in response to significant unexpected/unintended events or to protect the financial soundness of the Company, and may utilise previous years' outcomes to make this decision.

Any participant who prior to the end of the performance period has resigned or been dismissed will not receive an incentive payment. The Committee may in certain limited circumstances, recommend to the Board that an exception be granted.

Variable Remuneration – Short Term Incentive

The revised scheme introduced for the financial year ending June 2018 seeks to recognise participant performance in line with the strategic direction of HBF. The scheme has been refined and a scorecard developed with the Executive Director receiving up to 50% of TFR based on individual measures, worth 10%, and corporate measures, worth 90%, of the potential value.

The Corporate Measures are designed to support, in line with market practice, the targeted growth and provision of excellent customer service, and all participants are measured against them. They are determined across four categories:

- Financial – income statement focused
- Member and Stakeholders – customer satisfaction and key stakeholder / regulatory interaction focus
- People and Risk – human resource management and organisational risk focus
- Strategic Corporate Projects – operational efficiency focus

The Committee recommends to the Board the level of weighting for each category based on the HBF strategy and financial performance of the organisation.

The Board is responsible for assessing the performance of the Executive Director, whereby the STI awards that will result from this assessment are given approval by the Board, following a recommendation from the Committee.

The precise amount of the STI is determined at the end of the financial year and is based on predetermined performance milestones which are subsequently reviewed at an annual performance review. Any award is payable in October and pertains to the previous financial year.

Variable Remuneration – Long Term Incentive

The purpose of the revised LTI scheme is to reward the Executive Director for achievement of key long-term strategic metrics. The scheme measures performance over a period of three financial years with measures aligned to the longer-term strategy of the organisation.

In each of the three years the Executive Director may receive 50% of Total Fixed Remuneration but any payment is reliant on achieving the measures at the end of the third year.

The scheme performance measures are fewer than the Short-Term Incentive scheme and for financial years 2018 to 2020 will focus on:

- Management Expense Ratio
- Building market share in WA and nationally
- Capital per policy

Variable Remuneration – Malus and Clawbacks

Notwithstanding any other provision of the Plan and regardless of whether any Performance Condition has been satisfied, the Board, following a recommendation from the Committee may, in its absolute discretion, decide:

- At any time before an Incentive is paid that the percentage of Total Remuneration that would otherwise be paid shall be reduced (to nil if appropriate); and/or
- Within two years of the payment of an Incentive, the Incentive amount shall be repaid in whole or in part; and/or
- To delay the payment of an Incentive if, at the payment date, there is an ongoing investigation or other procedure being carried on to determine whether circumstances exist that may warrant malus or clawback and the Board decides, in its absolute discretion, that further investigation is warranted,
- In each case, as a result of:
  - In the reasonable opinion of the Board, any material misstatement in the audited consolidated accounts of the Company or any member of the Group; and/or
  - The Participant's actions or conduct having, in the reasonable opinion of the Board, amounted to fraud or gross misconduct, whether the relevant facts emerge before or after termination of employment; and/or
  - In the reasonable opinion of the Board, a material failure of risk management which caused serious harm to the reputation of the Company or any member of the Group.

Non-monetary benefits

The Executive Director is provided with an undercover parking bay at HBF head office at Kings Square with an estimated value of $7,000 per annum.

All staff are provided with the following non-monetary benefits:

- Income Protection Insurance,
- 25% subsidy on health insurance premiums, and
- 35% off our car, home and contents, renters and landlords' insurance, as well as travel insurance.

As part of the remuneration framework HBF also makes available, through salary sacrifice, a range of non-monetary benefits.

5. Non-Executive Director Remuneration

Non-Executive Director Fees

In 2007, the Council approved the creation of a pool for the Non-Executive Director fees, providing the Board with the flexibility to manage and be accountable for the fees of the HBF Board, Committees and subsidiary Boards. HBF's Non-Executive Directors receive a base fee, alongside an additional fee if they are members of other HBF Committees.

The Board may delegate functions and powers to sub-committees of the Board established for that purpose from time to time.

Following major governance changes, which saw the establishment of a new Risk Committee, a change of scope for the Audit & Risk Committee (renamed as the Audit Committee following the AGM) and several Non-Executive Directors being asked to take on new appointments, the fee structure has been, with the approval of the HBF Councillors, changed slightly, effective as of 1 September 2017.

As can be seen, the major changes made have been to align all committee fees to the same rate, which is a relatively common practice within companies that operate both a Risk Committee and an Audit Committee.

This has resulted in a decrease in fees in respect of the Audit Committee, and the introduction of new fees for the newly-implemented Risk Committee. The net result of the new governance arrangements, together with the new fee structure, is a modest increase in total fees payable, and within the fee pool approved by the HBF Councillors.

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

Position	Fee
HBF Board Director	$100,000
HBF Board Chair	$230,000
Subsidiary Board Director	$12,000
Subsidiary Board Chair	$24,000
Audit Committee member	$12,000
Audit Committee Chair	$24,000
N&R Committee member	$12,000
N&R Chair	Nil (included in HBF Board Chair fee)
Risk Committee member	$12,000
Risk Committee Chair	$24,000
HBF-HCF Merger Sub-Committee member	12.5% of base fee
Management committee attendee	$12,000

Non-Executive Director fees were adjusted upwards as at 1 November 2017 by a 1% increment; reflective generally of relevant economic conditions. An external review will be conducted in the 2018 calendar year, and any recommendations will be reported to the 2018 AGM of HBF.

The below table outlines the remuneration of the Non-Executive Directors:

Name	Title	Fees Prior 1 Sep '17 (Inc. Super)	Fees Post 1 Sep '17 (Inc. Super)	Fees Post 1 Nov '17 (Inc. Super)
Tony Crawford	Chair	230,000.00	230,000.00	232,300.00
Brent Stewart	Board Member	124,000.00	124,000.00	125,240.00
Mary Woodford	Board Member	128,000.00	124,000.00	125,240.00
Rod Moore	Board Member	137,000.00	136,000.00	137,360.00
Richard England	Board Member	144,000.00	136,000.00	137,360.00
Valerie Davies (retired Oct-2017)	Board Member	112,000.00	112,000.00	–
Helen Kurincic	Board Member	116,000.00	136,000.00	137,360.00
Lisa Palmer (appointed Sep-2017)	Board Member	–	124,000.00	125,240.00
		991,000.00	**1,122,000.00**	**1,020,100.00**

6. Remuneration tables

Remuneration for the year ended 30 June 2018

The following table provides the remuneration details for the Board and Executive Director.

		Fixed			Variable			
Name	Year	Cash Salary and Fees $	Non-monetary benefits $	Superannuation Contributions $	Short Term Incentives $	Long Term Incentives $	Total Remuneration $	Variable Proportion %
Non-executive Directors								
Tony Crawford, Chair	FY18	237,111.14	–	22,525.54	–	–	259,636.68	0%
Brent Stewart	FY18	123,695.04	–	11,751.10	–	–	135,446.14	0%
Mary Woodford	FY18	125,752.46	–	11,946.55	–	–	137,699.01	0%
Rod Moore	FY18	133,800.78	–	12,711.02	–	–	146,511.80	0%
Richard England	FY18	137,425.79	–	13,055.42	–	–	150,481.21	0%
Valerie Davies (retired Oct-2017)	FY18	34,094.35	–	3,238.93	–	–	37,333.28	0%
Helen Kurincic	FY18	132,625.11	–	12,599.33	–	–	145.224.44	0%
Lisa Palmer (appointed Sep-2017)	FY18	96,430.77	–	9,160.99	–	–	105,591.76	0%
Sub-total Non-executive Directors		**1,020,935.45**	**0.00**	**96,988.87**	**0.00**	**0.00**	**1,117,924.32**	**0%**
Executive Directors								
John Van Der Wielen, CEO	FY18	1,007,234.66	–	21,767.38	401,159.30	–	1,430,161.34	28%
Sub-total Executive Directors		1,007,234.66	–	21,767.38	401,159.30	–	1,430,161.34	28%
Total		**2,028,170.11**	**0.00**	**118,756.25**	**401,159.30**	**0.00**	**2,548,085.66**	**16%**

Remuneration – Short Term Incentive Scheme for the Executive Director

The table shows the details of the current Short Term Incentive Scheme for the Executive Director.

	Short Term Incentive						
Name	Incentive Scheme	Date of Payment	STI %	On target Performance $	Maximum Value $	Incentive amount paid $	Proportion of incentive paid %
John Van Der Wielen, CEO	FY18	Oct-18	50%	517,625.00	569,387.50	401,159.00	77.5

Remuneration – Long Term Incentive Scheme for the Executive Director

The table shows the details of the current Long Term Incentive Scheme for the Executive Director.

	Long Term Incentive							
Name	Incentive Scheme	Year	Date of Payment	LTI %	On target Performance $	Maximum Value $	Incentive amount paid $	Proportion of incentive paid %
John Van Der Wielen, CEO	FY18-FY20	2018	Oct 20	50%	517,625.00	569,387.50	–	–

In each of the three years of the Long Term Incentive Scheme, the Executive Director may receive a maximum of 55% of Total Fixed Remuneration however any payment is dependent on achieving the measures at the end of the third year.

Contract terms for the Executive Director

The Executive Director is a permanent employee with an employer initiated notice period of twelve months and employee initiated notice period of six months.

The Directors of HBF Health Limited (HBF) present their report on the consolidated entity consisting of HBF and its controlled entities (HBF Group) for the year ended 30 June 2018.

Directors

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

Mr Tony Crawford *(Chairman)*
Mr John Van Der Wielen *(Managing Director)*
Ms Valerie Davies, *retired 24 October 2017*
Mr Richard England
Ms Helen Kurincic
Dr Rod Moore
Ms Lisa Palmer, *appointed 26 September 2017*
Mr Brent Stewart
Ms Mary Woodford

Tony Crawford

Chairman
LLB, BA, FAICD

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. Appointed Chair of the Board in November 2016. Mr Crawford is Chair of the Nomination and Remuneration Committee and a member of the HBF-HCF Merger Sub-Committee. He was previously a member of the HBF Audit and Risk Management Committee.

Currently, Mr Crawford serves as Chair of Grant Thornton Australia Limited and Heart Research Australia and is a non-executive Director of various 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 senior leadership and executive positions at national law firm Phillips Fox (now DLA Piper) including CEO from 2000 until his retirement from the firm in 2010.

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

John Van Der Wielen

Chief Executive Officer and Managing Director
MBA, FAICD

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

Mr Van Der Wielen has over 30 years' experience in insurance, wealth management, private banking and investments and has led multiple acquisitions, integration and restructuring programs. He is experienced in fronting stock markets, liaising with direct investors and meeting analysts on company strategy and performance in many international markets.

Mr Van Der Wielen has served in executive and board roles for several global financial services groups as well as companies listed on the ASX, FTSE, European and Asian stock markets. He is a former CEO of Friends Life UK and International in London and Managing Director Wealth at ANZ Bank in Sydney. Most recently, Mr Van Der Wielen has been a Senior Adviser for Blackstone in the financial services arena and an independent non-executive on several boards. He is a former Chairman and current non-executive Director of KYCKR, an Irish-based technology company specialising in Anti Money Laundering (AML) and fraud detection which is listed on the ASX.

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

Richard England

FCA, MAICD

Mr England was appointed a Director in February 2015 and is Chair of the HBF Group Audit Committee and a member of the Group Nomination and Remuneration Committee and HBF-HCF Merger Sub-Committee.

For the past 20 years, he has served as a non-executive Director and Chair of listed and unlisted companies as well as not-for-profit organisations. Currently he is Chair of QANTM Intellectual Property and is a non-executive Director of Japara Healthcare Limited, Atlas Arteria Limited, Nanosonics Limited and Bingo Industries Limited. Mr England was also Chair of Ruralco Holdings Limited until September 2016.

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

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

Helen Kurincic

MBA, FAICD

Ms Kurincic was appointed a Director in February 2016, and is the Chair of the Group Risk Committee and a member of the Group Audit Committee and HBF-HCF Merger Sub-Committee. She is also the Chair of Integral Diagnostics Limited (ASX:IDX), non-executive director of Estia Health Limited (ASX:EHE), non-executive director of Sirtex Medical Limited (ASX:SRX) until 20 September 2018, non-executive director of McMillan Shakespeare Limited (ASX:MMS) from 15 September 2018, and is a senior advisor to global and local investment funds and entities on the health care sector. She was formerly the Chief Operating Officer and Director of Genesis Care, from its earliest inception creating and developing the first and largest radiation oncology and cardiology services across Australia.

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

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

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

Dr Rod Moore

MBBS, Grad Dip Sp Med, GAICD

Dr Moore was appointed a Director in October 2012 and is a member of the HBF Group Audit Committee and HBF-HCF Merger Sub-Committee. 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, 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 Limited 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.

Lisa Palmer

appointed 26 September 2017
BSc Hons, FCA, GAICD, FCIS, FGIA, SA Fin

Ms Palmer was appointed a Director to HBF Health Limited in September 2017 and is a member of the HBF Group Audit Committee, Group Risk Committee and HBF-HCF Merger Sub-Committee. Ms Palmer brings to the Board over 20 years of experience from executive management positions in finance, strategy, risk and compliance, governance, internal and external audit and corporate finance advisory at BHP, Woodside, Deloitte and PwC in Australia and the UK.

Ms Palmer's experience covers mining, oil and gas, health, superannuation, government, heavy manufacturing and FMCG. She has led finance and analysis teams internally and on transactions, governance oversight of major capital projects and management system implementations and leading investigations into risk management failings. Her current executive role is as Co-founder and Director of a Perth based private engineering company as well as providing consultancy services in strategy, risk and company secretarial.

Ms Palmer holds an honours degree in mathematics and business. She is a Fellow of the Institute of Chartered Accountants in Australia and the UK, a Graduate of the Australian Institute of Company Directors, a Fellow of the Institute of Chartered Company Secretaries and a Senior Associate of the Financial Services Institute in Australia.

Ms Palmer is currently a non-executive Director of Activ Foundation, Board Member and Treasurer at North Cottesloe Surf Life Saving Club and is an immediate past non-executive director of Bicycling WA.

Brent Stewart

BSc, BPsych, FAICD

Mr Stewart was appointed a Director of HBF Health Limited in November 2015 and is a member of the HBF Group Risk Committee and HBF-HCF Merger Sub-Committee. He is currently Executive Chair of Waveride Capital Limited and Non-Executive Director of Paragon Care Ltd, Non-Executive Director of Argonaut Ltd and Chairman of Etherington Inc. He has previously occupied a variety of Board roles in both the public and private sector.

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

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

Mary Woodford

LLB, MPH, BA (Hons), FAICD, FGIA

Ms Woodford was appointed a Director in August 2007 and is a member of the HBF Group Risk Committee, Group Nomination and Remuneration Committee and HBF-HCF Merger Sub-Committee. She was a Director of HBF Insurance Pty Ltd prior to the sale of the general insurance underwriting business, a Director of HBF Financial Services Pty Ltd until 2009 and a member of HBF's Finance and Investment Committee until June 2011.

Ms Woodford is General Manager Advocacy at the Law Society of Western Australia, having previously held the roles of Senior Legal Counsel at UWA and of Consultant, Corporate & Commercial with Jackson McDonald Lawyers.

Ms Woodford also has experience as a Company Secretary and Chair for not-for-profit organisations. She is currently Chair of Mercycare Limited and Central Regional TAFE, a non-executive director of the Local Government Insurance Scheme and the Australian Pro Bono Centre Limited and a Commissioner of the Catholic Education Commission WA.

Valerie Davies

Deputy Chair retired 24 October 2017
FAICD

Company secretary

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

Pascal Kasimba

appointed 29 January 2018
LLB(Hons), LLM, DLP

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

Andrew Raiter

appointed 24 October 2017, until 22 May 2018
LLB, GAICD

Mr Raiter was Company Secretary of HBF Health Limited from 24 October 2017 to 22 May 2018 and has been Company Secretary of HBF subsidiary companies since 2013. Mr Raiter has been employed as Head of Legal at HBF since 2006 and previously served as Group Risk Manager from 2003. Mr Raiter practised in law firms from 1985 to 2003 specialising in commercial and banking and property law. He is also a graduate of the Australian Institute of Company Directors.

Warwick Faulkner

appointed 22 May 2018, until 5 September 2018
LLB

Mr Faulkner was Company Secretary of HBF Health Limited from 22 May to 5 September 2018.

Verran Fehlberg

appointed 26 April 2017, until 26 October 2017
BEc(Acc), LLB, GAICD

Mr Fehlberg was Company Secretary of HBF Health Limited from 26 April to 26 October 2017.

Principal activities

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

Objectives

As a not-for-profit health insurer, our core objective is to deliver value to our members through relevant health insurance products which provide access to the highest quality healthcare at an affordable price. We look for opportunities to grow our membership nationally while remaining the leading provider of health insurance in Western Australia. Since 2012, HBF has also sought to become a valued health partner for members by providing preventative health services including through the Friendlies Pharmacy group for which HBF is franchisor.

Performance measures

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

Review of operations

Information on the operations and financial position of the HBF Group and its strategy and future prospects is set out in the Operating and Financial Review on pages 3 to 6 of this Annual Report.

Dividends

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

Share options

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

Significant changes in the state of affairs

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

Significant events after reporting date

Other than the sale of 125 Murray Street, Perth as disclosed in Note 14 of the Financial Report, there have been no significant events since the reporting date.

Indemnification and insurance of directors and officers

Having regard to section 199B of the *Corporations Act 2001*, 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, HBF has agreed to indemnify its auditors Ernst & Young as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' benefits

Since the end of the previous financial year, no Director has received or has become entitled to receive a benefit in connection with the management of the affairs of the entity other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the accounts in Note 23, 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:

	Directors' Meetings	Group Audit	Nomination & Remuneration	Group Risk	HBF-HCF Merger Sub-Committee
Number of Meetings Held	11 Meetings Held	3 Meetings Held	6 Meetings Held	3 Meetings Held	29 Meetings Held
	Attended	Attended	Attended	Attended	Attended
Mr T Crawford	11		6		25
Mr J Van Der Wielen[1]	11				21
Ms V Davies[2]	4		2		5
Mr R England	11	3	5		16
Ms H Kurincic	11	3		3	21
Dr R Moore	11	3			20
Ms L Palmer[3]	9	2		2	20
Mr B Stewart	11			3	24
Ms M Woodford	11		6	3	18

1. As Managing Director, Mr Van Der Wielen may be invited to participate but is not a member of Board committees
2. Ms Davies retired from the Board on 24 October 2017
3. Ms Palmer was appointed to the Board on 26 September 2017

Environmental regulations

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

Rounding

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

Auditor's independence and non-audit services

The non-audit services provided by HBF's auditor Ernst & Young are reported in Note 8 of the Financial Report. The Directors are satisfied that the provision of non-audit services by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The auditors have provided their independence declaration which can be found on page 62 and forms part of this report.

This report is made in accordance with a resolution of the directors.

Tony Crawford
Chairman

25 September 2018
Perth

Financial Report
For the year ended 30 June 2018
Contents

Consolidated statement of comprehensive income

	Notes	2018 $'000	2017 $'000
Contributions / premiums	**6(a)**	**1,695,002**	**1,620,406**
Benefits / claims expenses	18(c)	(1,634,717)	(1,565,126)
Risk equalisation	18(c)	107,573	88,035
Claims handling expenses	7(a)	(33,293)	(34,035)
Net benefits / claims		**(1,560,437)**	**(1,511,126)**
Acquisition costs	7(a)	(34,918)	(35,717)
Other underwriting costs	7(a)	(98,499)	(98,129)
Underwriting expenses		**(133,417)**	**(133,846)**
Underwriting result / (loss)		**1,148**	**(24,565)**
Commission income		14,956	14,910
Other revenue	6(c)	3,659	4,993
Net gain from financial assets at fair value through profit or loss	6(d)	56,664	77,842
Other operating and administration expenses	7(a)	(15,185)	(13,635)
Other activities		**60,094**	**84,110**
Surplus before income tax		61,242	59,543
Income tax expense	9	(432)	-
Surplus after income tax		**60,810**	**59,543**
Other comprehensive income net of tax			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	16	3,369	3,083
Total comprehensive income for the period		**64,179**	**62,626**
Total comprehensive income for the period is attributable to:			
HBF Health Limited		64,179	62,626
		64,179	**62,626**

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

Financial Report
For the year ended 30 June 2018
Consolidated statement of financial position

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	22(b)	50,593	43,675
Receivables	10	105,998	94,082
Financial assets at fair value through profit or loss	11	1,514,378	1,453,288
Current tax assets		-	432
Deferred acquisition costs	12	5,912	5,123
Non-current assets classified as held for sale	14	7,150	7,150
Total current assets		**1,684,031**	**1,603,750**
Non-current assets			
Receivables	10	4,445	4,259
Investments	13	500	1,500
Intangible assets	15	7,883	14,605
Property, plant and equipment	16	134,682	146,378
Deferred acquisition costs	12	14,782	15,703
Total non-current assets		**162,292**	**182,445**
Total assets		**1,846,323**	**1,786,195**
Liabilities			
Current liabilities			
Trade and other payables	17	16,160	17,870
Insurance liabilities	18	419,462	418,622
Employee benefits	20	10,232	10,525
Total current liabilities		**445,854**	**447,017**
Non-current liabilities			
Insurance liabilities	18	43,006	45,817
Employee benefits	20	2,313	2,390
Total non-current liabilities		**45,319**	**48,207**
Total liabilities		**491,173**	**495,224**
Net assets		**1,355,150**	**1,290,971**
Equity			
General reserve	19	111,513	111,513
Retained earnings	19	1,220,727	1,159,917
Asset revaluation reserve	19	22,910	19,541
Total equity		**1,355,150**	**1,290,971**

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

Consolidated statement of changes in equity

	Notes	General reserve $'000	Retained earnings $'000	Asset revaluation reserve $'000	Total $'000
At 30 June 2016		111,513	1,100,374	16,458	1,228,345
Surplus after income tax		-	59,543	-	59,543
Other comprehensive income		-	-	3,083	3,083
Total comprehensive income		-	59,543	3,083	62,626
At 30 June 2017	**19**	**111,513**	**1,159,917**	**19,541**	**1,290,971**
Surplus after income tax		-	60,810	-	60,810
Other comprehensive income		-	-	3,369	3,369
Total comprehensive income		-	60,810	3,369	64,179
At 30 June 2018	**19**	**111,513**	**1,220,727**	**22,910**	**1,355,150**

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

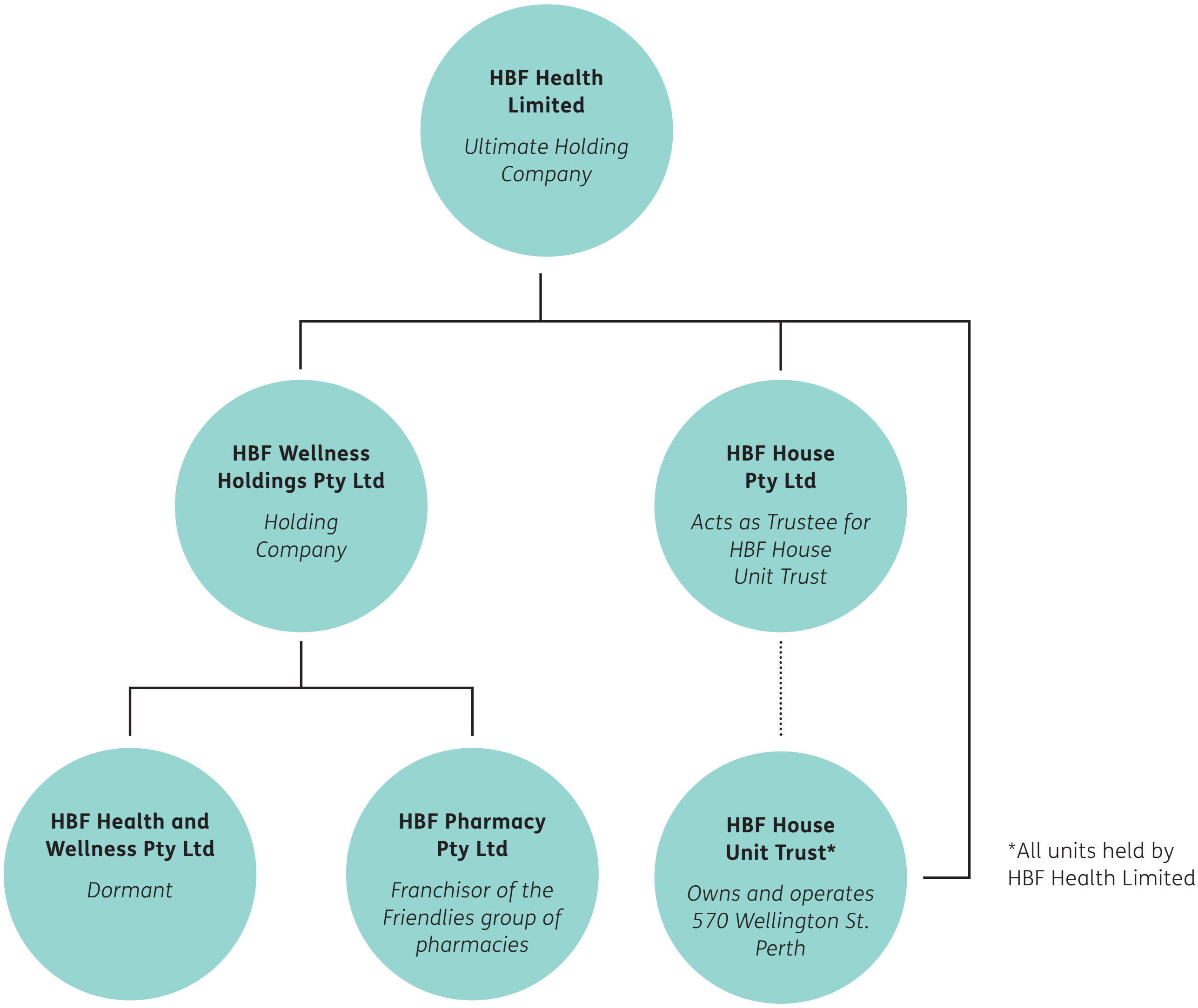
Financial Report
For the year ended 30 June 2018
Consolidated statement of cash flows

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipt of contributions / premiums		1,701,098	1,636,139
Receipt of commission income		14,688	13,359
Receipt of other income		3,659	4,993
Payments of benefits / claims		(1,642,438)	(1,552,792)
Risk equalisation receipts		97,841	99,352
Payments to suppliers & employees		(138,830)	(133,521)
Acquisition costs paid		(34,786)	(43,334)
Distributions received		14,821	28,081
Interest received		28,674	30,613
Goods and services tax received (net)		5,450	6,665
Net cash flows from operating activities	**22(c)**	**50,177**	**89,556**
Cash flows used in investing activities			
Cash paid for acquisition of property, plant and equipment		(1,031)	(843)
Cash paid for acquisition of intangible assets		(2,093)	(4,990)
Cash proceeds from sales of property, plant and equipment		9,108	21
Cash proceeds from sales of financial assets		566,751	707,225
Cash paid for purchases of financial assets		(615,994)	(803,536)
Net cash flows used in investing activities		**(43,259)**	**(102,124)**
Net increase/(decrease) in cash and cash equivalents		6,918	(12,568)
Cash and cash equivalents at beginning of year		43,675	56,243
Cash and cash equivalents at end of year	**22(b)**	**50,593**	**43,675**

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

Note 1: Entity information

HBF Health Limited is registered under the *Corporations Act 2001* as a company limited by guarantee. HBF Health Limited is a not-for-profit entity. HBF Health Limited is registered at 570 Wellington St, Perth WA 6000. HBF Health Limited and its subsidiaries (HBF Group) are incorporated and domiciled in Australia. HBF Health Limited has prepared a consolidated financial report incorporating the following entities that it 100% owned and controlled during the financial year:



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

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

The HBF Group had 767 full time equivalents as at 30 June 2018 (2017: 759 full time equivalents).

Note 2: Basis of preparation

a) Basis of preparation

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

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

b) Statement of compliance

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

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of HBF Health Limited and its subsidiaries (HBF Group) as at 30 June 2018. Control is achieved when the HBF Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the HBF Group controls an investee if and only if the HBF Group has:

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

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

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

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

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

Note 3: Critical accounting judgements and estimates

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

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

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

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

b) Central estimate

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

Central estimates for each class of business are determined by reference to a variety of estimation techniques. These are generally based on actuarial analysis of historical experience and assume an underlying pattern of claims development and payment.

Note 3: Critical accounting judgements and estimates (continued)

A separate estimate is made of reinsurance funds payable to or receivable from the Private Health Insurance Risk Equalisation Special Account (RESA).

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

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

c) Risk margin
The determination of the appropriate level of risk margin takes into account the inherent uncertainty or variability of the central estimate. The risk margin increases the probability that the net liability is adequate to a minimum of 80% (2017: 80%).

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

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

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

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

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

Note 4: Risk management

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

a) Governance framework
The HBF Board has overall responsibility for corporate governance of HBF Health Limited and its subsidiaries. This includes authority to determine, review and approve policies, practices, management performance and financial operations. All non-executive directors are independent.

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

Note 4: Risk management (continued)

The directors execute their responsibility directly and via participation in Board Committees. Each Committee has a charter approved by the HBF Board that details its purpose, focus, powers and authority. This includes the HBF Group Audit Committee, the Group Nomination and Remuneration Committee and the Group Risk Committee.

The Audit Committee oversees the compliance of financial reporting practices, accounting practices and audit and assurance. The Risk Committee overseas the compliance and risk management frameworks of the HBF Group. The role of the Nomination and Remuneration Committee is to review and advise on the HBF and controlled entities Board compositions, size and membership.

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

b) Capital management framework

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

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

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

c) Insurance contracts - Risk management policies and procedures

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

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

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

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

(ii) Terms and conditions of insurance business

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

(iii) Concentration of insurance risk

The HBF Group minimises concentration of risk in relation to premiums receivable by undertaking transactions with a large number of customers and terminating policies in cases of non-payment. Although members predominantly reside in Western Australia, the main insurance claims risk for the health insurance business relates to the ageing demographic. This risk is mitigated somewhat through participation in the RESA.

(iv) Claims management and claims provisioning risks

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

Note 4: Risk management (continued)

d) Reinsurance and risk equalisation counterparty risk

HBF Health Limited and all private health insurers are part of the RESA. The RESA is controlled by the industry regulator, enabling a more equitable means of spreading hospital claims costs for high risk groups between all private health insurers. Note 10 provides information regarding the quality of HBF Group's credit risk exposure in respect of risk equalisation recoveries receivable.

e) Financial risk management

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

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

(i) Cash flow and liquidity risk

Cash flow and liquidity risk is the risk the HBF Group cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due. It may result from either the inability to sell financial assets quickly at their fair value; or a counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. The HBF Group prudentially manages liquidity risk by maintaining sufficient working capital. In the event surplus cash exists, these funds are added to the entity's investment portfolio. In line with the Capital Management Policy and Liquidity plans, term deposits are matured on a regular basis to cover any projected working capital shortfalls. The financial liabilities exposed to cash flow and liquidity risk are the trade payables and accruals and the outstanding claims provisions. The trade payables and accruals account matures within the three months from the balance date. The maturity of outstanding claims provisions can be found in Note 18(c).

(ii) Market risk

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

Currency risk

The HBF Group has no residual exposure to currency risk in respect of overseas unit trust investments. Funds are placed through Australian based institutions with expertise in the areas of overseas investing; all investments are fully hedged against currency risk. These trusts are not controlled entities. The HBF Group Board requires that, where investments are made in international equities, the currency risk is fully hedged within each of the individual funds in which they are held. The HBF Group has no residual currency risk in either the parent entity or at a consolidated group level. This applies to both 2018 and 2017.

Interest rate risk

HBF Health Limited is exposed to interest rate risk through its investment in term deposits and interest-bearing securities held through unit trusts. These investments form the majority of the HBF Health Limited's investment portfolio. Interest rate risk on fixed term deposits has been managed both by limiting the term of deposits and also dividing funds into multiple accounts with different maturity dates. The analysis below demonstrates the impact on the surplus and equity of a movement in interest rates on funds invested in interest bearing securities held through unit trusts, with all other variables held constant. Reasonably possible movements in interest rates were determined based on historical movements and economic forecaster's expectations.

Note 4: Risk management (continued)

	Movement in variable	Exposure $'000	Pre-tax movement in surplus and equity $'000
30 June 2018			
Term deposits	+100bp	1,184,293	(6,720)
	-100bp	1,184,293	6,720
30 June 2017			
Term deposits	+100bp	1,169,428	(6,416)
	-100bp	1,169,428	6,416

Price risk

The HBF Group is exposed to equity and property securities price risk. This arises from investments held on the statement of financial position and classified at fair value through profit or loss. The HBF Group Board approves limits on the proportion of the investment portfolio held in international equities, domestic equities and domestic property thereby limiting exposure to price risk. The analysis below demonstrates the impact on the surplus and equity of a movement in market prices with all other variables (including interest rates and currency risk) held constant. Reasonably possible movements in market prices were determined based on historical movements and economic forecaster's expectations.

	Movement in variable	Exposure $'000	Pre-tax movement in surplus and equity $'000
30 June 2018			
Equity related instruments	+10%	257,263	25,726
	-10%	257,263	(25,726)
30 June 2017			
Equity related instruments	+10%	212,487	21,249
	-10%	212,487	(21,249)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The nature of the HBF Group's insurance business does not expose it to credit risk concentrations from its products, services and investments. The HBF Group considers credit exposure when entering significant counterparty contracts with suppliers and intermediaries. Credit risk exposure in regards to receivables, including reinsurance, is set out in Note 10 of the accounts. HBF Health Limited holds a significant proportion of its investment portfolio in interest bearing securities and fixed term deposits. The table below provides information regarding the credit risk exposure according to the entity's categorisation of counterparties by Standard & Poor's credit rating.

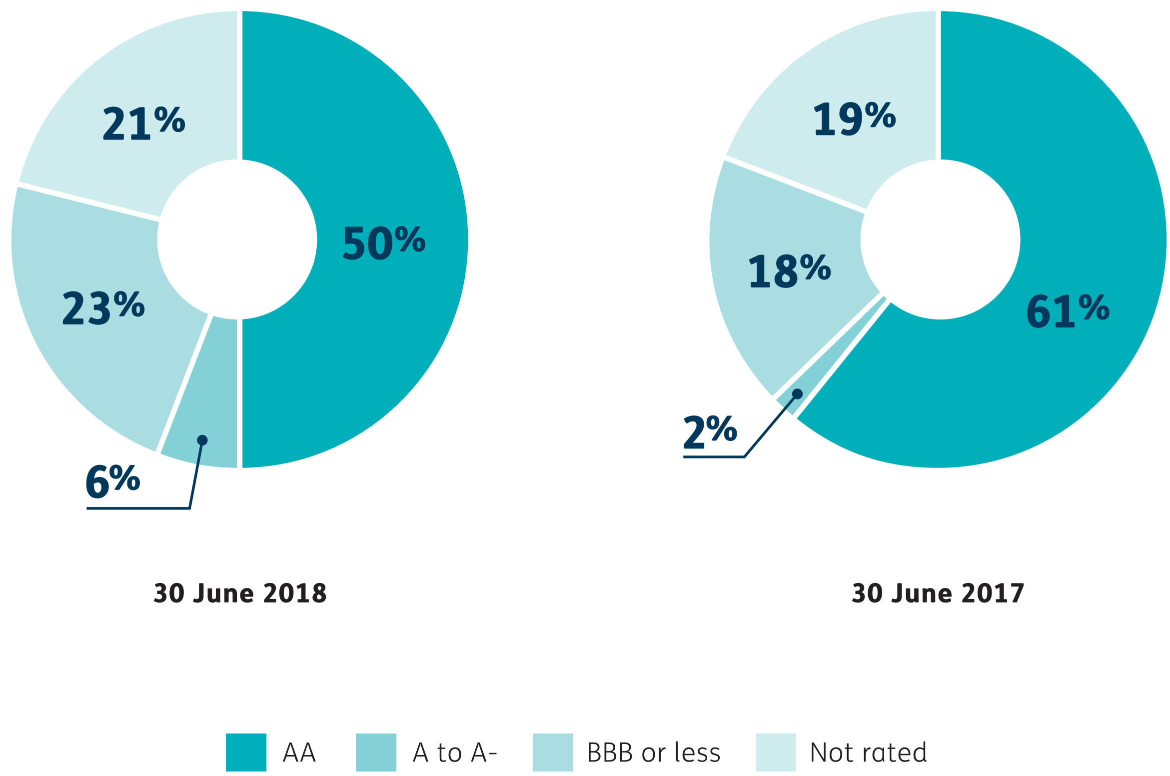
	AAA $'000	AA $'000	A to A- $'000	BBB or less $'000	Not rated $'000	Total $'000
30 June 2018						
Cash and cash equivalents	-	50,593	-	-	-	50,593
Term deposits	-	736,162	96,647	351,484	-	1,184,293
Interest related instruments	-	-	-	-	72,822	72,822
Equity related instruments	-	-	-	-	257,263	257,263
	-	786,755	96,647	351,484	330,085	1,564,971
30 June 2017						
Cash and cash equivalents	-	43,554	-	-	-	43,554
Term deposits	-	862,266	34,680	272,482	-	1,169,428
Interest related instruments	-	-	-	-	71,373	71,373
Equity related instruments	-	-	-	-	212,487	212,487
	-	905,820	34,680	272,482	283,860	1,496,842

Note 4: Risk management (continued)

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

	AAA $'000	AA $'000	A to A- $'000	BBB or less $'000	Not rated $'000	Total $'000
30 June 2018						
Interest related instruments	19,566	11,237	16,043	15,490	10,486	72,822
30 June 2017						
Interest related instruments	20,913	12,228	14,157	20,131	3,944	71,373

Credit risk exposure:



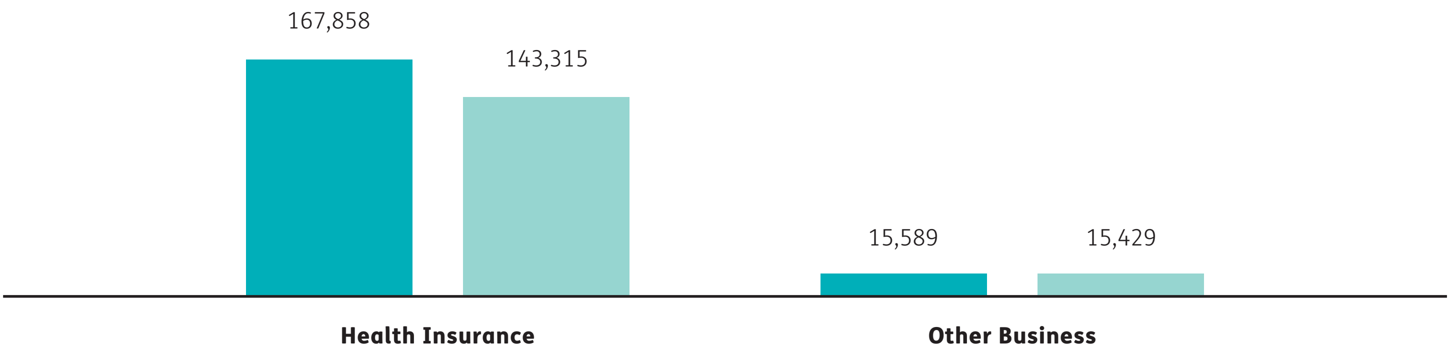
Note 5: Business area reporting

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

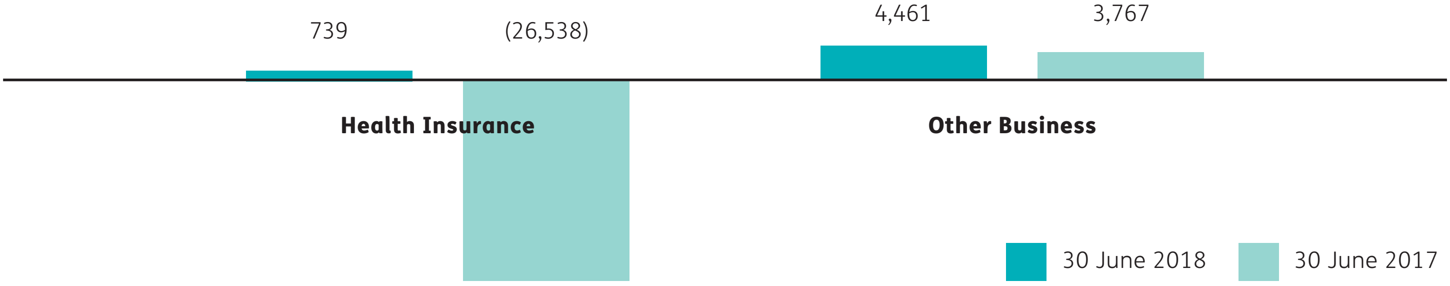
Health insurance business	Provision of health insurance to individuals and families
Other business	Commission income from the distribution of general insurance and life insurance products to individuals and families and income from acting as the franchisor to a group of community pharmacies.

	Health insurance $'000	Other Business $'000	Grand total $'000
Year ended 30 June 2018			
Income received	1,695,002	15,589	1,710,591
Benefits paid	(1,634,717)	-	(1,634,717)
Reinsurance received	107,573	-	107,573
Gross profit	167,858	15,589	183,447
Operating expenses	(167,119)	(11,129)	(178,248)
Operating profit / (loss)	739	4,461	5,199
Year ended 30 June 2017			
Income received	1,620,406	15,429	1,635,835
Benefits paid	(1,565,126)	-	(1,565,126)
Reinsurance received	88,035	-	88,035
Gross profit	143,315	15,429	158,744
Operating expenses	(169,853)	(11,662)	(181,516)
Operating profit / (loss)	(26,538)	3,767	(22,772)

Gross profit ($'000):



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



Note 6: Revenue

	Notes	2018 $'000	2017 $'000
(a) Net premium revenue			
Gross written premiums		1,695,973	1,631,203
Movement in unearned premiums	18(b)	(971)	(10,797)
		1,695,002	1,620,406
(b) Commission income		14,956	14,910
(c) Other revenue			
Rental revenue		442	629
Other non-operating revenue		3,217	4,364
		3,659	4,993
(d) Net gain from financial assets at fair value through profit or loss			
Gain/(loss) on change in fair value of investments		11,847	20,813
Interest from other corporations		29,996	28,948
Dividends/distributions from other corporations		14,821	28,081
		56,664	77,842
Total revenue		1,770,281	1,718,151

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

- Insurance premium revenue comprises amounts charged to the policyholders. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is accounted for based upon the pattern of processing renewals and new business. Premium is earned from the date of attachment of risk over the indemnity period based on the pattern of risks underwritten.
- Rental income from operating leases where the HBF Group is the lessor is recognised in the profit or loss on a straight-line basis over the lease term.
- Commission income is earned on general insurance and life insurance policies sold on behalf of insurers. Commission income is recognised when payments are made by policyholders to the insurers, upon which the right to receive the commission is established.
- Interest revenue is recognised as it accrues using the effective interest method.
- Dividends and distributions represent realised gains, dividends and other distributions received from Fund Managers in association with the investment portfolio. They are recognised as revenue as they become due.
- Unrealised gains / (losses) reflect the change in the fair value of the investment portfolio that has yet to be realised.

Note 7: Expenses

	2018 $'000	2017 $'000
(a) Expense by function		
Claims handling expenses	33,293	34,035
Acquisition costs	34,918	35,717
Other underwriting costs	98,499	98,129
Other operating and administration expenses	15,185	13,635
	181,895	181,516
(b) Expense by nature		
Employee costs (excluding superannuation plan expenses)	82,213	81,207
Defined contribution superannuation plan expenses	8,646	7,083
Depreciation and amortisation expenses	16,614	19,007
Bad and doubtful debts expense	39	25
Operating lease rental expense	2,874	3,257
Marketing expense	29,262	30,537
Consultancy fees	8,831	8,083
Fees and levies	2,358	1,850
Electronic ancillary claiming	2,932	3,060
IT expenses	10,216	9,871
Impairment loss	1,000	-
Postage, printing and scanning expenses	4,848	6,163
Other expenses	12,062	11,373
	181,895	181,516

Note 8: Auditors' remuneration

	2018 $	2017 $
Amounts received or due and receivable by Ernst & Young for:		
Audit of the financial reports	321,289	308,173
Other assurance services for regulatory reporting	70,724	102,256
Audit & assurance services	392,013	410,429
Consulting advice	26,750	150,000
Taxation advice	27,144	37,250
Other services	53,894	187,250
Total auditors' remuneration	445,907	597,679

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

Note 9: Income tax

	2018 $'000	2017 $'000
(a) Major components of income tax expense		
Current tax expense	432	-
Deferred tax expense	-	-
Income tax benefit reported in the statement of comprehensive income	432	-
(b) Reconciliation of tax expense to prima facie tax on accounting profit		
Total profit before income tax	61,242	59,543
Tax at the Australian tax rate of 30% (2017: 30%)	18,373	17,863
Tax effect of tax exempt entity	(17,941)	(17,863)
Aggregate income tax expense	432	-

(c) Deferred tax assets and liabilities
There is $nil deferred tax assets and liabilities as at 30 June 2018 (2017: $nil)

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

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

Revenue and expenses arising under the tax sharing agreement are disclosed as income tax expense in the Statement of Comprehensive Income.

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

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

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

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

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

Note 9: Income tax (continued)

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

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

Note 10: Receivables

	Notes	2018 $'000	2017 $'000
Government rebate receivable		36,466	36,563
Risk equalisation receivable	18(c)	38,446	28,714
Gross contributions / premium receivable		5,619	5,868
Sundry debtors and prepayments		12,786	11,646
Commission income accrued		7,150	6,882
Investment interest receivable		10,015	8,693
Total gross receivables		110,482	98,366
Allowance for impairment loss		(39)	(25)
Net receivables		110,443	98,341
Current		105,998	94,082
Non-current		4,445	4,259
		110,443	98,341

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

Note 10: Receivables (continued)

Credit Rating	AAA-to AA $'000	AA-2 to A+ $'000	BBB+ to BB- $'000	Not Rated $'000	Total $'000
As at 30 June 2018					
Government rebate receivable	36,466	-	-	-	36,466
Risk equalisation receivable	38,446	-	-	-	38,446
Contributions / premium receivable (net)	-	-	-	5,619	5,619
Sundry debtors and prepayments (net)	1,118	-	-	11,629	12,747
Commission income accrued	-	-	-	7,150	7,150
Investment interest receivable	-	5,227	4,788	-	10,015
	76,030	5,227	4,788	24,398	110,443
As at 30 June 2017					
Government rebate receivable	36,563	-	-	-	36,563
Risk equalisation receivable	28,714	-	-	-	28,714
Contributions / premium receivable (net)	-	-	-	5,868	5,868
Sundry debtors and prepayments (net)	997	-	-	10,624	11,621
Commissions receivable	-	-	-	6,882	6,882
Investment interest receivable	-	5,277	3,416	-	8,693
	66,274	5,277	3,416	23,374	98,341

	Neither Past due nor impaired $'000	Past due but not impaired		Past due and impaired $'000	Total $'000
		0 - 3 months $'000	3 to 12 months $'000		
As at 30 June 2018					
Government rebate receivable	36,466	-	-	-	36,466
Risk equalisation receivable	38,446	-	-	-	38,446
Contributions / premium receivable (gross)	-	5,619	-	-	5,619
Sundry debtors and prepayments (gross)	12,747	-	-	39	12,786
Commission income accrued	7,150	-	-	-	7,150
Investment interest receivable	10,015	-	-	-	10,015
	104,824	5,619	-	39	110,482
As at 30 June 2017					
Government rebate receivable	36,563	-	-	-	36,563
Risk equalisation receivable	28,714	-	-	-	28,714
Contributions / premium receivable (gross)	-	5,868	-	-	5,868
Sundry debtors and prepayments (gross)	11,621	-	-	25	11,646
Commission income accrued	6,882	-	-	-	6,882
Investment interest receivable	8,693	-	-	-	8,693
	92,473	5,868	-	25	98,366

Note 10: Receivables (continued)

Accounting policy

Government rebate receivable (Premiums reduction scheme)

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

Risk equalisation

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

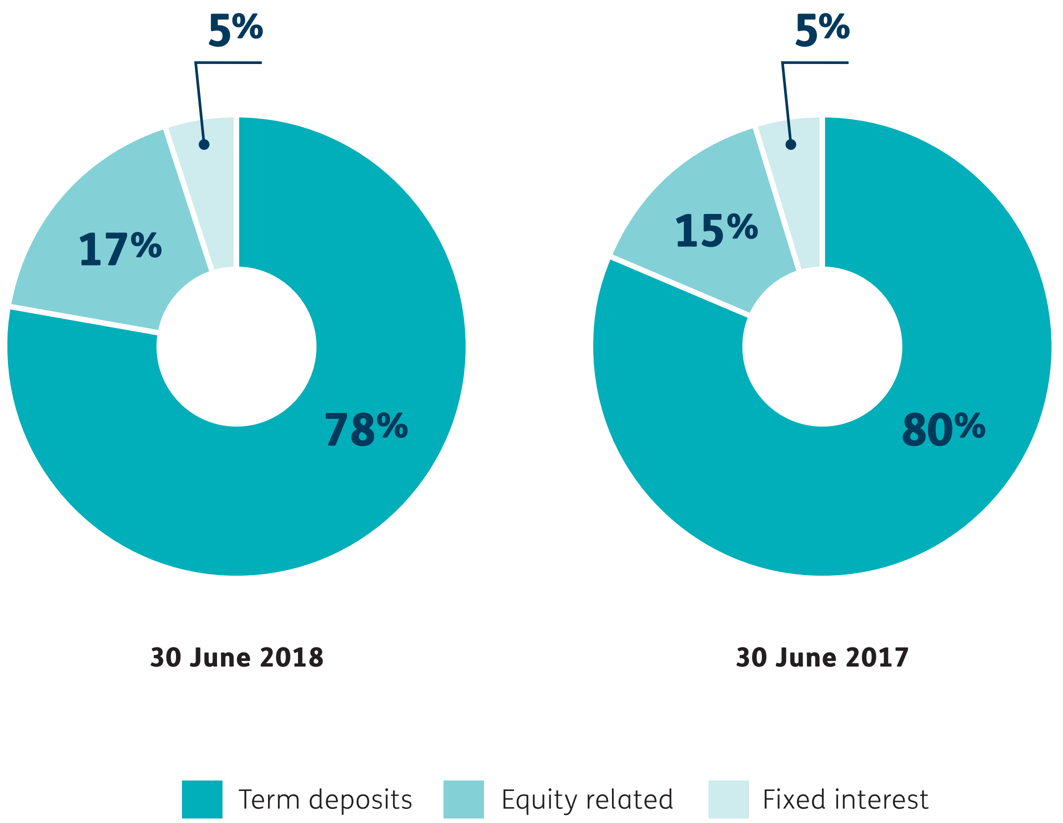
Contributions / premiums receivable

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

Note 11: Financial assets at fair value through profit and loss

	2018 $'000	2017 $'000
Term deposits	1,184,293	1,169,428
Equity related instruments	257,263	212,487
Fixed interest related instruments	72,822	71,373
	1,514,378	1,453,288

Portfolio composition:



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

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;

Level 2: valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable); and

Level 3: valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Unquoted investments				
Equity related instruments	-	257,263	-	257,263
Fixed interest related instruments	-	72,822	-	72,822
	-	330,085	-	330,085

There were no transfers between levels during the year.

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

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

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

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

Note 12: Deferred acquisition costs

	2018 $'000	2017 $'000
Deferred acquisition costs at beginning of year	20,826	13,209
Acquisition costs incurred	34,786	43,334
Amortisation charged to income	(34,918)	(35,717)
Deferred acquisition costs at end of year	20,694	20,826
Current	5,912	5,123
Non-current	14,782	15,703
	20,694	20,826

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

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

Note 13: Investments

	2018 $'000	2017 $'000
Investment in Whitecoat Operating Pty Limited		
Investment in other entity at beginning of year	1,500	-
Shares acquired in other entity during the year	-	1,500
Impairment loss	(1,000)	-
Investment in other entity at end of year	500	1,500

At 30 June 2018 management assessed the estimated future cash flows of the investment in Whitecoat Operating Pty Limited and based on this assessment an impairment loss of $1,000,000 (2017: nil) was recognised.

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

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

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

Note 14: Non-current assets classified as held for sale

	2018 $'000	2017 $'000
Land	467	467
Buildings	1,851	1,851
Plant and equipment	252	252
Building renovations	4,580	4,580
	7,150	7,150

The non-current assets held for sale relate to HBF Group's former head office building located at 125 Murray Street, Perth WA 6000. On 22 May 2018, a contract of sale was signed for 125 Murray Street. A sale price of $8,100,000 was agreed and completion of the sale occurred on 25 July 2018.

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

Note 15: Intangible assets

	2018 $'000	2017 $'000
Computer Software		
Cost		
Opening balance	58,446	52,245
Additions	2,893	6,201
Closing balance	61,339	58,446
Amortisation		
Opening balance	43,841	31,916
Transfers	800	1,211
Amortisation	8,815	10,714
Closing balance	53,456	43,841
Net book value at end of the year	**7,883**	**14,605**

Intangible assets with a cost of $25.5m (2017: $13.6m) have been fully amortised and are still in use.

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

Note 16: Property, plant and equipment

	Land $'000	Buildings $'000	Plant and Equipment $'000	Renovations $'000	Work in progress $'000	Total $'000
30 June 2018						
Cost or valuation						
Opening balance	24,875	100,279	10,744	30,831	8,416	175,145
Additions	-	-	635	-	3,922	4,557
Disposals	(6,750)	(1,537)	(11)	1	-	(8,297)
Revaluations	-	3,369	-	-	-	3,369
Closing balance	18,125	102,111	11,368	30,832	12,338	174,774
Depreciation						
Opening balance	-	2,563	5,395	12,712	8,097	28,767
Impairment	-	-	-	-	-	-
Depreciation expense	-	3,384	2,180	2,235	-	7,799
Transfer out of work in progress	-	-	-	-	3,526	3,526
Closing balance	-	5,947	7,575	14,947	11,623	40,092
Net book value at end of year	**18,125**	**96,164**	**3,793**	**15,885**	**715**	**134,682**
30 June 2017						
Cost or valuation						
Opening balance	24,875	97,167	9,948	29,731	1,401	163,122
Additions	-	29	796	1,100	7,015	8,940
Revaluations	-	3,083	-	-	-	3,083
Closing balance	24,875	100,279	10,744	30,831	8,416	175,145
Depreciation						
Opening balance	-	(848)	3,112	10,113	-	12,377
Impairment	-	-	2	-	-	2
Depreciation expense	-	3,411	2,281	2,599	-	8,291
Transfer out of work in progress	-	-	-	-	8,097	8,097
Closing balance	-	2,563	5,395	12,712	8,097	28,767
Net book value at end of year	**24,875**	**97,716**	**5,349**	**18,119**	**319**	**146,378**

Property, plant and equipment with a cost of $4.6m (2017: $5.2m) have been fully depreciated and are still in use.

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

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

Note 16: Property, plant and equipment (continued)

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

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

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

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

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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

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

The fair value of land and buildings at 30 June 2018 were determined by the Directors. The Directors assessed the fair value as consistent with the prior year due to a lack of material changes in market conditions.

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

Note 16: Property, plant and equipment (continued)

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

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

The fair value of the headquarters at 570 Wellington Street, Perth was determined using the hypothetical lease method. The valuation methodology reconciles the estimated value of land and buildings under the capitalisation and the discounted cash flow approaches and assumes a notional lease at market rent subject to normal commercial terms and conditions. Under the capitalisation approach, the net market rental income as at the valuation date is capitalised at an appropriate market yield to estimate the value of the property. Under the discounted cash flow approach, the estimated future annual net cash flows over a notional lease term, including the expected terminal sales value, are discounted to present value. As at 30 June 2018, the property's fair value was determined by the Directors, supported by a valuation performed by Colliers International (WA) Pty Limited, an accredited independent valuer who has valuation experience for similar office properties in Australia since 1976.

Significant valuation assumptions:	
Capitalisation approach	
Core market yield	6.25%
Discounted cash flow approach	
Discount rate	7.00%
Terminal yield	6.75%

Reconciliation of Level 3 fair value:

	2018 $'000	2017 $'000
Opening balance	122,590	122,890
Disposals	(8,297)	-
Depreciation for the year	(3,369)	(3,383)
Level 3 revaluation profit on revaluation at year end	3,369	3,083
Closing balance	114,293	122,590

The revaluation of land and buildings resulted in the recognition of a revaluation reserve of $22,908,000 as at 30 June 2018 (2017: $19,541,000).

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

	2018 $'000	2017 $'000
Cost	107,840	109,504
Accumulated depreciation and impairment	(9,475)	(6,392)
Net carrying amount	98,365	103,112

Note 17: Trade and other payables

	2018 $'000	2017 $'000
Trade creditors and accrued expenses	11,110	13,467
Employee related payables	4,347	3,698
Other payables	703	705
	16,160	17,870

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

Note 18: Insurance liabilities

	Notes	2018 $'000	2017 $'000
GapSaver	(a)	89,916	85,137
Unearned premium liabilities	(b)	235,067	234,096
Outstanding claims	(c)	137,485	145,206
		462,468	464,439
Current		419,462	418,622
Non-current		43,006	45,817
		462,468	464,439

(a) GapSaver

	2018 $'000	2017 $'000
Movements in provisions		
Balance at beginning of year	85,137	79,745
Member deposits	55,924	54,571
Member withdrawals	(51,243)	(46,885)
Present value adjustment	(73)	(338)
Adjustment for cancellations	171	(1,956)
Balance at end of year	89,916	85,137
Current	47,373	40,066
Non-current	42,543	45,071
	89,916	85,137

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

Note 18: Insurance liabilities (continued)

(b) Unearned premium liability

	2018 $'000	2017 $'000
Unearned premium at beginning of year	234,096	223,299
Premium written during the year	1,695,973	1,631,203
Premium earned during the year	(1,695,002)	(1,620,406)
Unearned premium at end of year	235,067	234,096
Current	234,604	233,350
Non-current	463	746
	235,067	234,096

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2018 and 30 June 2017.

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

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

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

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

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

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

Note 18: Insurance liabilities (continued)

(c) Outstanding claims liability

	Notes	Insurance liabilities $'000	Risk equalisation $'000	Net $'000
30 June 2018				
Central estimate of outstanding claims liabilities		131,417	(10,392)	121,025
Claims handling expenses		2,628	-	2,628
Risk margin		3,440	-	3,440
Outstanding claims liabilities/(Risk equalisation receivable)		137,485	(10,392)	127,093
Risk equalisation receivable on claims paid		-	(28,054)	-
Risk equalisation receivable on paid and outstanding liabilities	10	-	(38,446)	-
Movement in outstanding claims liability:				
Opening balance		145,206	(28,714)	116,492
Claims incurred in the current year		1,670,743	(111,403)	1,559,340
Adjustment to claims incurred in prior years		(36,026)	3,830	(32,196)
Net claims/Risk equalisation		1,634,717	(107,573)	1,527,144
Claims paid/Risk equalisation received during the year		(1,642,438)	97,841	(1,544,597)
Closing balance		137,485	(38,446)	99,039
30 June 2017				
Central estimate of outstanding claims liabilities		139,687	(11,072)	128,615
Claims handling expenses		2,794	-	2,794
Risk margin		2,725	-	2,725
Outstanding claims liabilities/(Risk equalisation receivable)		145,206	(11,072)	134,134
Risk equalisation receivable on claims paid		-	(17,642)	-
Risk equalisation receivable on paid and outstanding liabilities	10	-	(28,714)	-
Movement in outstanding claims liability:				
Opening balance		132,872	(40,031)	92,841
Claims incurred in the current year		1,595,477	(93,843)	1,501,634
Adjustment to claims incurred in prior years		(30,351)	5,808	(24,543)
Net claims/Risk equalisation		1,565,126	(88,035)	1,477,091
Claims paid/Risk equalisation received during the year		(1,552,792)	99,352	(1,453,440)
Closing balance		145,206	(28,714)	116,492

Given the short weighted mean term of the liability (less than two months) no explicit allowances have been made for inflation and discounting in the current and prior year. The weighted average expected term to settlement for the net central estimate is 0.13 years (2017: 0.11 years).

Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the valuation models and assumptions, the data quality, the health insurance environment and the impact of legislative reform. As HBF Health Limited is a single portfolio comprising two correlated classes of risk, no allowance is made for diversification when setting the risk margin. The risk margin applied to increase the level of adequacy of the central estimate to 80% is 2.8% (2017: 2.1%). More information regarding the risk margin is provided in note 3(c).

Claims handling expenses applies a rate of 2.0% (2017: 2.0%).

Note 18: Insurance liabilities (continued)

	1-3 months $'000	4-12 months $'000	1+ years $'000	Total $'000
Maturity profile				
At 30 June 2018				
Gross liability	119,667	17,818	-	137,485
Net liability	110,469	16,624	-	127,093
At 30 June 2017				
Gross liability	129,536	15,670	-	145,206
Net liability	119,498	14,636	-	134,134

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

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

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

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

		Pre-tax movement in surplus and equity	
	Movement in variable	Gross of reinsurance $'000	Net of reinsurance $'000
Impact of movement in variable			
Adopted reporting rates	1% increase	143	132
	1% decrease	(144)	(133)
Incurred cost in latest two service months	1% increase	3,070	2,838
	1% decrease	(3,070)	(2,838)
Sufficiency margin	1% increase	1,338	1,237
	1% decrease	(1,338)	(1,237)
Claims handling expenses	1% increase	1,464	1,353
	1% decrease	(1,464)	(1,353)

Note 18: Insurance liabilities (continued)

Actuarial assumptions and methods

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

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

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

Average weighted term to settlement	The average weighted term to settlement is calculated separately, by class of business, based on historic payment patterns.
Future claim reports (IBNR)	Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.
Average claim size	Average claim size is a benchmark being the outcome of the month of service blend of actuarial methods described above.
Expenses rate	Claims handling expenses were calculated by analysis of actual expenses from profit and loss statements over the last 12 months.
Discount rate	No explicit assumption made given the short weighted mean term of the liability (less than two months).
Inflation	No explicit assumption made. Methods adopted (paid chain ladder and incurred cost development) make implicit allowance for inflation.
Superimposed inflation	No explicit assumption made. Methods adopted (paid chain ladder and incurred cost development) make implicit allowance for inflation.
Sufficiency margin	The inherent uncertainty in the estimated claim liability means that there is a range of possible outcomes. An analysis of the variation of the expected results lead to adoption of a 4.0% co-efficient of variation (2.5% for 1-month hindsight valuations) and the lognormal distribution. This distribution is then used to calculate the risk margin required to increase the level of sufficiency of the central estimate from 50% to 80%.

Note 19: Reserves and retained earnings

	2018 $'000	2017 $'000
Attributable to HBF Health Limited		
General reserve	111,513	111,513
Retained earnings	1,220,727	1,159,917
Asset revaluation reserve	22,910	19,541
	1,355,150	1,290,971

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

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

The *Private Health Insurance Act 2007* requires health benefit organisations to maintain sufficient reserves so that, at any time, the value of the assets of the fund is sufficient to meet the obligations of the fund, at that date, to policyholders and creditors referable to the fund, under adverse conditions. The reserves of HBF Health Limited met the requirements of the *Private Health Insurance (Prudential Supervision) Act 2015* and the Solvency Standard and Capital Adequacy Standard contained therein as at 30 June 2018 and 30 June 2017.

Note 20: Employee benefits

	Notes	2018 $'000	2017 $'000
The aggregate employee benefit liability is comprised of:			
Accrued annual leave	(a)	5,052	5,265
Accrued long service leave	(b)	7,493	7,650
		12,545	12,915
Current		10,232	10,525
Non-current		2,313	2,390
		12,545	12,915
(a) Accrued annual leave			
Opening balance		5,265	5,339
Additional benefits accrued		4,790	5,007
Benefits utilised		(5,003)	(5,081)
Closing balance		5,052	5,265
(b) Accrued long service leave			
Opening balance		7,650	8,217
Additional benefits accrued		1,187	293
Benefits utilised		(1,344)	(860)
Closing balance		7,493	7,650

Accounting policy

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

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

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

Note 21: Contingencies and commitments

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

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

	2018 $'000	2017 $'000
(b) Capital expenditure commitments - within one year		
Within one year	1,303	4
After one year but not more than five years	-	-
More than five years	-	-
	1,303	4
(c) Lease expenditure commitment		
Operating leases:		
Within one year	2,292	2,039
After one year but not more than five years	965	2,142
More than five years	-	-
	3,257	4,181

Operating leases expenditure relate to 14 retail stores and have an average lease term of 1.12 years (2017: 1.66 years) and 10 vehicles with an average lease term of 1.52 years (2017: 2.32 years). Leases are non-cancellable.

	2018 $'000	2017 $'000
(d) Lease commitments receivable		
Operating leases:		
Within one year	253	509
After one year but not more than five years	380	1,048
More than five years	-	-
	633	1,557

Operating lease revenue is due from tenants in commercial property owned by HBF Health Limited. Leases have an average lease term of 1.22 years (2017: 1.25 years) and an average implicit interest rate of 0.8% (2017: 0.6%).

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

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

Note 22: Cash flow statement

(a) Financing facilities available

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

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

	2018 $'000	2017 $'000
(b) Reconciliation of cash		
Cash and cash equivalents comprises:		
Cash and bank balances	50,593	43,675
Short-term deposits	-	-
	50,593	43,675
(c) Reconciliation of operating surplus after tax to the net cash flows from operations		
Operating surplus	60,810	59,543
Depreciation and amortisation	16,614	19,007
(Gain)/loss on disposal of property, plant and equipment	(811)	(21)
Impairment of property, plant and equipment	-	2
Impairment of other financial assets	1,000	-
Change in value of investments	(11,847)	(20,813)
Changes in assets and liabilities		
Government rebate receivable	97	(99)
Risk equalisation	(9,732)	11,317
Contributions / premium receivable	249	(357)
Expected future recoveries	14	19
Commission income accrued	(268)	(1,551)
Sundry debtors and prepayments	(1,140)	(551)
Investment interest receivable	(1,322)	1,665
Deferred acquisition costs	132	(7,617)
Trade creditors and accruals	(1,710)	1,130
Contributions in advance / unearned premiums	5,750	16,189
Outstanding claims	(7,721)	12,334
Employee benefits	(370)	(641)
Tax assets and liabilities	432	-
Net cash flow from operating activities	50,177	89,556

Accounting policy

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

Note 23: Related party disclosures

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

Directors
Mr T Crawford LLB, BA, FAICD
Mr J Van Der Wielen MBA, FAICD
Ms V Davies FAICD (until 24 October 2017)
Mr R England FCA, MAICD
Ms H Kurincic MBA, FAICD
Mr R Moore MBBS, Grad Dip Sp Med, GAICD
Ms L Palmer BSc Hons, FCA, GAICD, FCIS, FGIA, SA Fin (from 26 September 2017)
Mr B Stewart BPsych, BSc, FAICD
Ms M Woodford LLB, MPH, BA(Hons), FAICD, FGIA

Executives and senior management
Mr D Gollan BCom
Mr L Rogers M.Sc HRM, GAICD
Mr N LeFebvre Grad Dip Marketing Mgt
Mr W Linnell CA, BCom(Hons), GAICD
Mr A Raiter LLB, GAICD
Mr S Walsh MBA, BE, GAICD (from 31 July 2017)
Ms S Duncalf Exec MBA, BBus, Grad Dip Bus (from 26 February 2018)
Mr P Kasimba LLB(Hons), LLM, DLP (from 29 January 2018)
Mr W Faulkner LLB (from 26 March 2018 until 5 September 2018)
Ms J Keene BBus, FCA, MAICD (until 11 August 2017)
Ms J Solitario BBus(Hons) (until 11 August 2017)
Mr V Fehlberg B.Ec(Acc), LLB, GAICD (until 26 October 2017)
Ms S Pendal BA(Hons), MBA (until 7 April 2018)

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

Key management personnel remuneration

	2018 $	2017 $
Directors		
Short-term benefits	1,020,935	865,436
Superannuation	96,989	82,534
	1,117,924	947,970
Other key management personnel		
Short-term employee benefits	4,259,342	4,707,848
Superannuation	201,769	225,496
Long-term employee benefits	92,536	385,929
Termination benefits	615,509	933,699
	5,169,156	6,252,972
Total	6,287,080	7,200,942

Note 24: Significant events after reporting date

Other than the sale of 125 Murray Street, Perth as disclosed in Note 14 there have been no significant events since the reporting date.

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

	2018 $'000	2017 $'000
Current assets	1,659,705	1,589,183
Non-current assets	172,859	186,023
Total assets	**1,832,564**	**1,775,206**
Current liabilities	445,698	446,763
Non-current liabilities	45,319	48,207
Total liabilities	**491,017**	**494,970**
Net assets	**1,341,547**	**1,280,236**
General reserve	111,513	111,513
Retained earnings	1,220,574	1,159,330
Asset revaluation reserve	9,460	9,393
Total equity	**1,341,547**	**1,280,236**

	2018 $'000	2017 $'000
Surplus of the Parent entity	61,244	58,954
Total comprehensive income of the Parent entity	**61,311**	**58,767**

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

The Parent entity has contractual obligations to purchase plant and equipment for $1,303,000 at the reporting date (2017: $4,000).

Note 26: New accounting standards and interpretations

(a) Changes in accounting policy and disclosures

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

The HBF Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2017. The adoption of these new standards and amendments has had no material impact on the HBF Group's financial statements:

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not- for-Profit Entities	This Standard amends AASB 136 Impairment of Assets to remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities and clarify that not-for- profit entities holding non-cash-generating specialised assets at fair value in accordance with AASB 13 Fair Value Measurement [under the revaluation model in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets] no longer need to consider AASB 136. Not-for-profit entities holding such assets at cost may determine recoverable amounts using current replacement cost in AASB 13 as a measure of fair value for the purposes of AASB 136.
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2018. The nature of each new standard and amendment is described below:

AASB 15, and relevant amending standards Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 Leases (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: > Step 1: Identify the contract(s) with a customer > Step 2: Identify the performance obligations in the contract > Step 3: Determine the transaction price > Step 4: Allocate the transaction price to the performance obligations in the contract > Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Note 26: New accounting standards and interpretations (continued)

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

AASB 15, and relevant amending standards Revenue from Contracts with Customers (continued)	The majority of the HBF Group's revenue pertains to insurance related contracts, which are not impacted by AASB 15. The standard applies to all other existing contracts, which mainly consists of the distribution and service arrangements with Insurance Australia Group Limited (IAG) and the commission income earned thereon. In reviewing the IAG contract, it was determined that HBF's obligation was to act as an agent. The sale of IAG products is a continuous and on-going obligation satisfied over time rather than a series of different obligations satisfied at specific points in time. As the commission rates are fixed within the contract and the commissions are earned when an IAG product is sold or renewed, the conclusion was reached that the current method for accounting for General Insurance Commissions would not be impacted or altered by the introduction of AASB 15. There is not expected to be any material changes to HBF's revenue presentation and disclosure requirements following the adoption of AASB 15.
AASB 9, and relevant amending standards Financial Instruments	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: > The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments > Share-based payment transactions with a net settlement feature for withholding tax obligations > A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Note 26: New accounting standards and interpretations (continued)

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

AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	This Standard amends AASB 4 Insurance Contracts to permit issuers of insurance contracts to: > Choose to apply the 'overlay approach' that involves applying AASB 9 Financial Instruments and also applying AASB 139 Financial Instruments: Recognition and Measurement to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or > Choose to be temporarily exempt from AASB 9 when those issuers' activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: > AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration > AASB 12 Disclosure of Interests in Other Entities – clarification of scope > AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value > AASB 140 Investment Property – change in use.
AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4	The amendments confirm that in Australia compliance with AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts ensures simultaneous compliance with AASB 4. The Standard also amends AASB 4 to ensure the relief available to issuers of insurance contracts set out in AASB 2016-6 can be applied by an entity applying either AASB 1023 and AASB 1038 if the entity otherwise meets the qualifying criteria.
AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non- monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non- monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.
AASB 16 Leases (application date of 1 July 2019)	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of- use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

Note 26: New accounting standards and interpretations (continued)

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

AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-For-Profit Entities (application date of 1 July 2019)	AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for not-for- profit entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately. The Standard also expands the circumstances in which not-for-profit entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services), including for example, peppercorn leases. Consequently AASB 1004 Contributions is also amended, with its scope effectively limited to address issues specific to government entities and contributions by owners in a public sector entity context.
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation (application date of 1 July 2019)	This Standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures (application date of 1 July 2019)	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.
AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle (application date of 1 July 2019)	The amendments clarify certain requirements in: > AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation > AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity > AASB 123 Borrowing Costs - borrowing costs eligible for apitalisation.
AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement (application date of 1 July 2019)	This Standard amends AASB 119 Employee Benefits to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments: > Require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event occurs > Clarify that when such an event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.
AASB Interpretation 23, and relevant amending standards Uncertainty over Income Tax Treatments (application date of 1 July 2019)	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: > Whether an entity considers uncertain tax treatments separately > The assumptions an entity makes about the examination of tax treatments by taxation authorities > How an entity determines taxable profit (tax loss), tax bases, unused tax losses, > How an entity considers changes in facts and circumstances.

Note 26: New accounting standards and interpretations (continued)

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

Not yet issued by the AASB Conceptual Framework for Financial Reporting, and relevant amending standards (application date of 1 July 2020)	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: > Chapter 1 – The objective of financial reporting > Chapter 2 – Qualitative characteristics of useful financial information > Chapter 3 – Financial statements and the reporting entity > Chapter 4 – The elements of financial statements > Chapter 5 – Recognition and derecognition > Chapter 6 – Measurement > Chapter 7 – Presentation and disclosure > Chapter 8 – Concepts of capital and capital maintenance Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.
AASB 17 Insurance Contracts (application date of 1 July 2021)	AASB 17 replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts for for-profit entities. AASB 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of AASB 17 is the General (building block) Model, supplemented by: > A specific adaptation for contracts with direct participation features (Variable Fee Approach) > A simplified approach mainly for short-duration contracts (Premium Allocation Approach). The main features of the new accounting model for insurance contracts are: > A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) > A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period) > Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period > The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

The above standards and interpretations are applicable for financial years beginning on or after 1 July 2018 unless otherwise stated. The HBF Group has not elected to early adopt any new standards or amendments that are issued but not yet effective. New standards or amendments will be adopted when they become effective.

The HBF Group is yet to assess the impact of the adoption of these standards and amendments, other than AASB 15, on its financial statements.

Directors' declaration

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

In the opinion of the directors:

a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001;*
b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Tony Crawford
Chairman
25 September 2018
Perth

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Auditor's independence declaration to the directors of HBF Health Limited

As lead auditor for the audit of HBF Health Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

F Drummond
Partner
25 September 2018

FD:FS:HBF:018

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Building a better working world

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

Opinion

We have audited the financial report of HBF Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for opinion

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

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

Information other than the financial report and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
25 September 2018

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