2023 Annual Report

Contents

In May 2023, HBF Run for a Reason returned to the heart of Perth after a three-year hiatus, attracting 33,100 participants. The event has raised more than $11 million for Australian charities since it was first held in 2010.

We are deeply grateful to the participants, volunteers, sponsors and partners who ensured the event was a success.

About HBF

HBF was founded more than 80 years ago in Perth and has provided private health insurance to generations of Western Australians. We have expanded to become Australia's second largest not-for-profit health fund, providing hospital and ancillary insurance to approximately 1.1 million members nationwide.

HBF is also becoming a more active participant in health services through physiotherapy business Life Ready, our expanding HBF Dental business, and partnerships with TerryWhite Chemmart outside of WA and an ongoing alliance with Pharmacy 777 within WA.

We are committed to actively connecting with and supporting the communities in which we operate as a trusted member-based organisation.

2023 at a glance

HBF advanced its key strategic initiatives in FY23, increased its presence outside Western Australia, and made significant contributions to members and the community.

Members

1,104,514

(as at 30 June 2023)

▲ **0.46%** on FY22

Policies

560,132

(as at 30 June 2023)

▲ **0.89%** on FY22

Queensland Country Health Fund acquisition

+70,000 members

+100 employees

approx. joined HBF on 1 July 2023

Delivered policy growth both within our home state and outside of WA

+2,612 WA policies

+2,288 non-WA policies

Market share

7.74%

(as at 30 June 2023)

▼ **61 basis points**

+2

HBF Dental centres

(Now eight centres in total)

$110m

of COVID-19 savings **returned to members**

$1.2m

raised through **HBF Run for a Reason**

Australia's best health fund

Finder's Health Insurance Awards 2023

Australia's most trusted brand in private health insurance

Roy Morgan Trusted Brand Awards 2022

Chair's report

During the year we delivered on key strategic initiatives aimed at transforming HBF into a health insurer of scale that provides differentiated, affordable health insurance while staying true to our purpose as a not-for-profit organisation that has members at its heart.

The three key elements of HBF's strategy were unchanged in FY23, focusing on national expansion, diversification into health services, and enhancing our capabilities.

We took another step in expanding HBF's presence outside its home state of Western Australia through the acquisition of Queensland Country Health Fund. Announced in November 2022, the addition of around 70,000 members with the Townsville-based fund has seen the Sunshine State become HBF's second biggest market, following the addition of Brisbane-based CUA Health in 2021, with more than one in five members now residing outside of WA in FY24.

HBF and CUA formally merged during the year, now operating and reporting as one company but continuing to interact with members as two separate brands, while the QCH acquisition completed on 1 July 2023. Building economies of scale nationally will help allow HBF to maintain high-value health cover as a member-based health fund.

Our diversification into health services continued to gather pace, with the opening of two HBF Dental centres during the year. HBF Dental marked its second anniversary in February and is the fastest-growing dental group in WA, recording more than 55,000 appointments during that time with 25,000 unique members choosing to use its services.

Eighteen months after becoming the first private health insurer to materially expand into physiotherapy through the acquisition of Life Ready, HBF is preparing to rebrand some of these clinics to HBF Physio and open a new HBF Physio clinic in Perth's southern suburbs, leveraging the strength of our brand to deliver value to patients.

We also continued to enhance HBF's capabilities, headlined by a major, multi-year transformation program investment to modernise HBF's ageing technology, systems and processes. This program is aimed at enhancing efficiency and functionality of our systems for members, providers, and our people. During the year, the team achieved several major milestones as we work towards completion in FY24. Upon going live, a new HBF website and new systems for managing member claims will position HBF to provide the best possible experiences for our members, providers and employees into the future. Going live is a major undertaking and preparations touch every HBF employee in some way. New systems inevitably come with some member disruption – even if this is only in becoming familiar with an improved system. I am encouraged that our Executive team is taking a considered approach to go-live planning.

With the growth of our brand nationally and expansion into health services seeing HBF enter a new chapter in its long and proud history, I was pleased to announce the appointment of Dr Lachlan Henderson as HBF CEO as the best person to lead HBF into the future. Lachlan's appointment followed an extensive national search by the Board, where he stood out from a high-quality field of applicants with distinctive credentials and a wealth of knowledge gained in the healthcare industry across practising and managerial roles, in particular at not-for-profit organisations.

Lachlan started in February 2023 and settled quickly into the role, strongly supported by Deputy CEO Simon Walsh, who retired in June 2023 after six years at HBF. The Board sincerely thanks Simon for his contribution during that time, which included leading our strategy and ventures division and the transformation program, and serving as interim CEO until Lachlan's appointment.

While FY23 was a year of significant progress, it was not without its challenges. HBF reported a $20.0 million loss after tax in FY23, driven by our continued spend in the transformation program and investment in growing our Health and Wellness entities. The FY23 result was a marked improvement on the $96.9 million loss in FY22, supported by a stable underwriting margin and strong investment income of $69.0 million (FY22: $28.4 million loss).

A rapidly evolving landscape is changing the way we work and the role we play as a health insurer and participant in health services. This has seen a renewed focus on our cyber security processes and systems, to ensure we are continuously taking steps to seek to protect our members' privacy and their information. HBF has also introduced a new compliance system to uplift its risk culture and capability across people management, processes and technology.

I would like to thank my fellow Non-Executive Directors, the Executive team, and HBF's people for their considerable contributions in a significant year. With economic headwinds building, FY24 will be a difficult year for HBF to navigate. But I have confidence HBF is well positioned to face into these challenges, as we consolidate on our expansion into new geographies and services to position the business for its next phase of growth as a national brand that looks after its members in the moments that matter.

Diane Smith-Gander AO
Chair

CEO's report

With rising costs-of-living front of mind, HBF has been acutely aware of the importance of providing value in our health insurance products and services to more than 1.1 million HBF members in FY23 while ensuring we position the organisation for the future.

In a year in which the health sector emerged from the COVID-19 pandemic, HBF continued to grow and innovate. The ongoing investment in our technology transformation program has coincided with further growth in the insurance portfolio across the country, as well as in HBF's physiotherapy and dental practices. HBF is committed to providing value for members. A no-gap check-up and clean was introduced for members using our expanding HBF Dental centres, while 300,000 consultations took place at our 26 Life Ready physiotherapy clinics. In addition, we launched new health programs to help keep our members healthy, including being the first health fund in Australia to fully cover the internationally-recognised Good Life with osteoArthritis in Denmark (GLA:D) program for the management of hip and knee osteoarthritis.

HBF continues to provide industry-leading service to members. Commonwealth Ombudsman data reported HBF had the lowest complaints ratio relative to market share of all the major health funds in FY23. In addition, the HBF App maintained the highest or equal highest user rating of all apps among major health insurers. We also return a high proportion of members' premiums as claims, with approximately $1.7 billion paid out in FY23 translating to 87.67 cents returned to members for every dollar in premiums we received.

Our member-first ethos was also recognised this year, with HBF named Australia's most trusted brand in private health insurance by independent research company Roy Morgan. We were also awarded Australia's best health fund in Finder's health insurance awards.

I was delighted HBF Run for a Reason returned to Perth in May 2023 after a three-year hiatus due to the pandemic. It was a terrific event and continues to benefit the WA community. Over 33,000 participants raised a record $1.2 million for charities this year, taking the total raised since the event's inception in 2010 to $11.3 million.

In April, HBF increased its premiums by an average of 4.49% or around $15 per month. We increase premiums to cover anticipated claims and rising healthcare costs. While increased premiums are never welcomed, our average premium increase over both five-year and 10-year periods remains lower than all the major health funds. In an environment of rising interest rates and high inflation, HBF is committed to playing its role to ensure a sustainable and affordable health care system. This includes working with practitioners and health service providers to keep costs down.

While many of our competitors deferred their 1 April premium increases to return COVID-19 claims savings to customers, our members told us in surveys they would prefer the simplicity of having any savings paid direct to their bank accounts. In March, we announced the return of approximately $110 million in COVID-19 savings to members, ranging from $45 to $330 depending on the type of policy held. With claims trends returning to stable levels at the end of FY23, this was HBF's last COVID-19 giveback, after providing a total of $257.5 million in COVID-19 support to members in line with our commitment to not profit from the pandemic.

The private health insurance sector is facing headwinds entering FY24, especially with cost-of-living pressures straining household budgets and claims increasing. HBF is facing into these challenges by ensuring the organisation responds in the best way to provide value to our members. Delivery of member services is changing, with digital channels now accounting for more than 75% of interactions with members. In response, we have made the difficult decision to close HBF's branches at Success and Perth CBD. Notwithstanding this, HBF continues to maintain the biggest branch network of any health insurer across WA and we are committed to servicing members who prefer face-to-face interactions. We have also been working closely with impacted employees to provide suitable redeployment opportunities within HBF.

Our focus during the year ahead is to complete our technology transformation program, retain and ideally grow market share, and continue to refine our operating model in an increasingly digital world. With FY24 marking the end of our five-year strategy, we will be spending time this year reviewing our progress and developing a new plan to lead HBF into the future guided by continuing to provide value for HBF members.

I would like to thank all HBF employees for the warm welcome given to me after I joined as CEO in February 2023 and congratulate them on their achievements this year. I look forward to the year ahead as we continue to transform our business for the benefit of our members.

Dr Lachlan Henderson
Chief Executive Officer

Our members

HBF is committed to supporting our members' evolving health and wellbeing needs and driving better member outcomes through valuable products and high-quality service.

Member engagement with HBF

Our members are increasingly choosing to interact with HBF via digital channels – 77% of all service interactions are via the website or HBF app.

More than **3.5 million self-service transactions** were completed via the HBF website during FY23, up 16% from the previous year. Nearly half of all new members joined HBF using the website.

Our HBF app is in active use by members on **249,000 unique devices** and it maintained the highest (or equal highest) user ratings among major health insurers on both Apple iOS and Android platforms for each month of the financial year.

As members manage their private health cover in the way that is most convenient to them, more than **331,000 claims** were submitted by members using their digital member card – **a 69% increase on FY22.**

The provider search tool on the HBF website, powered by HealthShare, is helping more referrers and members to determine if a specialist is a participating provider; unique page views **increased 18%** on FY22 and users are finding the providers they are looking for 76% faster than in the previous year.

Through our national contact centre strategy – with frontline employees based in Perth and Brisbane – and our branch network, HBF continued to deliver greater flexibility to our members. Our teams responded to **nearly 775,000 inquiries** via telephone, email and web chat during FY23, while our branches attracted more than **260,800 visits**.

At HBF, we work hard to help our members get the most out of their health insurance and provide the best value policies. The recognition HBF received from Roy Morgan and Finder in FY23 was testament to our team's efforts to be there for our members in the moments that matter.

In addition to Finder naming HBF Australia's Best Health Fund of the Year, our Basic Hospital Plus Elevate won in the category Best Health Insurance – Basic Hospital and Flex 50 won in the category Best Health Insurance – Medium Extras, while our Bronze Hospital Plus and Silver Hospital policies were also highly commended by Finder.

New member offer

no-gap check-up and clean at HBF Dental

5,000+ members

supported through **early health intervention** and **chronic disease management programs**

87.67c

per $1 received in **premiums returned** to **our members in benefits**

$1.7 billion

total claims paid **(+7%)**

Diversifying into health services

HBF's expansion into the delivery of dental services continued to gather pace, with Belmont and Floreat chosen as the location of the seventh and eighth HBF Dental centres respectively.

HBF Dental, which marked its two-year anniversary in February 2023, is the fastest-growing dental group in WA, recording more than **55,000 appointments** in that time with more than **25,000 unique members** choosing to use its services.

Eligible HBF members can take advantage of no-gap preventative dental treatment at any of the eight HBF Dental locations, including general check-up, scale and clean, up to two x-rays and fluoride treatment.

Our partnership with Pacific Smiles Group (PSG), which manages HBF Dental, means our members outside of WA have access to HBF Member Plus dental benefits at 120 PSG locations in Victoria, Queensland, New South Wales and the ACT.

HBF continued to invest in Life Ready to optimise physiotherapy benefits for members, with a new clinic in Canning Vale and the Life Ready Mobile fleet bolstered by **14 new vehicles**.

A trial program began with Life Ready Mobile in which eligible members who have undergone surgery for joint replacement or an orthopaedic fracture can complete their rehabilitation at home, with no out-of-pocket costs.

Life Ready Mobile ensures the program is relevant functionally to the patient's personal home set-up, enabling members to recover and get on with their lives rather than remaining in hospital or having to travel back regularly for several weeks for rehabilitation.

Additionally, HBF has begun working with interested surgeons to develop a short-stay joint replacement model with incorporates rehabilitation in the home.

In FY24, five of Life Ready's West Australian clinics – Baldivis, Busselton, Butler, Midland and Rockingham – will rebrand to HBF Physio, while HBF Physio will also open a new clinic in Bull Creek to complement the existing local HBF Dental centre.

Practitioners have access to enhanced clinical expertise through HBF's Medical Director, on-staff clinicians and HBF's health programs team.

With affordability and cost of living major concerns across the community, HBF Physio will provide exclusive offers, including a no-gap standard initial physiotherapy consultation for eligible HBF members.

HBF Dental highlights

8
HBF **Dental centres**

38,421
appointments booked in FY23

111
centre leaders and dental assistants **employed**

$12.4m
revenue in FY23

74
dentists **engaged**

HBF Dental recorded 55,000 appointments since its inception, with more than 25,000 unique customers in two years.

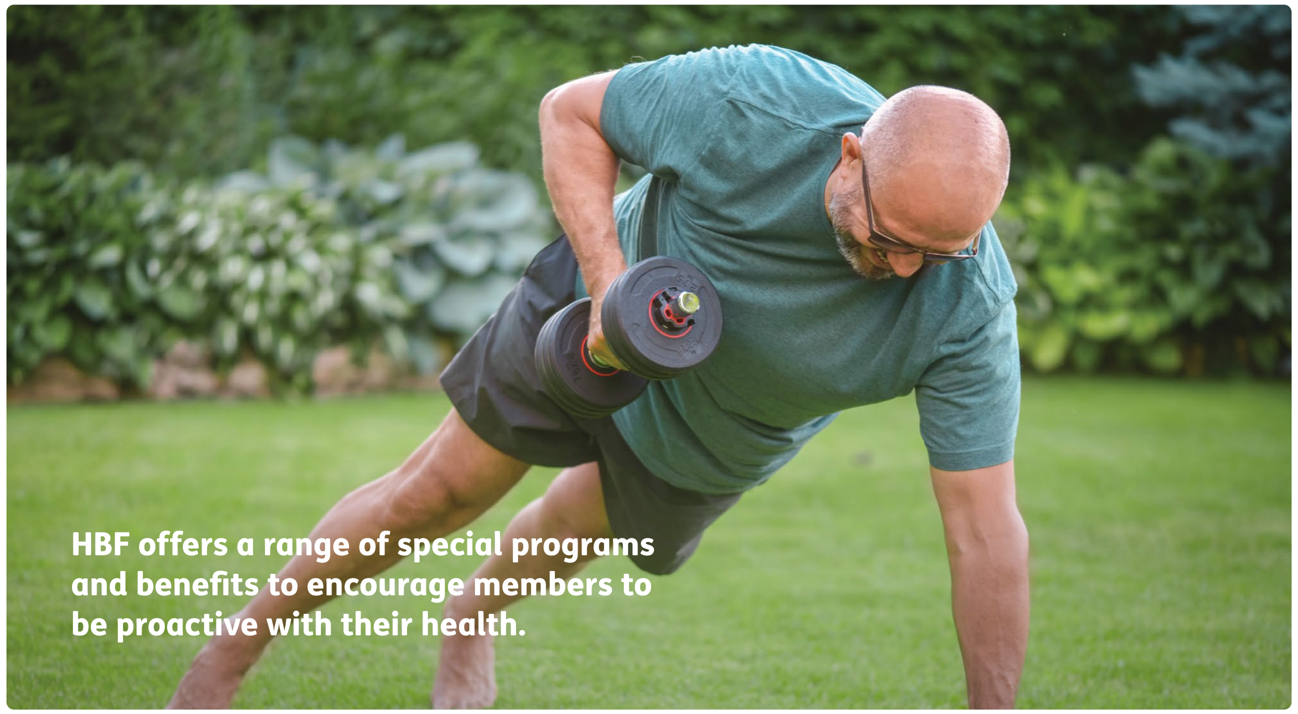
Physiotherapy highlights

26
Life Ready physiotherapy and pilates clinics

300,000+
consultations in FY23

320
employees

$28.6m
revenue in FY23



Health programs and services

With our members taking a greater interest in their wellbeing, HBF offers a range of special programs and benefits to encourage them to be proactive with their health, be aware of early intervention opportunities or manage existing conditions. Programs can be tailored for members, including those with a diagnosed condition or health risk, with two launched in FY23:

- **Good Life with OsteoArthritis: Denmark (also known as GLA:D®)** - developed by Danish researchers and delivered in Australia since 2017 by trained physiotherapists, the program aims to improve the care of people with knee and hip osteoarthritis through education and exercise therapy, as recommended by international treatment guidelines. HBF has partnered with Life Ready physiotherapists and since January 2023 has **supported almost 300 members** managing symptoms of osteoarthritis to access supervised exercise therapy to improve joint-related quality of life
- **CSIRO weight management programs** - recognising the important role that a healthy weight plays in overall good health, HBF has introduced a suite of benefits for CSIRO's scientifically developed weight management programs. Delivered on digital platforms with telehealth support from accredited practicing dietitians, CSIRO programs provide access to science-based meal plans, simple at-home exercise plans, and digital tools created to make weight loss easy and sustainable. In FY23, almost **1,300 members accessed benefits** for CSIRO weight management programs

Other existing programs continued to show how effective they were at improving member health outcomes:

- **COACH** - our telephone health coaching program aims to help members with chronic conditions improve risk factors and achieve better health. Delivering personalised monthly coaching sessions over six months, the program provides practical advice customised to promote long-term health and help individuals achieve their own health goals
- **Health Check Plus** - recipients of a health check can now access follow-up support from qualified health coaches. Telehealth calls aim to help individuals better understand their identified risk and empower them with the knowledge and tools that promote positive health behaviour change
- **Stand Up to Joint Pain** - a personalised physiotherapy treatment plan is delivered in the comfort of a member's home online and via telehealth. It includes strategies to manage pain, build muscle strength, and increase mobility for eligible members managing osteoarthritis of the knee or hip
- **Osteoarthritis Healthy Weight for Life** - this 18-week program supports members to manage symptoms of knee or hip osteoarthritis. A care support team is available online and via telehealth to assist with weight loss and improved nutrition, pain management strategies, and individualised muscle strengthening and mobility exercises

Pharmacy partnerships

HBF works with Pharmacy 777 in Western Australia and TerryWhite Chemmart in all other states and territories (except the Northern Territory) to optimise our members' health through services and benefits at **nearly 500 locations**.

Eligible HBF members visiting one of these pharmacies will pay no out-of-pocket fees for an annual flu vaccination, dose administration aids (personalised medication packs), or a private health check (including body mass index, blood pressure and cholesterol measurements).

Our common goal is to enable better access to health services through a high-quality patient experience with trusted providers.

Of note in FY23:

$591,638

in pharmacy benefits paid to members

499

HBF Member Plus pharmacies nationwide

938

health checks

18,169

fully-covered flu vaccinations

30,880

dose administration aids

We aim to optimise our members' health through services and benefits at nearly 500 locations.

Continued focus on affordability

Our pricing strategy was revised during the year to be more targeted within insured groups on some products, ensuring all members were paying the appropriate premium for the number and type of members covered under their policy. While for the majority of our members premiums increased, approximately **40,000 members** on single parent policies received a reduction in their premiums on 1 April.

HBF reached an agreement with Ramsay Health Care that will see surgery become more affordable for eligible members undergoing robotic-assisted procedures at Ramsay's WA hospitals. The arrangement will alleviate the higher costs associated with robotic procedures, removing the substantial co-payment previously paid by members undergoing robotic-assisted surgery (for example, in the treatment of kidney and bladder cancer).

During the year, HBF also redesigned its medical gap arrangements to provide clarity on out-of-pocket costs and ensure a simpler experience for members, doctors and our frontline employees. The new scheme will come into place in October 2023, replacing a system that is a source of confusion for members because of the uncertainty of the gap they faced when paying for inpatient services.

Moving with the times

Our transformation program is critical to maintaining our vision to be Australia's most trusted and valued member-based organisation.

Modernising our technology and operations will provide greater insights into our members' claiming behaviours, enabling us to better predict and meet their evolving health and wellbeing needs. We will also be able to streamline back-end processes and deliver on our Member Value Proposition of being affordable and available in a way that is most convenient to our members.

New functionalities and features will enable prospective members to source health cover quotes easily. Existing members will access instant resolutions when changing personal details, improved self-service interactions when making updates to their policy, and a personalised and user-friendly journey when engaging with our website and app, plus much more.

Once complete, HBF will have created a sustainable foundation to continuously provide our members with the best possible experiences and a strengthened ability to support our members in the moments that matter.

To adapt to the evolving needs of our members, keep costs down, and avoid building outdated payment methods into our new technology system, HBF stopped accepting and issuing cheques during FY23.

HBF has seen a significant reduction in cheque volumes in recent years in favour of direct credit and debit payments.

We worked with members to assist the transition to other payment methods.

Honouring our COVID-19 promise

HBF continued to honour its commitment to not profit from the COVID-19 pandemic with an additional cash payment to members in FY23 of approximately $110 million.

HBF had set aside funds while access and utilisation of health services were impacted by COVID-19, with those funds expected to be paid out as claims at a later date. With claims stabilising, it was clear a significant portion of those funds would not be utilised.

With our members telling us they preferred the simplicity of any savings paid directly into their own bank accounts rather than via premium increase deferrals, HBF chose to return those savings direct to eligible members via a cash back.

Payments commenced in June 2023, ranging from $45 for singles with an extras-only policy through to $330 for families with a hospital and extras policy.

It takes total COVID-19 support provided by HBF to its members to **$257.5 million**. This includes savings from HBF's decision as the only major fund to completely cancel its premium increase in 2020, the first major fund to return COVID-19 savings to members in 2021, and other COVID-19 hardship support measures.

Our people

Our people are our biggest strength and the driving force behind HBF's vision to be Australia's most trusted and valued member-based organisation.

We nurture their growth and development, enabling employees to thrive, contribute meaningfully, and provide exceptional care and service to our members.

Benefits and offers

We recognise and reward our people for their contribution to HBF and our workplace culture with a range of benefits and offers for them and their families. Employees covered by the 2021 Enterprise Agreement have benefitted from a 7.0% pay increase.

At HBF, we offer:

- Fully-subsidised corporate hospital cover for our employees and their immediate family
- 14 weeks' paid parental leave (in addition to the legislated 18 weeks), removing the primary/secondary carer definition from our policy
- 20 days of domestic violence leave, with five days available to any employees supporting a loved one
- Three paid 'wellness' days each year
- Two volunteering days each year
- Flexible working arrangements
- Fully-covered flu vaccinations and health checks
- One free gym pass per week with a national provider, including online classes
- Salary packaging options
- Social club
- Dollar-for-dollar matching of employee charity donations through HBF workplace giving
- Opportunity to join the HBF Angels, a group of employees organising fundraising events and charity donation drives

1,625 employees

(as at 30 June 2023)

94 employees

each celebrated 10 to 50 years of service

8.0 engagement rate

(May 2023; +0.2 since May 2022)

100 new and emerging leaders

took part in bespoke program to develop their leadership potential

Enhancing our ways of working

HBF's transformation program plays a key role in creating a sustainable organisation.

Much like the benefits that will be accessible to our members, the transformation program will improve our employee experience, too.

Part of HBF's group strategy is to enhance capabilities and by transforming our technology, processes and ways of working, our employees will be able to work more efficiently.

System upgrades including our new staff console, EVE, will centralise member data and the marketing automation system will monitor, analyse, and respond to customer sentiment across our social media channels. The marketing automation system will also work with EVE to share data in real-time when personalising and automating communications for members.

In line with our People Promise and the element of a 'shared purpose', linkages between our new systems and processes will also enable our people to work as one and contribute to better outcomes for our members in the moments that matter.

Learning and growth opportunities

Via the HBF Academy, our employees can access learning activities to develop their skills and knowledge and grow their careers. We empower them to take ownership of their personal and professional development and support HBF to enhance business capabilities through:

- An onboarding process for new starters
- Online and app-based learning platform known as WeLearn
- Skillsoft learning catalogue
- External training, study assistance and certification funding
- Leadership development
- Technology skill development

After launching a bespoke suite of leadership programs in FY22 to encourage our people to embrace the many opportunities available at HBF, **we enrolled 100 new and emerging leaders** in our Step In program this year and delivered phase two of our Step Up program for our most senior leaders. A separate series to build leadership capabilities in psychological safety, mentoring, and essential business skills began in April.

Our technical teams were upskilled ahead of our transformation program launch in FY24 to ensure a smooth transition to new ways of working with an agile approach at the core.

We also invested significant time in the early entrant and onboarding experience for our frontline employees to ensure they felt supported and equipped to serve members. The engagement of those teams during their initial months reached record levels, a testament to our deliberate focus on enhancing attraction and onboarding.

HBF also introduced a digital corporate induction package which offers a gamified experience and an interactive approach for all new starters to learn about HBF's history, vision, values, purpose and strategy, with a virtual welcome from the CEO and Executive team to engage them from day one.

Health and wellbeing

We empower our people to proactively lead a healthy, well and resilient life at work and at home, supported by a holistic wellbeing framework which covers six elements: physical, emotional, community, social, financial, and career.

In FY23, we offered webinars, workshops, consultations and assessments – the most popular attracted more than **200 participants** and focused on fostering belonging, connection and self-compassion.

Employees were able to access free consultations to check their skin, heart health and sleep quality; of the 234 who took up the offer for a skin check, 25 required a referral letter after the visiting practitioner noted concerns that otherwise could have gone unchecked.

Mental health training courses were offered for all leaders and first aid officers, and all employees were granted membership to the Insight Timer app providing guided meditations, music, and wellbeing content as well as live workshops.

Our Employee Assistance Program includes access to wellbeing, nutrition, financial and legal coaching and in FY23, 241 people were supported to address work, personal or family concerns.

Diversity, equity, inclusion and belonging

We're proud to provide a safe, supportive and respectful workplace to enable our people to thrive.

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

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

HBF provides individuals equal opportunities regardless of gender identity, religion, race, ethnicity, nationality, sexual orientation, marital or family status, disability, medical conditions, pregnancy, carer's responsibilities or any other attribute or characteristic that could make a person feel different to those around them.

Diversity within HBF represents an awareness of the variety of differences that exist within society and a commitment to giving all people equal opportunity within our workforce, regardless of those differences.

HBF does not tolerate behaviours which could be considered harassment (sexual or otherwise), bullying (including cyber bullying), direct or indirect discrimination or other inappropriate behaviour that causes offence to another individual.

Through our engagement surveys, our people have told us they see HBF as a diverse and welcoming workplace. To foster the sense of belonging across our organisation, in FY23 we held activities to encourage our employees to recognise cultural and special occasions such as Pride Month, International Women's Day, the United Nations' 16 days of activism against gendered violence, Wear it Purple Day, Harmony Day, National Reconciliation Week and NAIDOC Week.

As an advocate for positive change for Aboriginal and Torres Strait Islander people and their communities, HBF was proud to work with Noongar artist Kevin Bynder on artwork for our Perth office which was digitised for t-shirts that our people wore during the Walk for Reconciliation and throughout NAIDOC Week.

HBF also became a member of Pride in Diversity, a national not-for-profit employer support program for all aspects of LGBTQ workplace inclusion, rolling out specialist training programs focused on LGBTQ awareness and allyship.

Reward and recognition

In preparation for upcoming regulatory changes and to ensure we future-proof the way our people are rewarded, HBF's remuneration policy has been updated to align to our strategy, vision and values.

Embedding recognition in everyone's day-to-day routines is another way for HBF to build a sense of belonging across our workforce. HBF's new digital SHINE platform recognises achievements, career milestones, and high performance, acknowledging the importance of appreciation in the workplace and encouraging meaningful connection across all our locations.

Special events were held in Perth and Brisbane to personally recognise 94 long-tenured employees who have dedicated between 10 and 50 years of service. Their loyalty and commitment have been constant amidst the change and progression of HBF and they have played a vital role in shaping the organisation.

Employee engagement

Our people tell us that belonging and feeling connected matters to them most. This forms the cornerstone of our employee value proposition – what we call the HBF People Promise – and this continued to be a major focus during FY23.

In May, 86% of our employees – more than **1,000 people across our operations nationwide** – participated in our annual engagement survey, providing invaluable feedback.

Our overall engagement score of 8.0 is the highest rating since 2020, reflecting the pride our people feel in working at HBF, including their belief in the products and services we offer our members, their loyalty to HBF, improved management support, whether they would recommend HBF as an employer, and satisfaction with their role.

The high scores in **inclusiveness (9.0), management support (8.9) and psychological safety (9.0)** reflect our focus on developing leaders and creating a safe workplace. There were also areas for improvement, including workload demands, linking of roles to HBF's strategy, and reward.

The survey will help to inform our focus into FY24.

Workplace gender equality indicators

Our gender equality indicators, as reported to the Workplace Gender Equality Agency (WGEA) at 31 March 2023, show that females accounted for:

66%
of our workforce

37.5%
of our executives

44.9%
of senior managers

44%
of all manager promotions

59.8%
of all non-manager promotions

In addition to what is required to be reported to WGEA, at 30 June 2023, females accounted for **50% of the Board** and **33% of Councillors** (excluding Board Councillors).

Our community

HBF proudly plays a role in the community to encourage everyone to lead a healthy and active lifestyle. Our community program ranges from larger partnerships through to small grants, in-kind donations, workplace giving, and contributions of time from our people, such as volunteering, to enrich the lives of our own people and improve the health of all Australians.

As a large organisation, HBF holds itself to the highest standards and commits to operating ethically, responsibly and transparently, doing the right thing by our members, stakeholders and the broader community.

Community partnerships

Each year we undertake a significant three-year partnership with an organisation making a tangible difference to the health of our community, granting **$100,000 a year for three years** to a specific project. In FY23, HBF **awarded two partnerships** given that none were granted in FY22.

The Harry Perkins Institute of Medical Research aims to establish a biobank of melanoma tumour samples, with the aim of gaining approval in Western Australia to tailor skin cancer treatment to individual patients.

The ORIGINS Project, a collaboration between Telethon Kids Institute and Joondalup Health Campus, will study the physical and mental health of expectant fathers and the impact this has on their child's development.

HBF is in the final year of its partnership with the University of Western Australia's Young Lives Matter Foundation, awarded in FY21 to conduct a clinical trial with Meeting for Minds to analyse whether pharmacogenomics – the study of how a person's genetic make-up influences how they metabolise medications – is more effective at treating severe depression than a generic 'trial and error' approach.

366

lives saved through blood and plasma donations

1,684 hours

volunteered by 260 employees

$210,000

for Telethon

$669,950

collective community contribution through small grants, workplace giving, raffles and donations (including to the Perth Lord Mayor's Distress Relief Fund after ex-Tropical Cyclone Ellie)

Volunteering

Large-scale volunteering opportunities form the heart of a partnership HBF signed with the Rottnest Foundation in FY23 to improve the health and habitat of the world's largest known quokka population.

Since our marketing campaign featuring the quokkas began, we've worked with the Foundation to assist with conservation initiatives on Rottnest Island through our workplace volunteering program.

Our additional support will include an upgrade of the nursery used to treat injured quokkas and improvements to the shed facilities used to propagate, store and treat seeds. HBF will also help establish a new grow-out area for semi-mature trees and extra outdoor storage space for tree planting equipment.

HBF employees can take two days of 'volunteering' leave each year. In FY23, **260 people gave nearly 1,700 hours** of their time to write birthday cards for Camp Quality children impacted by cancer, assemble care packs featuring the Supertee hospital garment for young patients, help with logistics at HBF Run for a Reason, build bikes for HeartKids, and deliver pre-loved sports equipment to Fair Game Australia. Little Things for Tiny Tots, Foodbank, Bicycles for Humanity, The Good Box and White Cloud Foundation were also beneficiaries of our volunteering program.

Community grants

We amended our community grants program in FY23 to make a bigger difference to charitable projects involved in community health initiatives, doubling allocations up to $20,000 and distributing them twice rather than four times per year.

HBF was pleased to support The Fair Fight Foundation, Embrace Collective, Quinns Mindarie Surf Life Saving Club, Salvation Army, and Anglicare WA.

HBF proudly plays a role in the community to encourage everyone to lead a healthy and active lifestyle.

Workplace giving

Four times a year, HBF employees are invited to nominate a charity to donate a portion of their wages to.

Donations are matched dollar for dollar by HBF. Among the organisations receiving up to **$5,000 each** through our Workplace Giving program in FY23 were Hero Hunter Foundation, Story Dogs, Mental Illness Fellowship of WA, All Stars for Autism, Thinking of You – from One Survivor to Another, Fostering Hope, Kids Cancer Support Group, Helping Little Hands, Superfins WA, Destiny Rescue, HelpingMinds and Feed it Forward.

HBF Angels

Albany Community Hospice, the only community-run hospice in WA, was the beneficiary of an employee fundraiser at our end-of-year celebration in Perth in December 2022.

Our generous Angels were again pleased to spread festive cheer for children in foster care through a gift appeal for Wanslea, enabling Santa to give out **250 presents donated by our employees**, who also helped out at the annual Christmas party.

The Angels also put a call out amongst our WA branches and Perth office for donations of toiletries and baby products to help women experiencing homelessness and escaping domestic violence. The response was overwhelming – two carloads of items which were packed into dignity bags for distribution at refuges in Perth and Karratha.

As our HBF family continued to grow in Queensland, it was fitting that the Angels' Easter raffle benefitted a cause local to them – the White Cloud Foundation, which is run by volunteers and provides practical and evidence-based mental health support.

Brand partnerships

Through our partnership with VenuesWest, HBF has naming rights to two premier sporting and recreation centres, HBF Stadium and HBF Arena, plus one premier sporting and entertainment venue, HBF Park.

Through this partnership, our WA members have access to a great range of benefits to enhance their health and fitness.

Collectively, the three venues:

Hosted

122 sporting groups

&

784 community events

during the year

Were home to some of **Western Australia's elite athletes** who **logged an incredible**

8,526 hours

in training and competition

Attracted more than

2.5 million

visitations

Nearly

2,000 HBF members

who live in the **HBF Arena and HBF Stadium vicinity** utilise our 'always on' **gym membership and casual visit discount offers**

HBF Run for a Reason

After a three-year break due to COVID-19 safety precautions, HBF Run for a Reason returned to the streets of Perth in May 2023.

The event attracted more than 33,000 runners, walkers and wheelers across 4km, 12km and half-marathon courses, and they helped to raise **more than $1.2 million for 220 vital health charities** around Australia, including Cancer Council WA, Diabetes WA, Heart Foundation and Lifeline WA.

The highest fundraising team was 777 Team, which raised **$38,755** for MSWA, while seven-year-old Duke Storer was the highest fundraising individual, collecting **$10,076** for Cystic Fibrosis WA.

HBF appreciates the support of all participants, volunteers, sponsors and partners, including Nine News Perth, 92.9 Triple M Perth, Mix 94.5, Specsavers, Commonwealth Bank, Brooks, Snap Fitness 24/7, Print Logic, Pharmacy 777 and City of Perth.

Telethon

HBF again supported sick West Australian children and their families by raising $210,000 for Telethon through a range of activities, including the HBF Fitness Challenge during the Telethon Family Festival. Fifteen solo participants, six duos and 20 corporate teams cycled non-stop for six hours to raise funds for young patients facing challenging health issues.

HBF's donation also included part-proceeds from sales of plush quokka toys in our West Australian branches between July and October 2022, money raised through a bake-off across our Perth head office and branches, and **$20,000** from our workplace giving program.

Have a Go Day

With COVID-19 restrictions impacting our interactions with members, including our morning teas to celebrate those who have been with HBF for more than 50 years, representatives from our health programs team, HBF Dental and Life Ready were thrilled to receive a warm welcome at Have a Go Day at Burswood Park in November.

The event is run by the Seniors Recreation Council of WA, whose encouragement of older adults to remain active and connected aligns with our drive for HBF members to be proactive with their health and wellbeing.

Caring for the environment

During FY23, HBF:

Converted four fleet vehicles in the HBF Health Limited fleet to sustainable models; 60% of the fleet (excluding Wellness entities) is now electric or hybrid

Installed two electric charging stations in the Perth basement car park

Introduced a Containers for Change initiative to benefit Good Sammy, supporting waste diversion given that low density polyethylene containers can no longer be recycled

Achieved a waste diversion average at our Perth head office of 60%; HBF is still to mature waste diversion strategies in our offices outside of Western Australia

Conducted a solar feasibility study at our Perth head office to reduce energy consumption in an effort to increase our National Australian Built Environment Rating System (NABERS) energy base rating from five to five-and-a-half stars

Supplier diversity

After joining Supply Nation, a national indigenous supplier database, in FY22, HBF continues to mature its indigenous procurement approach and has committed to developing sustainable procurement initiatives through a strategic sourcing strategy.

Rejecting modern slavery

HBF recognises that modern slavery is an umbrella term which covers many activities, including slavery, servitude, human trafficking, forced marriage, forced labour, debt bondage, child labour, and deceptive recruiting for labour or services, which affects every business, sector and country.

During the year, the HBF Board approved our third Modern Slavery statement, developed in accordance with the *Australian Modern Slavery Act 2018*. While we have assessed our operations as having a low modern slavery risk, we are committed to continuous improvement, understanding our obligation to do the right thing by our members, stakeholders and the broader community by operating responsibly and to the highest ethical standards.

Operating and financial review

Group income statement

Year ended 30 June 2023	2023 $m	2022 $m
Health insurance premium revenue	1,964.9	1,843.3
Net claims expense	(1,722.7)	(1611.5)
Underwriting margin	242.2	231.8
Health insurance operating expenses	(233.9)	(225.2)
Transformation program expenses	(96.0)	(44.5)
Health insurance operating result	(87.7)	(37.9)
Health and Wellness revenue	37.8	11.8
Health and Wellness operating expenses	(46.9)	(16.9)
Health and Wellness operating result	(9.1)	(5.1)
Net investment income / (loss)	69.0	(28.4)
Other net losses	(0.3)	(24.6)
Income tax benefit / (expense)	8.1	(0.9)
Loss for the year after income tax	**(20.0)**	**(96.9)**

HBF Group generated a loss after tax of $20.0 million for the year ended 30 June 2023 with strong investment returns of $69.0 million offset by $96.0 million in transformation program expenses. This result reflects a stable insurance result (with a payout ratio of 87.67%, compared to 87.42% in FY22), investment and growth in our health and wellness businesses.

Our **health insurance premium revenue** has increased by 6.60% this year which reflects policy growth of 0.9% between June 2022 and June 2023, and a full 12 months of CUA policy revenue recognition (nine months in FY22). We have continued to increase our member base outside WA from 18.6% to 18.8% which remains a key focus of our core business strategy. The remaining year-on-year increase is due to premium increases reflecting the need to deliver sustainable, affordable products to members.

Overall, HBF's **net claims expense** increased by 6.90% in FY23. During 2023 we saw significant claims variability as capacity challenges in hospitals resulted in lower-than-expected claims in earlier months of the year. In the final quarter of the year, we have started to see claims returning closer to pre-pandemic levels.

In 2023, HBF returned a further $110.0 million of COVID-19 savings to our members. This takes our cash givebacks to our members to over $150.0 million and our total member support package, which includes the cancelled 2020 rate increase, to $257.5 million.

HBF is not recognising any further deferred claims liabilities as claims have stabilised. Being able to honour our commitment not to profit from COVID-19 and provide support to our members at a time when Australian households are facing significant cost-of-living challenges is something we are immensely proud of.

Health insurance operating costs include our employee expenses and corporate expenses such as marketing, IT and our business development costs, and have increased marginally by 3.89% in the financial year. HBF's workforce has increased by 60 employees (3.83%) in 2023 to 1,625 and as a result, labour and associated employee costs (such as IT) have also increased. In addition, FY22 only included nine months of operations for CUA Health totalling $11.3 million and as a result, overall expenses in the prior year were lower. In FY23, HBF incurred $5.5 million of costs relating to the acquisition of Townsville-based Queensland Country Health Fund Pty Ltd (QCH), which settled on 1 July 2023. This year's operating costs also include the cost of HBF Run for a Reason; bringing the event back to the Perth community after a three-year break was a highlight.

As HBF's **transformation program** nears completion, associated expenses have ramped up in 2023. Our transformation program has reached several key milestones during the year and is expected to be delivered in the second half of FY24, enabling us to offer enhanced value to our members. All program costs incurred in FY23 of $96.0 million have been expensed, with transformation program assets (including both WIP assets and in-use assets) at 30 June 2023 of $77.1m million.

Following the acquisition of the Life Ready Physio group in late FY22, the **Health and Wellness revenue and expenses** now reflect a full 12 months of physiotherapy operations. Having Life Ready as part of the HBF Group has delivered significant value to our members through affordable offers on physiotherapy services at 26 different locations across Perth and Melbourne. Life Ready generated an operating profit of 2.2% in its first year of operating within the Group, with significant growth in the Life Ready Mobile business which delivers in-home physiotherapy services to customers.

Since opening our first HBF Dental clinic in 2021, we have continued to invest in growing the dental offering with new clinics in Belmont and Floreat taking our overall clinics to eight. As the business expands, we can reach a wider network of members. Given the start-up nature of the dental business, it has not yet reached profitability but remains in line with operating and growth expectations.

Net investment gains of $69.0 million were a strong result compared to expectations. The investment portfolio's defensive assets benefitted from rising interest rates and growth assets performed well despite forecasts for an economic slowdown, resulting in a $76.0 million gain for the portfolio. HBF's strategic investment in Pacific Smiles Group recorded a $7.1 million loss due to the group's share price performance.

Summary balance sheet

Year ended 30 June 2023	2023 $m	2022 $m
Cash	297.3	164.0
Investments	1,024.8	1,406.1
Intangible assets	214.5	229.7
Property, plant and equipment	117.6	122.0
Deferred acquisition costs	54.6	40.0
Other assets	273.5	94.1
Total assets	1,982.3	2,055.9
Unearned premium liability	257.2	250.1
Outstanding claims liability	164.8	135.4
Deferred claims liability	-	97.5
GapSaver	85.4	89.4
Trade and other payables	67.6	45.8
Other liabilities	42.0	51.1
Total liabilities	617.0	669.3
Net assets	**1,365.3**	**1,386.6**

Cash increased in FY23 as the investment portfolio became progressively more defensively positioned throughout the year due to elevated macroeconomic uncertainty as central banks continue to fight elevated inflation and as a result proceeds from the investment portfolio held in cash-at-bank were higher than prior year.

Investment movements in FY23 related to the consumption of capital to fund strategic investments including the acquisition of QCH, which deliver on our strategy to grow our business through national expansion and diversification into health services, and funding payments to members for COVID-19 savings. This was offset by stronger than expected returns on the investment portfolio in FY23 resulting in revaluation upwards.

HBF's **intangible assets** largely relate to its goodwill on the acquisition of CUA and Life Ready ($110.4 million), as the acquisition of QCH will only be recognised from completion on 1 July 2023. Intangibles also included transformation assets ($77.1 million) and customer contracts intangible relating to the CUA business ($26.8 million).

Deferred acquisition costs are capitalised as incurred and have continued to decrease as they unwind over the estimated tenure of acquired health insurance policies. It is worth noting that the recognition of these costs as an asset will not continue from FY24 as HBF moves to report under the new accounting standard. From 1 July 2023, costs of this nature will be expensed.

Other assets include a pre-payment of $156.0 million made by the HBF Group to acquire QCH on 30 June 2023. Given that QCH was not legally acquired until after the reporting date, this balance is reported as a settlement receivable with the details of the acquisition being disclosed in Note 24 as a significant event after the reporting date.

The Group's other assets also include its Medicare rebate receivable of $41.3 million, the HBF Risk Equalisation receivable balance for the June 2023 quarter of $31.3 million as well as other debtors and prepayments.

HBF's **insurance liabilities** have been valued at 30 June 2023 by our actuarial team. HBF has discontinued recognising any additional deferred claims liabilities from 1 April 2023 as claims have returned to revised expectations of stable claims trends. The residual deferred claims liability balance of $110.0 million was returned to members in June and July 2023.

Trade and other payables include employee liabilities and amounts owing to suppliers. As a result of increased activity on our transformation program and our due diligence activities to acquire QCH, the balance is higher than the prior year due to the volume of activity and the timing of payments. The balance also includes the amount of COVID savings not yet paid to members of $9.0 million.

Other liabilities include leases and employee liabilities, and in prior year a deferred tax balance.

Capital management

HBF's fundamentals remain strong, and we are well capitalised and in a solid financial position. At 30 June 2023, assets for HBF exceeded the Australian Prudential Regulation Authority's (APRA) minimum capital requirement. Capital coverage of minimum requirements was 2.3 (FY22: 2.1), with the improvement driven by a reduction in the deferred claims liability capital provision. As a not-for-profit health fund, HBF does not have access to capital markets and consequently holds a higher level of capital to ensure members' needs are protected.

In doing this, HBF looks to maintain a balance between providing value to members and maintaining its financial sustainability.

HBF will implement APRA's revised capital framework from July 2023, which will result in a lower capital buffer for HBF above regulatory requirements. HBF expects to remain within its target capital range, with capital as a proportion of PHI revenue exceeding regulatory requirements by c. 26% after the acquisition of QCH.

Material business risks

HBF continues to strengthen its governance, monitoring, and internal control systems to address risk exposures caused by the external environment and operating conditions commensurate with implementation of the strategic plan, and to address emerging threats within the external environment.

The material business risks which could affect HBF's business strategies, operational and financial resilience, and the approach to managing these risks, are summarised below.

Risk category	Risk management approach
Strategic risks There is risk inherent to the private health insurance (PHI) industry, the broader financial sector, and in the macroeconomic environment which may impact HBF's ability to achieve our strategic objectives and execute strategic initiatives and projects on target and on time to support our goals.	HBF's strategic risks are identified and assessed as part of our annual business planning process. To effectively understand and assess key strategic risks, HBF undertakes detailed analysis of threats and opportunities that specific scenarios may pose to our business. In its consideration of strategic risk, the Board confirmed that HBF's business strategy remains relevant. HBF continues its multi-year technology transformation to replace ageing technology – which will deliver a more advanced and intuitive digital experience and seamless claims processing that provides an enhanced member experience and supports growth objectives.
Operational risks From time to time, internal processes and control failures may lead to financial loss, reputational damage or a less than optimal member experience. Like many companies, HBF faces operational risks from inadequate or failed internal processes, people and systems or from external events.	HBF has a dedicated group risk function which develops the appropriate strategies and processes to mitigate operational risks to the organisation. This includes the important areas of operational resilience, business continuity, outsourcing, fraud, information security and management, technology, people, and health and safety risks. Risk management systems are maintained with the aim of achieving the following goals: • Identify, analyse and manage risk • Through risk records provide a clear picture of HBF's risk profile • Provide relevant information to management and the Board for decision-making All business managers are responsible for risk management and use the Risk Management Framework, which assists in appropriately balancing risk and reward components. Management of operational risk is overseen by the Board's Risk Committee.
Financial and credit risk HBF is exposed to financial and credit risk through its investment portfolio, the need to maintain minimum levels of cash assets and capital reserves, and through the buying and claiming patterns of our insured member base.	HBF limits its exposure to financial risk through rigorous investment disciplines, policies, and plans administered by the Management Investment Committee. To ensure satisfactory levels of cash and capital, the Board has established minimum liquidity and capital holding requirements. Adherence to these requirements is monitored daily. Management of financial and credit risk is overseen by the Management Investment Committee and the Board's Audit Committee.
Conduct risk At HBF, we aim to conduct business impartially and ethically, ensuring integrity in our business practices to protect our members and the broader community. When dealing with our members, it is possible that on occasion we have not done the right thing.	As part of our commitment to better member outcomes, HBF has a Code of Conduct and Whistleblower Policy and maintains a Remuneration Framework and Risk Culture appetite which is monitored to ensure all staff have a clear understanding of what acceptable conduct means and to ensure we are 'doing the right thing' by members. If we find we have fallen short, we will correct our mistakes. Conduct risk is overseen by the Board's People, Culture & Remuneration Committee.

Risk category	Risk management approach
Insurance risk HBF's core insurance activities primarily involve the underwriting of policies and claims management. The combination of PHI participation in the community, claiming patterns of members, competitiveness of products and the composition of the member base has the potential to create risk in HBF's insurance business.	For HBF to achieve sustainable profitable growth in the delivery of PHI to members, insurance risk is managed across product development, product pricing, and claims management. The Board approves the pricing policy, which includes pricing and profitability objectives. HBF's objective is to support customer growth through balancing the offer of competitive value to all customers with sustainable underwriting margin and the need to meet capital management and regulatory requirements. Insurance risk is a key part of regular portfolio monitoring; treatment plans are developed and implemented in response to potential deviation from target measures. HBF's health strategy is an important initiative which includes programs intended to improve member health outcomes. Management of insurance risk is overseen by the Executive Product and Pricing Committee and the Board.
Regulatory non-compliance risk HBF operates in a highly regulated sector of the financial services industry. There continue to be changes in the prudential standards framework within which HBF operates, and from time to time, there is a risk HBF may not fully meet (or be able to demonstrate it has met) all prudential requirements.	HBF has a group compliance function, to ensure the appropriate strategies and processes are developed to mitigate regulatory non-compliance risk to the organisation. Compliance systems and policies are maintained with the aim of achieving the following goals: • Identify, analyse and manage regulatory obligations and compliance • Monitor and assess regulatory and policy changes and plans for adoption • Through compliance monitoring and validation provide a clear picture of HBF's compliance with prudential requirements • Provide relevant information to management and the Board for decision-making All business managers are responsible for compliance with prudential requirements that apply to their areas of responsibility. Management of regulatory compliance is overseen by the Board's Risk Committee.
Technology and information security including cyber resilience and privacy risk To provide our core insurance services, we collect, process and manage significant amounts of personal and sensitive health information. Protecting this information from internal and external threats is critical if HBF is to protect its reputation. These threats continually evolve and there is a risk that vulnerabilities are exploited in HBF systems.	HBF continues to evolve information security practices and controls in its technology architecture and in its approach to system design. HBF has a dedicated Information Security Risk function and Privacy Office. Like all companies, HBF must continue to be vigilant given the ever-evolving threat of cyber-attack. HBF continues to invest, review, and improve its information technology management and security including cyber resilience and privacy controls as HBF continues its multi-year technology transformation to replace ageing technology, by: • Maintaining a privacy, technology and cyber and information management strategy and implementation plan • Threat intelligence monitoring • Testing and monitoring of controls and vulnerability management • Providing relevant information to management and the Board for decision-making Management of Technology and Information security risk is overseen by the Board's Risk Committee.

Governance report

Part 1: Governance report

HBF is committed to achieving and demonstrating effective corporate governance and complying with the requirements under *Prudential Standard CPS 510 Governance* issued by the Australian Prudential Regulation Authority (APRA).

HBF's corporate governance framework and practices are regularly reviewed with regard to regulatory change and emerging developments in corporate governance.

Governance structure

The Board of Directors, together with HBF's established Council of member representatives, play an important role in the oversight, governance and performance of HBF. Corporate governance processes are detailed in the HBF Constitution, Governance Regulations, Council Charter and Board and Committee Charters, which are available on the HBF website.

HBF Council

Formal members of HBF

Six Elected Councillors	12 General Councillors	Six Board Councillors
(elected by Registered Policy Holders)	*(elected by General Councillors)*	*(appointed by the Board)*

HBF Board

Diane Smith-Gander AO (Chair), Brent Stewart, Tony Crawford, Richard England, Helen Kurincic, Gai McGrath, Jennifer Seabrook and Dr Lachlan Henderson

The Board is ultimately responsible for the sound and prudent management of HBF, including setting the long-term strategy, overseeing financial performance, and ensuring business sustainability.

Audit Committee	Risk Committee	Nominations Committee	People, Culture & Remuneration Committee	Transformation Committee
Oversight of financial and statutory reporting, internal and external audits, and actuarial and auditor performance	Oversight of the risk management framework, risk management strategy, and risk position relative to risk appetite	Oversight of Board and committee composition, Board performance review processes, and Board renewal and succession planning	Oversight of the people and remuneration frameworks and policies and organisational culture	Oversight of the implementation and effectiveness of the business transformation program
Members: Jennifer Seabrook (Chair), Richard England, Helen Kurincic, Diane Smith-Gander AO	**Members:** Helen Kurincic (Chair), Richard England, Gai McGrath, Brent Stewart	**Members:** Diane Smith-Gander AO (Chair), Helen Kurincic, Gai McGrath, Tony Crawford, Jennifer Seabrook, Brent Stewart, Richard England, Dr Lachlan Henderson	**Members:** Gai McGrath (Chair), Richard England, Helen Kurincic, Tony Crawford	**Members:** Brent Stewart (Chair), Gai McGrath, Diane Smith-Gander AO

Each Board Committee comprises Non-Executive Directors (except for the Nominations Committee) and has an independent Non-Executive Chair.

CEO, Dr Lachlan Henderson

The CEO is accountable for managing HBF's overall performance and day-to-day operations and for formulating and implementing HBF's strategic plan and business plan.

Executive Committee

Chief Executive Officer (Dr Lachlan Henderson) (Chair), Chief Financial Officer (Donna Carrington), Chief Risk Officer (Brendon Comrie), Chief Information and Transformation Officer (Sanjeev Gupta), Executive General Manager Insurance and Health Services (Dr Daniel Heredia), Executive General Manager People and Corporate Affairs (Amy Stanley), and Executive General Manager Member Experience (Selina Torrance)

The Board has established a Delegated Authority Policy which outlines the division of responsibilities between the CEO, Company Secretary and management. Certain responsibilities including those related to strategy, governance, executive appointments, financial approvals and risk management are retained by the Board.

Council composition

The HBF Council comprises:

- **Six Elected Councillors,** elected by registered policy holders
- **Twelve General Councillors,** elected by General Councillors
- **Six Board Councillors,** appointed by the Board and comprising the Board Chair and the five longest-serving Non-Executive Directors

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

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

Elected Councillors	General Councillors	Board Councillors
David Brown	Steven Cole	Diane Smith-Gander AO
David Carvosso	Andrew Cook	Tony Crawford
Anthony Evans	Stephen Jones	Richard England
Susan Milos	Jodie Meadows	Helen Kurincic
Moira Watson	Fiona Kalaf	Gai McGrath
Robert Naudi*	Peter Moore	Brent Stewart
	Wendy Newman	
	Will Moncrieff	
	Kenneth Perry	
	Brian Roche	
	Chris Ryan	
	Charlotte Dunn^	

*Appointed as Elected Councillor on 30 August 2022.
^Appointed as General Councillor on 13 September 2022.

Board composition

Board

The Board regularly reviews its size and composition and considers a number of factors.

HBF's Constitution requires the Board to have a minimum of six and a maximum of nine directors and *APRA's Prudential Standard CPS 510 (Governance)* requires the Board to have a majority of independent Non-Executive Directors.

At the date of this report, the Board comprised an independent Non-Executive Chair, six independent Non-Executive Directors and the CEO. Professional biographies for each Board member, including their length of service, can be found later in this report.

Board Chair

The Board Chair is responsible for:

- Providing leadership to the Board and ensuring the Board fulfills its responsibilities effectively and meets with sufficient frequency
- Providing guidance and support to the CEO while maintaining a clear distinction and separation of duties between the Board and management
- Promoting a constructive and collegial atmosphere during the Board's deliberations
- Maintaining open and co-operative relationships with the CEO, regulators and other stakeholders
- Representing and communicating the Board's position on relevant matters

Company Secretary

The Company Secretary is responsible for the oversight of statutory and administrative procedures relating to the operation of the Board and the governance of HBF and providing counsel to directors on corporate governance principles, disclosures and Board training, while acting as a trusted advisor.

Board committees

The Board has established five standing committees to assist in the execution of its responsibilities – the Audit Committee, Risk Committee, Nominations Committee, People, Culture & Remuneration Committee and Transformation Committee.

Committee members are appointed based on their qualifications and experience to ensure the committees can adequately discharge their duties. Each committee is governed by a Charter setting out the committee's roles and responsibilities.

Independence of Non-Executive Directors

Pursuant to the Board Charter and the requirements of *APRA's Prudential Standard CPS 510 (Governance)*, Non-Executive Directors should be free from any business or other association that could materially interfere with the exercise of their independent judgment.

The independence of each Non-Executive Director is assessed by the Board on appointment, and annually thereafter. The Board considers that all of HBF's Non-Executive Directors were independent during the 2023 financial year.

Diversity

The Board recognises the value of diversity in all its forms, including but not limited to gender, age, ethnicity, cultural background, education, professional experience and perspectives.

Appointment and re-election of Directors

The Board, with assistance from the Nominations Committee, will determine whether to appoint or re-elect a Non-Executive Director having regard to the criteria set out in HBF's Constitution and the Board Renewal Policy, which includes but is not limited to Board and Committee composition, skills profile, specific needs of HBF and succession plans.

Appointment

HBF's Constitution provides that the Board may appoint a Director to fill a casual vacancy. Except for the CEO, a Director appointed by the Board holds office only until the close of the next Annual General Meeting (AGM) but is eligible for election by the Councillors at that meeting.

New Directors receive a letter of appointment setting out the key terms of their appointment, expectations of the role, remuneration, and expected time commitment and participate in an induction program to assist them in understanding HBF's structure, operations, strategic planning processes, and competitive and regulatory environments.

Re-election

The Board is responsible for recommending the re-election of Non-Executive Directors to Councillors, in accordance with HBF's Constitution. Subject to eligible directors meeting the nomination and rotation requirements, Non-Executive Directors are eligible for re-election to the Board at the next AGM.

Board skills and performance assessment

The Board recognises the importance of continuously monitoring and improving its director skill profile, its performance and the performance of its committees and individual directors, and does so through both formal and informal processes.

The Board, in conjunction with the Nominations Committee, is responsible for managing the procedures for assessing, at least annually, the Board's performance relative to its objectives and the performance of its sub-committees and individual directors. The process for reviewing the performance of Executives as well as further information on HBF's executive remuneration framework is contained in the Board and Executive Director Remuneration Report.

The Nominations Committee is responsible for developing a board skills matrix and reviewing it on an annual basis. The review identifies the skills, knowledge and experience desirable for the Board in the near-to medium-term and any gaps which may need to be considered when undertaking director search and selection. The current skills matrix comprises Strategy, Financial and Capital Management, Leadership, Customer Outcomes, Risk Management, Technology, Industry Experience, Governance, Culture and People, Commercial Acumen, Sustainability and Stakeholder Engagement.

Conflicts of interest and material personal interest

Directors are required to disclose to the Board any actual, potential or apparent conflicts of interest upon appointment and are required to keep those disclosures up-to-date. Directors are also required to disclose material personal interests in a matter which relates to the affairs of HBF.

Any Director with a material personal interest in a matter being considered by the Board must declare that interest and may not be present during any related boardroom discussion nor vote on the matter unless the Board resolves otherwise.

Ethical standards

HBF seeks to maintain the highest ethical standards and professional conduct in both internal interactions and when representing the organisation to members and the wider community.

Code of Conduct

HBF's Code of Conduct sets out the standards of behaviours, actions and decisions expected of employees, officers, Councillors, directors and contractors.

Conflict of Interest

HBF's Conflict of Interest Standard is designed to ensure that actual, potential or perceived conflicts of interest are identified, monitored, managed or prevented and is intended to assist HBF's people in being transparent and accountable for their actions and decisions.

Whistleblowing

HBF is committed to fostering a culture in which HBF's people and others feel safe to speak up on matters or conduct that concerns them. HBF's Whistleblower Policy promotes a culture of ethical behaviour and accountability by enabling disclosures about suspected misconduct or an improper state of affairs to be raised safely and addressed appropriately.

Ethical conduct is also supported by a range of other corporate policies, including in the areas of health, safety and wellbeing and modern slavery.

Risk management and assurance

Risk management framework

Material business risks are identified and appropriately managed in accordance with HBF's Risk Management Framework (RMF). The RMF is the totality of systems, structures, policies, processes, and people across HBF which collectively identify, measure, evaluate, monitor, report and mitigate sources of material risk. HBF has identified its material risks against the context of strategic priorities and objectives. The RMF defines essential components necessary for HBF to manage risk effectively and in a manner that complies with APRA requirements.

APRA requires HBF to have a Risk Management Strategy (RMS) to detail the primary strategies and overarching approach to managing our material risks, including the policies and procedures and roles and responsibilities relevant to managing each material risk.

The Board has overall responsibility for HBF's RMF and RMS including setting the risk appetite for HBF. The Board reviews the RMF at least annually and satisfies itself that management has developed and implemented a sound system of risk management and internal control to effectively manage risk across the business in line with regulatory and statutory requirements.

Our Board-approved risk appetite details the amount of risk HBF is willing to accept in pursuit of its strategic and business plans as well as the processes required to be in place to ensure ongoing oversight, monitoring, and reporting of business performance, relative to appetite.

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

Internal audit

HBF's internal audit function, managed by the General Manager Assurance (Head of Internal Audit), is an integral component of HBF's governance structure and provides independent, objective assurance and consulting services designed to add value and improve HBF's operations. Internal Audit applies a systematic, disciplined, and risk-based approach to evaluating and improving the effectiveness of HBF's risk management, control, and governance processes.

An HBF Internal Audit Plan, which considers key risks across HBF, is developed on an annual basis and is reviewed and approved by the Audit Committee. The General Manager Assurance has full access to all HBF records, properties, and personnel and reports directly to the Audit Committee.

External audit

HBF's external auditor is Ernst & Young (EY). The external auditor receives all Audit Committee and Risk Committee papers, is invited to attend all meetings of those committees, and is available to committee members at any time. The external auditor also attends HBF's annual general meeting to answer any questions from Councillors regarding the conduct of its audit, the audit report and financial statements, and its independence.

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 on behalf of the Board:

- Oversees the quality and integrity of HBF's financial reporting and operation of the financial reporting processes
- Reviews the external auditor engagement
- Monitors and reviews the operation of internal audit
- Assesses the adequacy effectiveness of the internal controls and risk management procedures in place to ensure the accuracy of the financial statements

CEO and CFO assurance

In line with good governance practice, HBF's CEO and CFO provide a declaration in accordance with section 295A of the *Corporations Act 2001* (Cth). Before the Board approves the annual financial statements, the CEO and CFO declare to the Board that:

- The financial records have been properly maintained
- The financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period

The CEO and CFO declare that the above has been formed on the basis of a sound system of risk management and internal control, and that system is operating effectively in all material respects in relation to financial reporting risks.

Declarations for the financial year ending 30 June 2023 have been received by the Board.

Part 2: Directors' report

The Directors of HBF Health Limited (HBF) present their report on the consolidated entity consisting of HBF and its controlled entities (HBF Group) for the year ended 30 June 2023.

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

Diane Smith-Gander AO

Chair and Non-Executive Director

BEcon, MBA, FAICD, FGIA, FAIM

Appointed: Non-Executive Director from May 2020, Chair from May 2022

Board Committees: Nominations (Chair), Audit, and Transformation

Diane Smith-Gander has extensive experience in banking, corporate governance and providing strategic advice to corporations in Australia and overseas. She was a partner at McKinsey & Company in the United States before becoming a professional Non-Executive Director. Diane currently serves as the National Chair of the Committee for Economic Development of Australia and Chair of DDH1 Limited/DDH1 Group Holdings Pty Ltd and Zip Co Ltd.

Diane was recognised in the 2019 Queen's Birthday Honours, where she was made an Officer of the Order of Australia (AO) in recognition of her "distinguished service to business, to women's engagement in executive roles, to gender equality, and to the community". In 2015, she was awarded an Honorary Doctor of Economics by the University of Western Australia, where she is an Adjunct Professor in Corporate Governance. Diane is a member of Chief Executive Women.

Brent Stewart

Deputy Chair and Non-Executive Director

BSc, BPsych, FAICD

Appointed: Non-Executive Director from November 2015, Deputy Chair from December 2021

Board Committees: Transformation (Chair), Nominations, and Risk

Executive Sub-Committee: Management Investment

Brent Stewart has occupied a variety of board roles in both the public and private sector, has served on numerous West Australian government committees and working groups, and has occupied national board roles for industry-based organisations. He has been a regular guest speaker for many industry associations and universities in strategy, marketing and market research.

Brent is currently Executive Chair of Waveride Capital Limited, Non-Executive Chair of Etherington Inc. and Non-Executive Director of Paragon Care Limited (ASX: PGC) and Argonaut Limited.

Tony Crawford

Non-Executive Director

LLB, BA, FAICD

Appointed: Non-Executive Director from August 2014; Chair from November 2016 to May 2022

Board Committees: Nominations and People, Culture & Remuneration

Tony Crawford practised as a solicitor for 30 years, specialising in insurance law and commercial dispute resolution. From 1996 to 2010, he held a number of senior leadership and executive positions at national law firm Phillips Fox (now DLA Piper), including the role of CEO from 2000 until his retirement from the firm in 2010. He is a graduate of the OPM Program at Harvard Business School and a Fellow of the Australian Institute of Company Directors.

Currently, Tony also serves as Non-Executive Chair of Heart Research Australia, Energy and Water Ombudsman NSW, and New South Wales Rugby Union and as Non-Executive Director of Bolton Clarke. On 1 July 2023, Tony was appointed Chair and Non-Executive Director of Queensland Country Health Fund Pty Ltd.

Governance report

Richard England

Non-Executive Director

FCE, MAICD

Appointed: Non-Executive Director from February 2015

Board Committees: Nominations, Audit, Risk, and People, Culture & Remuneration

For the past 25 years, Richard England has served as a Non-Executive Director and Chair of various listed and unlisted companies as well as not-for-profit organisations. He previously worked as a Chartered Accountant in public practice and is a former partner of Peat Marwick and Ernst & Young, where he practiced principally in the fields of insolvency and reconstruction. Richard is a Fellow of Chartered Accountants Australia & New Zealand and a member of the Australian Institute of Company Directors.

Richard is currently Chair of Hobart International Airport Pty Ltd and Agency Projects Limited. He is also a Non-Executive Director of Friendly Society Medical Association Limited, Indigenous Art Code Limited, Gardior Pty Ltd, the trustee of The Infrastructure Fund "TIF", and the Tasmanian Symphony Orchestra.

Helen Kurincic

Non-Executive Director

MBA, FAICD, FGIA

Appointed: Non-Executive Director from February 2016

Board Committees: Risk (Chair), Nominations, Audit, and People, Culture & Remuneration

Helen Kurincic has significant experience in the healthcare sector in executive and non-executive director roles and has spent considerable time assisting government with healthcare policy reform. She is a Fellow of the Australian Institute of Company Directors, holds an MBA from Victoria University, has studied at Harvard Business School, and is a member of Chief Executive Women.

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

Gai McGrath

Non-Executive Director

BA, LLB (Hons), LLM (Distinction), GAICD

Appointed: Non-Executive Director from May 2019

Board Committees: People, Culture & Remuneration (Chair), Nominations, Risk, and Transformation

Gai McGrath is a skilled Non-Executive Director with close to 40 years' experience across Australia, the UK and New Zealand including with the Westpac Group as a senior executive in retail banking, superannuation, investments, life and general insurance, and wealth management. She is a Graduate of the Australian Institute of Company Directors, has studied at INSEAD, Wharton and Harvard Business Schools, and is a member of Chief Executive Women.

Gai has received several major awards during her career and currently serves as Chair of BT Superannuation. She is also a Non-Executive Director of Steadfast Group (ASX: SDF), Helia Group (ASX: HLI), and Toyota Finance Australia.

Jennifer Seabrook

Non-Executive Director

BCom, FCA, FAICD

Appointed: Non-Executive Director from July 2021

Board Committees: Audit (Chair) and Nominations

Executive Sub-Committee: Management Investment

Jennifer Seabrook is a highly experienced director and has extensive expertise in financial services as a senior executive working across capital markets, mergers and acquisitions, and accounting at firms including Gresham, Hartley Poynton (now Euroz Hartleys), and Touche Ross (now Deloitte).

Jennifer is currently Chair of Deterra Royalties Limited and a Non-Executive Director of BGC Group. She was previously a Non-Executive Director of various ASX-listed companies including Iluka Resources Limited, IRESS Limited, Amcor Limited, West Australian Newspapers Holdings Limited, and MMG Limited, unlisted companies including Bank of Western Australia Limited and MG Kailis Holdings Pty Ltd and government organisations and was a member of ASIC's External Advisory Group and the Takeovers Panel. Jennifer is a member of Chief Executive Women. On 1 July 2023, she was appointed Non-Executive Director and Chair of the Risk Committee of Queensland Country Health Fund Pty Ltd.

Dr Lachlan Henderson

Chief Executive Officer and Managing Director

MBBS, FRACGP, MHSM

Appointed: Chief Executive Officer and Managing Director from February 2023

Board Committees: Nominations

Executive Sub-Committee: Management Investment

Lachlan Henderson is a medical practitioner who has more than 30 years' experience in the health industry. Prior to taking on a variety of executive leadership roles, he was a general practitioner for more than a decade. During his career, Lachlan has held a variety of university and board appointments including board member of the Australian Private Hospitals Association (APHA). He is currently a board member of Cricket Australia. On 1 July 2023, Lachlan was appointed a Director of Queensland Country Health Fund Pty Ltd.

Company Secretary

Nadia Mansour

LLB, BCom, ADipCom, MAICD

Nadia joined HBF as Chief Legal Counsel in July 2019 and was appointed Company Secretary of HBF and its subsidiaries in February 2022.

She has more than 20 years' experience in banking, financial services, technology, and projects. Nadia holds a Bachelor of Laws and a Bachelor of Commerce and is a practising Western Australian solicitor.

Principal activities

The principal activities of HBF during the year involved the underwriting of health insurance risk, the provision of dental and physiotherapy services, and related investment activities.

Objectives

As a not-for-profit health insurer, HBF's core objective is to deliver value to its members through high quality, affordable health insurance products which provide access to appropriate healthcare solutions. HBF continues to look for opportunities to sustainably grow its membership base nationally, and expand and diversify its business, while remaining the leading provider of health insurance in Western Australia.

Performance measures

HBF assesses its performance by measuring and monitoring key performance indicators relating to specific objectives regarding risk management, people, financial results, members, and processes and systems.

Review of operations

Information on the operations and financial position of the HBF Group along with an outline of the strategy and the organisation's future prospects are set out in the Operating and Financial Review within this annual report.

Dividends

The HBF Constitution states the entity (being HBF Health Limited, the parent entity) shall not make distributions to members of the Company by way of dividends and no such payments have been made during the financial year up to the date of this signed report, nor are any planned. HBF's partially-owned ancillary businesses may make dividend payments. The portion paid to non-controlling interest holders during the financial year is reflected in the consolidated statement of changes in equity.

Share options

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

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the HBF Group during the year, other than those disclosed in this annual report.

Significant events after reporting date

On 1 July 2023, HBF Wellness Holdings Pty Ltd (a wholly owned subsidiary of HBF Health Limited) acquired 100% of the shares in Queensland Country Health Fund Pty Ltd (QCH). QCH is based in Townsville and currently serves approximately 70,000 members, predominantly on the east coast of Australia. The acquisition advances the Group's national growth strategy by further strengthening the Group's membership base outside of Western Australia. Further details of the acquisition are included in Note 23 to the annual financial statements.

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

Directors' and Officers' indemnity and insurance

Constitution

The Directors, as named on pages 29 to 31 of this report, the Company Secretary, Chief Executive Officer and the Executive of HBF (together "HBF Officers") and former HBF Officers, are indemnified under the HBF Constitution.

The HBF Officers are indemnified, to the extent not precluded by law, against all costs, charges, losses, damages, expenses, penalties and liabilities of any kind including, in particular, legal costs incurred in defending any proceedings (whether criminal, civil, administrative or judicial) or appearing before any court, tribunal, government authority or other body, incurred by the officer in or arising out of the conduct of the business of HBF.

Where the Directors consider it appropriate, the indemnity extends to duties arising by reason of the appointment, nomination or secondment in any capacity of an HBF Officer by HBF or, where applicable, a subsidiary of HBF to any other corporation.

Deeds of indemnity and insurance

In accordance with the Constitution, where the Directors consider it appropriate, HBF may execute a deed of indemnity in any form in favour of an HBF Officer. An individual Deed of Indemnity has been provided to each Director of HBF, which:

- Indemnifies each Director, to the extent not precluded by law, on substantially the same terms to that provided in the Constitution, subject to the conduct of the Director not constituting serious and wilful misconduct; and
- Requires HBF to maintain a Directors and Officers insurance policy in respect of the Director during the period for which the Director is appointed as a director, and for the further period that the Director has access to board papers and documents under the Deed of Indemnity, insurance and access.

Insurance

During the financial year, a premium was paid by HBF in respect of a Directors and Officers insurance policy, insuring persons defined in the insurance policy, which includes HBF Officers, and directors and officers of HBF's subsidiaries against liability incurred for certain liabilities, for which the *Corporations Act 2001* (Cth) allows indemnification. In accordance with commercial practice, disclosure of the terms of the policy, including the total amount of premium payable under the policy and the nature of liabilities it covers, is prohibited by the terms of the policy.

Indemnification of auditors

To the extent permitted by law, HBF has agreed to indemnify its auditors EY 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 EY during or since the financial year.

Directors' benefits

Since the end of the previous financial year, no Director has received or has become entitled to receive a benefit in connection with the management of the affairs of the entity other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the accounts in Note 21, and their eligibility for a reduction in insurance premiums, by reason of a contract entered into by the entity or a related corporation with a Director, a firm of which a Director is a member, or an entity in which a Director has submitted a financial interest.

Directors' meetings

Attendance at Board and Committee meetings held during the financial year is noted below for each Director during their respective term of office. Directors are invited to attend Committee meetings even if they are not a member of the relevant Committee. The table below does not include the attendance of Directors at Committee meetings of which they are not a member.

	Board		**Audit Committee**	**People, Culture & Remuneration Committee**	**Risk Committee**	**Transformation Committee**	**Nominations Committee**
	Scheduled meetings	Unscheduled meetings	Total meetings	Total meetings	Total meetings	Total meetings	Total meetings
	6	**4**	**4**	**6**	**8**	**4**	**3**
Non-Executive Directors							
Ms D Smith-Gander AO	6	4	4	-	-	4	3
Mr B Stewart	6	2	-	-	8	4	3
Mr T Crawford	5	4	-	6	-	-	2
Mr R England	6	4	2	5	8	-	3
Ms H Kurincic	6	4	4	5	8	-	3
Ms G McGrath	6	4	-	6	8	4	3
Ms J Seabrook	6	4	4	-	-	-	3
Managing Director							
Dr L Henderson[1]	2	1	-	-	-	-	2

1. Dr Henderson was appointed as a Director in February 2023.

Other corporate information

HBF is incorporated under the *Corporations Act 2001* (Cth) and is a company limited by guarantee. If the Company is wound up, the HBF Constitution states that each member of the Company, or within one year after they cease to be a member of the Company, undertakes to contribute a maximum of $1 towards any debts and liabilities of the Company and of the costs, charges and expenses of winding up.

Environmental regulations

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

Rounding

HBF is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies. Pursuant to this Instrument, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest million dollars (where rounding is applicable).

Auditor's independence and non-audit services

The non-audit services provided by HBF's auditor Ernst & Young are reported in Note 18 of the annual financial statements.

The Directors are satisfied the provision of non-audit services by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The nature and scope of each type of non-audit service provided means auditor independence was not compromised.

The auditors have provided their independence declaration which can be found on page 96 and forms part of this report.

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

Diane Smith-Gander AO
Perth, 5 September 2023

Governance report

Executive team

Dr Lachlan Henderson

Chief Executive Officer

MBBS, FRACGP, MHSM

Lachlan Henderson took on the role of Chief Executive Officer at HBF in February 2023. He is a medical practitioner with more than 30 years' experience in the health industry and was a general practitioner for more than a decade prior to taking on a variety of executive leadership roles.

He was most recently Group Chief Executive at Epworth HealthCare in Victoria. Prior to this, Lachlan held several senior executive roles at St John of God Health Care, including CEO of SJOG Subiaco from 2013 to 2016.

He is a former President of the Australian Private Hospitals Association and is a Director of Cricket Australia, having been Chair of the Board of Directors from February 2022 to February 2023. Previous board and advisory positions have included roles at aged care provider Swan Care WA, Medical Defence Association (MDA National) and the University of Notre Dame.

Donna Carrington

Chief Financial Officer

BCom, CA

Donna Carrington joined HBF in September 2019, leading the finance, strategy, business development, data analytics, property and procurement, and investments functions. She has previously overseen the actuarial, provider relations and project management functions at HBF.

Donna has a broad range of experience gained from 24 years in external auditing, financial reporting, transaction advice and finance advisory services in Australia, Europe and Asia.

Prior to joining HBF, Donna led the finance advisory practice of Deloitte in Perth, working with CFOs and finance organisations across Western Australia, leading projects to address complex issues including preparing finance functions for the work of the future, leveraging technology and automation. Her early career experience included providing external audit and transaction services to global mining and oil and gas companies.

Donna is a Chartered Accountant, a member of Chief Executive Women, and a graduate of Leadership WA.

Brendon Comrie

Chief Risk Officer

BSoc Sci, LLB

Appointed March 2023

Brendon Comrie commenced as HBF Chief Risk Officer in March 2023.

He joined HBF after serving as Chief Risk Officer at P&N Group from 2018. He has more than 25 years of global experience in a variety of senior roles, including at executive level, primarily within private legal practice and banking. His experience is centred around mergers and acquisitions, operational risk, compliance, audit, credit, market risk, legal, strategy and corporate governance. He was admitted as a solicitor in 1997.

Brendon oversees HBF's Risk division, made up of five functional areas – Legal, Risk, Compliance, Company Secretariat and Internal Audit – and is primarily based at HBF's Brisbane office.

Sanjeev Gupta

Chief Information and Transformation Officer

BTech (Hons), MBA

Sanjeev Gupta joined HBF in February 2022 and has more than 25 years' experience leading large and diverse teams at organisations including HCF, Greenstone Financial Services, Cover-More Group, Wesfarmers Insurance and Fuji Xerox Australia.

He has delivered several significant and complex digital transformation programs and is passionate about leveraging data, analytics and technology to achieve business strategy. At HBF, he leads the transformation program and oversees the organisation's technology risk, delivery, infrastructure and operations, solutions, and cloud engineering.

Sanjeev is a Non-Executive Director of disability support service provider Living My Way and a member of the advisory board for the Business Information Management program at the University of South Australia's School of Computer and Information Science.

Dr Daniel Heredia

Executive General Manager Insurance and Health Services

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

Daniel Heredia commenced his role in January 2021 with extensive experience in health management, medical regulation and clinical governance. He leads HBF's insurance function, including product design and monitoring, actuarial services, provider contracting, payment integrity and chronic disease management programs. Daniel is also the Managing Director of HBF Wellness, which includes HBF Dental and the Life Ready Health Group.

Before joining HBF, Daniel was the Deputy CEO and Medical Director at Hollywood Private Hospital. He assisted the State Government's COVID-19 response and was previously a Medical Advisor to Medicare Australia.

Daniel is a practitioner member of the Medical Board of Australia and a board member of Private Healthcare Australia. He was a board member of the WA Country Health Service from 2016 to 2023. Daniel is a former Councillor of the Australian Medical Association WA and previously served on the Postgraduate Medical Council of WA and as an Honorary Clinical Consultant with the University of Western Australia.

Amy Stanley

Executive General Manager People and Corporate Affairs

BA (Hons), GradDipHR

Amy Stanley joined HBF in April 2020. With extensive experience in human resources strategy, team leadership and people development gained through senior roles in large multinational and global businesses, Amy brings capability and structure to meet the challenges associated with aligning HBF's people, community and communications initiatives at an executive level.

Amy was previously the General Manager Human Resources, Corporate Affairs and Customer Engagement at ATCO Australia from September 2015 to April 2020, and prior to this was the HR Director at CocaCola South Pacific. She has also had experience in the banking and insurance sectors.

Amy is a member of Chief Executive Women.

Selina Torrance

Executive General Manager Member Experience

BBus, PGradDipHRM, MBA, GAICD

Selina Torrance is responsible for HBF's marketing, digital, retail and corporate distribution, member propositions, and back-office operations.

Prior to joining HBF, she held several executive positions with both Bankwest and P&N Bank. She has a proven track record in senior leadership roles across diverse functions and industries with a unique combination of skills and experience in strategic planning, finance, marketing, digital, product development and management, business process excellence, and organisational development.

Selina is a graduate of Leadership WA and is a member of Chief Executive Women. In 2020, she received the Telstra Business Women's Award for the medium to large business category in WA and in 2004 was recognised as the City of Perth award winner in the WA Business News 40Under40 awards.

Board and Executive Director remuneration report

On behalf of the Board, I am pleased to present our 2023 Board and Executive Director remuneration report.

During 2023 the People, Culture & Remuneration Committee and Board continued to focus on a remuneration framework that rewards responsible behaviours and aligns remuneration with performance outcomes and regulatory requirements. Of particular focus has been the APRA prudential standard on remuneration, CPS511, due to come into effect in January 2024.

Director changes

The Board composition remained relatively stable during the year with Diane Smith-Gander AO continuing as Chair and Dr Lachlan Henderson the only new addition upon commencing in his role as Managing Director and Chief Executive Officer (Executive Director) on 13 February 2023.

Simon Walsh served as Interim Chief Executive Officer from 1 July 2022 to 12 February 2023. I express my thanks to Simon for his service to the organisation and the progress on people, culture and remuneration matters that was made under his leadership.

Ahead of FY24, Tony Crawford has signalled his intention to resign from the Board with effect from 6 September 2023. As former chair of the Board and the People, Culture & Remuneration Committee, Tony has been invaluable in the elevation of our remuneration frameworks and practices. In addition, Richard England will step down at the commencement of the AGM, which will occur on 24 October 2023. Richard has served as a valued member of the People, Culture and Remuneration Committee and other Board Committees.

FY23 remuneration outcomes

- The FY23 Short-Term Incentive (STI) Plan has a Risk, Compliance and Conduct Gateway (Risk Gateway). The Board (via the Risk Committee) determined the gateway was met for the Corporate Incentive Scorecard (Scorecard)
- HBF delivered a stronger result for FY23 over FY22, driven by improvement across all four areas of the Scorecard. As a result, the Board approved 84.4% of target as the outcome for FY23 (section 5)
- Testing of the Long-Term Incentive (LTI) Scorecard for both financial and non-financial measures based on 30 June 2023 actuals was undertaken, with Board applying discretion to the % Non-PHI revenue measure to recognise the QCH transaction (section 5)
- No increase was applied to the Executive Director's fixed remuneration
- There was no increase to Non-Executive Director base fees or committee fees

FY23 remuneration changes

APRA's Prudential Standard CPS 511 (Remuneration effective from 1 January 2024) provided an opportunity for the People, Culture & Remuneration Committee to review HBF's remuneration framework with the Board approving the following changes for FY23:

- Remuneration Policy revision to align with the spirit and intent of CPS 511. Broadly, these changes strengthened and included stronger incentives for individuals to manage risk, appropriate consequences for poor risk outcomes, and increased oversight, transparency and accountability on remuneration and malus and clawback
- Changes to the Variable Remuneration Plan Rules (replacing STI Plan Rules) including 40% of Executives' STI award being deferred, with 20% deferred for one year and 20% deferred for two years (an increase from 30% deferral for one year only in FY22) and forfeiture of any deferred component on resignation unless the Board determines good leaver status.
- The closure of the 2019 (FY20 to FY24) Executive LTI Scheme (LTI Scheme) on 30 June 2023, being one year earlier than the original planned performance period. A payment to participating Executives of 25% of LTI grant value, with 30% paid in cash and with the remaining 70% deferred for one year (subject to Variable Remuneration Plan Rules) (section 7)
- A target variable remuneration of 60% STI of fixed remuneration with no participation in LTI was applied for Dr Henderson for FY23

FY24 remuneration changes

For greater alignment with CPS 511 and the proposed Financial Accountability Regime Bill, the Board has approved a key change for FY24:

- A new Executive Variable Remuneration Incentive Plan, which is 60% short-term measures and 40% long-term measures, with an increase in deferral to 20% deferred for two years, and 20% deferred for three years. This replaces the previous STI and LTI for all Executives. The Executive Director will participate at 60% target of fixed remuneration and Executives at 50% target of fixed remuneration

The Board will consider further changes to the remuneration arrangements and framework during FY24 to ensure that it remains competitive and is aligned with the interests of our members while meeting current and evolving regulatory obligations.

Gai McGrath
Chair, HBF People, Culture & Remuneration Committee

1. HBF's remuneration philosophy and principles

HBF's remuneration philosophy and principles are outlined in the Remuneration Policy. It is described in four statements, each underpinned by a set of key principles the Board defined to guide remuneration decisions for all employees.

HBF's purpose
To deliver for our members in moments that matter.

Our values

Members are our reason	We do the right thing	We are brave	We work as one

HBF's remuneration philosophy and principles

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

2. Remuneration governance

The role of the Board in remuneration

The Board is ultimately accountable for overseeing the development, implementation and operation of the remuneration framework. The People, Culture & Remuneration Committee is governed by the People, Remuneration & Committee Charter which outlines responsibilities delegated to the Committee by the Board. Both the Board and the People, Culture & Remuneration Committee Charter are available on HBF's website.

Remuneration framework

The remuneration framework comprises the totality of systems, structures, policies, processes and people within HBF that identify, measure, evaluate, monitor, report or control risk relating to remuneration.

Remuneration policy

The Remuneration Policy sets out our remuneration philosophy and principles which underpin our remuneration framework, reflecting the remuneration outcomes for our people. The policy also establishes various instruments to manage remuneration and risk within the framework and supports our consequence management framework, performance management framework, and risk management framework.

Variable reward governance

Notwithstanding any other provision of the Variable Remuneration Plan Rules and regardless of whether any performance condition has been met, the Board, following a recommendation from the People, Culture & Remuneration Committee, may, in its absolute discretion, adjust any variable remuneration before delivery (malus) or reclaim after delivery (clawback) within two years if an adjustment event occurs. Adjustment events are specified in the Variable Remuneration Plan Rules and may include any material misstatement in the audited consolidated accounts of the company, or if a participant's actions or conduct have amounted to a failure of risk management, fraud or gross misconduct.

3. Risk and remuneration

Risk culture

The Board and People, Culture & Remuneration Committee are responsible for ensuring our remuneration framework, policies and practices are consistent with our RMF, aligned with prudent risk-taking, and support the effective management of financial and non-financial risks. Our remuneration framework is designed to link reward to business outcomes, individual performance, and behaviour (values), and to support HBF's long-term financial soundness and RMF.

HBF is committed to meeting high standards of risk governance and all applicable legislative requirements and prudential standards. Moreover, HBF will continue to ensure that remuneration practices are aligned to effective risk management through the design and management of remuneration arrangements. CPS511 requires regulated entities such as HBF to establish and maintain stronger incentives for individuals to manage risk, determine appropriate consequences for poor risk outcomes, and increase oversight, transparency and accountability on remuneration.

Consequence management

Effective consequence management is a key component of HBF's risk culture and our commitment to our values, which include 'doing the right thing'. HBF aims to apply consequences for events which are evaluated as a risk, compliance or conduct breach in a prompt manner, and as fairly and consistently as possible. The consequence management framework requires the application of direct, consistent, transparent, and proportionate consequences to hold individuals or groups to account when an event occurs which may trigger a risk, compliance or conduct breach. This framework has been developed to meet the requirements of the APRA Prudential Standards Risk Management (CPS 220), Fit and Proper (CPS 520), and Remuneration (CPS 511).

The consequence management framework details how financial or non-financial consequences may be applied to HBF employees based on our values, compliance, risk and conduct requirements, and related governance principles. The application of fair and appropriate consequences enables HBF to meet its corporate and operational business objectives of becoming Australia's most trusted and valued member-based organisation, delivering for member in the moments that matter.

Alignment of remuneration with prudent risk-taking

Alignment of remuneration with the risk appetite set by the Board is critical to our remuneration framework. Under HBF's performance management framework, at the end of each financial year all employees are assessed separately against their values and behaviours and personal objectives.

For eligible executives and employees to participate in variable remuneration, the Board via the Risk Committee and People, Culture & Remuneration Committee confirms if the Risk Gateway is open or closed for the performance period. As per the Variable Remuneration Plan Rules, a participant must also meet their individual conduct gateway.

Once eligibility to a performance-based variable remuneration component is confirmed, the Board will consider whether any adjustment to that payment should be made, based on any conduct or performance that may warrant an adjustment in accordance with the RMF and consequence management framework.

The Board has absolute discretion to adjust variable remuneration if there is:

- Misconduct leading to significant adverse outcomes
- Significant failure of financial and non-financial risk management
- Significant breach or failure of accountability, fitness and propriety, or compliance obligations
- A significant error or significant misstatement of criteria on which the variable remuneration was determined
- A significant adverse outcome for members, beneficiaries or counterparties

All variable remuneration is subject to malus and clawback.

4. Overview of Executive Director and Interim CEO remuneration

At the outset of each performance year, the Board determines the performance objectives against which the Executive Director will be assessed. The measures are a combination of HBF measures and role-specific performance objectives that are aligned to the achievement of HBF's strategy. At the completion of the performance year, the Board assesses the performance of the Executive Director against these measures as well as the values and behaviours we expect of all employees, including the individual conduct gateway.

Executive performance and Remuneration Policy

In applying the principles of our remuneration philosophy and strategy, we aim to reward Executives with a level and mix of fixed and variable (at-risk) remuneration that is appropriate to their position, responsibilities and performance in a way that supports our business strategy and vision, and our position as a member-based organisation.

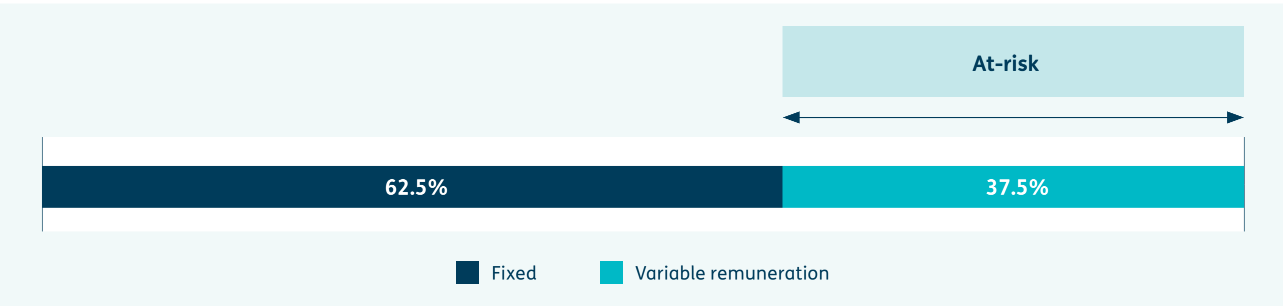
Executive Director remuneration components

The Executive Director remuneration includes a combination of fixed remuneration and STI (variable remuneration). The weighting of each component of remuneration is carefully constructed to be competitive, encourage sound decision-making over the medium- and long-term, align with HBF's risk profile and create value for our members.

Dr Henderson was not invited to participate in the LTI scheme. Instead, given the Board's decision to retire the LTI scheme (FY20-FY24), he was provided a variable remuneration target of 60% STI of fixed remuneration.

Component	Delivery	Current year	Year 1	Year 2
Fixed remuneration (FR)	Comprises of cash base salary, statutory superannuation contributions, and other non-monetary benefits. Benchmarked to comparable roles in similar companies.			
STI (60% of FR)	'At risk' variable remuneration subject to performance outcomes against financial and non-financial measures including evidence of values, risk gateway and individual conduct gateway. 90% company weighting and 10% individual weighting.	60% STI delivered in cash	20% STI deferred	20% STI deferred

The Executive Director's on-target remuneration mix for FY23 is:



Interim CEO remuneration components

The Interim CEO's remuneration included a combination of fixed remuneration and variable remuneration target of 50% STI of fixed remuneration and 50% LTI of fixed remuneration (see section 6 for LTI details).

5. Linking remuneration and performance

Short-term incentive outcome

At the outset of each performance year, the Board considers a number of financial and non-financial performance measures to be assessed with an appropriate level of stretch for achievement and sets the targets for the measures. These measures are applied to the Executive Director and other participants of the STI Plan.

STI awards take into account the performance outcomes of these HBF financial and non-financial measures, along with the performance of the individual. The performance of the individual is based on a reflection of the performance objectives relevant to their role within the HBF Group and HBF's values and behaviours.

Corporate incentive scorecard outcome

STI measures	Weighting	Threshold	Target	Stretch	STI Award	Comments
Risk, Compliance and Conduct Gateway Assessed as open by the Board via Risk Committee and People, Culture & Remuneration Committee						
Financial						Overall HBF's group financial outcomes were aligned with Board approved business plan, whilst group admin ratio fell below expectations.
Group revenue $m	10%				9.50%	
Group admin ratio	10%				0.00%	
Group profit/loss before tax	10%				9.80%	
Non-financial						Member and people results continue to be strong, and the Board used discretion to modify the Transformation delivery schedule outcome.
Consideration amongst national members	15%				15.60%	
Ombudsman complaints	15%				16.50%	
Employee engagement score	10%				10.00%	
Voluntary turnover	10%				11.00%	
Transformation delivery schedule	20%				12.00%	
Overall outcome	**100%**				**84.40%**	

Individual performance objective

The Board reviewed the Executive Director's performance in role, performance objectives delivery, and values and behaviours with an overlay of risk management for Dr Henderson's 10% individual weighting for STI. The Executive Director's performance objectives included proactive leadership of the Executive team, driving the delivery of Objectives and Key Results (OKRs), and uplifting the culture.

Long-term incentive outcome

The LTI was designed to be aligned to HBF's long-term strategy and had a five-year measurement and reporting cycle from FY20-24. If annual performance targets were met, the cash payment was to be deferred for three years, with partial vesting commencing at the end of FY22.

LTI Measures	Weighting	Target	Measure outcome	Comments
Financial				Board applied discretion to the % Non-WA PHI revenue to recognise the QCH transaction.
% Non-WA PHI revenue	25%	19.5%	25%	
% No-PHI revenue	25%	8.7%	0%	
Non-financial				Target was not met for non-financial measures
Management Expense Ratio (MER) in average of top six health funds	25%	Median	0%	
WA market share	25%	52.8%	0%	
Overall outcome	**100%**		**25%**	

The Board have approved a closure of the scheme due to the decision to transition Executives to a new variable remuneration incentive scheme for FY24. As the % Non-WA PHI Revenue measure was adversely impacted by the QCH transaction completion date of 1 July, 2023, the Board to recognise the transaction was substantially completed in FY23 and accordingly approved a LTI closure payment to participating Executives equivalent to 25% of the LTI grant value. Of this payment, 30% paid in September 2023 with 70% deferred for one year (subject to Variable Remuneration Plan Rules, including malus, clawback and forfeiture), including to the former Interim CEO.

6. Executive Director and Interim CEO remuneration outcomes

In the spirit of transparency for our members we present remuneration outcomes.

Awarded variable remuneration for the Executive Director

Executive Director	Year	Target %	Target $	Achieved %	Total amount $	Cash $	Deferred cash $
Dr Lachlan Henderson	FY23	STI 60%	283,562[1]	86%	243,750	146,250	97,500
	FY22	-	-	-	-	-	-
John Van Der Wielen	FY23	-	-	-	-	-	-
	FY22	STI 70%	836,040[2]	-	701,200	205,722	-

Note 1: Pro-rated for time in Executive Director role; 60% of the FY23 award will be paid in cash and 40% will be deferred (20% paid in one year and 20% paid in two years).

Note 2: Pro-rated until former Executive Director stepped down on 27 May 2022. The former Executive Director in FY23 was not a participant of the LTI Plan.

Awarded variable remuneration for the Interim CEO

The Interim CEO was appointed on 4 May 2022 and stepped down on 13 February 2023.

Interim CEO	Year	Target %	Target[1] $	Achieved %	Total amount $	Cash $	Deferred cash $
Simon Walsh	FY23	STI 50%	371,928	79%	292,960[2]	175,776	117,184
	FY22		94,983	82%	77,660[3]	54,362	23,298

Note 1: STI is pro-rated for time in Interim CEO role for the period 1 July 2022 to 12 February 2023. Mr Walsh has been determined as a good leaver by the Board and is therefore able to participate in variable remuneration including deferral component.

Note 2: 60% of the FY23 award was paid in September 2023 and 40% deferred for two years (20% paid in one year and 20% paid in two years).

Note 3: 70% of the FY22 STI award was paid in cash and 30% deferred for one year.

Actual remuneration paid to the Executive Director

		Total fixed remuneration			Variable remuneration		
Executive Director	Year	Cash salary $	Non-monetary benefits[2] $	Superannuation $	STI[3] $	LTI $	Total actual remuneration $
Dr Lachlan Henderson[1]	FY23	471,041	3,796	12,646	243,750	-	731,233
	FY22	-	-	-	-	-	-
John Van Der Wielen	FY23	-	-	-	-	-	-
	FY22	1,126,879	4,184	23,568	906,842	-	2,061,473

Note 1: The current Executive Director commenced on 13 February 2023 and does not participate in the LTI.

Note 2: Reflects the estimated reportable fringe benefit value of car parking bay and Corporate Gold Hospital cover.

Note 3: 60% of the FY23 award was paid in September 2023 and 40% deferred for two years (20% paid in one year and 20% paid in two years).

Actual remuneration paid to the Interim CEO

		Total fixed remuneration			Variable remuneration		
Interim CEO	Year	Cash salary $	Non-monetary benefits $	Superannuation $	STI[3] $	LTI[4] $	Total actual remuneration $
Simon Walsh[1]	FY23	720,477	7,122[2]	18,969	292,960	92,982	1,132,510
	FY22	160,849	4,184	2,241	54,362	-	167,274

Note 1: All data pro-rated for time as Interim CEO, FY23 from 1 July 2022 to 12 February 2023 and FY22 from 4 May 2022 to 30 June 2022.

Note 2: Non-monetary benefits reflect the estimated pro-rated reportable fringe benefit value of car parking bay in FY23 until 12 February 2023 and Corporate Gold Hospital cover.

Note 3: 60% of the FY23 award was paid September 2023 and 40% per cent of the FY23 award will be deferred for two years (20% paid in one year and 20% paid in two years). The STI awarded in FY22 is for the period 4 May 2022 to 30 June 2022 with 70% of the FY22 incentive paid in October 2022 and 30% deferred for one year.

Note 4: Represents LTI closure payment amount attributable to FY23 pro-rated for time in role as Interim CEO. 30% of the award paid in September 2023 and 70% deferred for one year.

7. Overview of variable remuneration

The variable remuneration plans are at-risk with payments subject to company and individual performance. The variable remuneration plans aim to incentivise and reward participants to drive organisational performance aligned to HBF's strategic imperatives, while encouraging responsible behaviour that supports financial soundness within HBF's RMF. As previously noted, a new combined variable reward plan is in place from FY24. Accordingly, the following information relates to the plans that were in place for FY23.

Short-term incentive – key features

Features	Approach
Purpose	Market competitive and designed to reward performance over the short-term.
Short-term scorecard	Performance against Board pre agreed weighted financial and non-financial performance corporate measures with a risk gateway. For the Executive Director, short-term scorecard is weighted at 90% while individual measures are weighted 10%. For Executive Director's direct reports, corporate measures are weighted at 80% while individual measures are weighted at 20%.
Individual objectives	Individual performance measures with individual conduct gateways.
Participants	Senior employees within HBF.
Performance period	The STI Awards relate to annual performance periods from 1 July to 30 June each year.
Delivery	If the performance conditions for an STI Award are satisfied, then for Executive Director and Executives, 60% will be delivered in cash and 40% deferred.
Deferral	20% deferred for one year and 20% deferred for two years.
Board discretion malus/clawback	The Board may, at its absolute discretion reduce (to nil if appropriate) the amount of any future award or bonus (if any) which would otherwise be payable to the participant and/or require the participant to repay to the Company and on such terms as the Board may direct.
Cessation of employment	Where a Participant is a good leaver, the treatment of an STI award and entitlements to any part of the deferred portion of an award will be at the absolute discretion of the Board.

Long-term incentive – key features

Features	Approach
Purpose	Market competitive and designed to reward performance over the medium and long-term while acting as a retention mechanism.
Scorecard	LTI is assessed against two equally weighted measures: 1. Diversification: Percentage non-WA PHI revenue and percentage non-PHI revenue 2. Financial: Management Expense Ratio (MER) in average of top six health funds and WA market share.
Participants	Executive Director and Executive Director's direct reports only.
Performance period	The LTI awards relate to the performance period from FY20 to FY24 inclusive.
Delivery	Achievement is assessed annually, post year-end throughout the performance period (FY20-24). If annual performance targets are met, the cash payment is deferred for three years.
Deferral	The Total Potential Reward of an LTI Participant will be divided into five equal portions, and each such portion will potentially be available as an LTI entitlement to the Participant in each of the five years of the LTI Plan from FY20 to FY24, both inclusive.
Board discretion malus/clawback	The Board may, at its absolute discretion, reduce (to nil if appropriate) the amount of any future award or bonus (if any) which would otherwise be payable to the participant and/or require the participant to repay to the Company and on such terms as the Board may direct.
Cessation of employment	Where a Participant is a good leaver, the treatment of an LTI award and entitlements to any part of the deferred portion of an award will be at the absolute discretion of the Board.

8. Overview of Non-Executive Director fees

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

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

HBF Non-Executive Director fees consist of a base fee plus applicable committee fees. Non-Executive Directors are not entitled to participate in any performance-based awards.

The Board recognises the additional time commitment required for members of committees and subsidiary boards and the need for Non-Executive Directors' fees to reflect this time commitment.

The Board Chair's fees are a composite fee reflecting the Board Chair's broad role. No additional amounts are payable for the Board Chair's membership of other committees or subsidiary board appointments.

In 2007, the HBF Council approved the creation of a fee pool from which Non-Executive Director fees are paid (Pool), with the Pool to include membership on the HBF Board, its standing committees and subsidiary boards. The subsidiary board fees are drawn from the Pool where a HBF Non-Executive Director is appointed to a subsidiary board.

At the 2019 AGM, the Council approved the current Pool of $1.65 million.

The People, Culture & Remuneration Committee periodically reviews Non-Executive Director fees and subsidiary board and committee fees, and whether they are appropriate (having regard to information or benchmarking provided by independent remuneration consultants), and if changes are required, recommends those to the Board for approval.

Benchmarking of Non-Executive Director fees was undertaken by the People, Culture & Remuneration Committee's appointed independent remuneration consultants. No fee increases were applied for FY23 and the last increase to Non-Executive Director fees was on 1 October 2021, when a 3.8% increase was applied to the base fee only.

Non-Executive Directors are entitled to be reimbursed for all travel and related expenses reasonably incurred in performing their duties and are eligible for a subsidy towards HBF insurance premiums.

Base and committee fees are inclusive of superannuation.

	Chair $	Member $
Board		
HBF	295,429	128,448
Committee		
Audit	25,689	12,845
People, Culture & Remuneration	25,689	12,845
Risk	25,689	12,845
Transformation	25,689	12,845
Management Investment Committee	-	12,845
Nominations	-	-

9. Non-Executive Director actual remuneration

Name	Role	Year	Cash salary and fees $	Non-monetary benefits[2] $	Superannuation $	Total Remuneration $
		Current Non-Executive Directors				
Diane Smith-Gander AO	Chair	**FY23**	**270,137**	**2,372**	**25,292**	**297,801**
		FY22	182,627	-	3,375	186,002
Brent Stewart	Deputy Chair	**FY23**	**162,740**	**5,855**	**17,088**	**185,683**
		FY22	162,034	-	16,013	178,047
Tony Crawford	NED	**FY23**	**127,866**	**6,053**	**13,426**	**147,345**
		FY22	246,104	-	22,679	268,783
Richard England	NED	**FY23**	**145,277**	**3,367**	**15,867**	**164,511**
		FY22	162,034	-	16,203	178,237
Helen Kurincic	NED	**FY23**	**162,740**	**6,510**	**17,088**	**186,338**
		FY22	162,034	-	16,203	178,237
Gai McGrath	NED	**FY23**	**171,283**	**4,951**	**8,544**	**184,778**
		FY22	152,347	-	15,235	167,581
Jennifer Seabrook	NED	**FY23**	**156,953**	**5,587**	**16,480**	**179,020**
		FY22	131,334	-	13,133	144,467
		Former Non-Executive Director				
Rod Moore[1]	NED	**FY23**	**-**	**-**	**-**	**-**
		FY22	131,334	-	13,133	144,467
Total		**FY23**	**1,196,996**	**34,695**	**113,785**	**1,345,476**
		FY22	1,252,880	-	108,278	1,361,158

Note 1: Dr R Moore's fees is reflective of his time in role as Director.

Note 2: Reflects the reportable fringe benefit value of Corporate Gold Hospital cover.

HBF Health Limited

Financial report

for the year ended 30 June 2023

Contents

HBF Health Limited
Consolidated statement of comprehensive income - Year ended 30 June 2023

	Notes	2023 $m	2022 $m
Revenue			
Health insurance premium revenue	5(a)	1,964.9	1,843.3
Health services revenue		29.8	11.8
		1,994.7	**1,855.1**
Other Income		0.9	2.4
Expenses			
Net claims expense	5(a)	(1,716.9)	(1,611.5)
Health services expense		(16.8)	(5.1)
Employee benefits expense	16(b)	(181.5)	(143.5)
Depreciation and amortisation		(24.1)	(20.8)
Impairment	13	-	(24.3)
Marketing expense		(26.2)	(25.1)
Professional services fees		(70.8)	(49.3)
IT expenses		(29.5)	(20.4)
Office and administration expense		(17.4)	(14.8)
Movement in financial liabilities	15	0.4	-
Other expenses		(9.9)	(10.3)
		(2,092.7)	**(1,925.1)**
Loss before net investment result and income tax		**(97.1)**	**(67.6)**
Net investment income/(loss)	7	69.0	(28.4)
Loss for the year before income tax		**(28.1)**	**(96.0)**
Income tax benefit/(expense)	17	8.1	(0.9)
Loss for the year after income tax		**(20.0)**	**(96.9)**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Revaluation of land and buildings		0.1	(6.3)
Total comprehensive loss for the year		**(19.9)**	**(103.2)**
Attributable to:			
Entity's members		(20.6)	(103.3)
Non-controlling interests		0.7	0.1
		(19.9)	**(103.2)**

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

HBF Health Limited
Consolidated statement of financial position - As at 30 June 2023

	Notes	2023 $m	2022 $m
Assets			
Current assets			
Cash and cash equivalents		296.5	164.0
Receivables	10(a)	272.4	91.2
Financial assets at fair value	8	888.8	1,283.1
Deferred acquisition costs	6	15.0	10.0
Assets held for sale		-	2.9
Total current assets		**1,472.7**	**1,551.2**
Non-current assets			
Financial assets at fair value	8	136.0	123.0
Intangible assets	12	214.5	229.7
Property, plant and equipment	13	117.6	122.0
Deferred acquisition costs	6	39.6	30.0
Deferred tax assets	17(c)	1.9	-
Total non-current assets		**509.6**	**504.7**
Total assets		**1,982.3**	**2,055.9**
Liabilities			
Current liabilities			
Trade and other payables	10(b)	67.6	45.8
Insurance liabilities	5(b)	459.1	520.8
Lease liabilities	14	16.3	6.9
Financial liabilities	15	3.9	6.6
Employee benefits	16(a)	16.0	15.6
Total current liabilities		**562.9**	**595.7**
Non-current liabilities			
Insurance liabilities	5(b)	48.3	51.6
Lease liabilities	14	1.5	12.1
Employee benefits	16(a)	4.3	3.7
Deferred tax liabilities	17(c)	-	6.2
Total non-current liabilities		**54.1**	**73.6**
Total liabilities		**617.0**	**669.3**
Net assets		**1,365.3**	**1,386.6**
Equity			
General reserve	11	111.5	111.5
Retained earnings	11	1,245.4	1,266.1
Asset revaluation reserve	11	9.3	9.2
Purchase commitment for NCI shares reserve	11	(5.2)	(6.6)
Equity attributable to the entity's members		**1,361.0**	**1,380.2**
Non-controlling interests		4.3	6.4
Total equity		**1,365.3**	**1,386.6**

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

HBF Health Limited
Consolidated statement of changes in equity - Year ended 30 June 2023

	Notes	Retained earnings $m	Reserves $m	Total $m	Non-controlling interests $m	Total $m
At 30 June 2021		1,363.1	127.0	1,490.1	-	1,490.1
(Loss)/profit for the year		(97.0)	-	(97.0)	0.1	(96.9)
Dividends paid		-	-	-	(0.3)	(0.3)
NCI arising on acquisition, subject to purchase commitment		-	(6.6)	(6.6)	6.6	-
Other comprehensive loss		-	(6.3)	(6.3)	-	(6.3)
Total comprehensive (loss)/income		(97.0)	(12.9)	(109.9)	6.4	(103.5)
At 30 June 2022	**11**	**1,266.1**	**114.1**	**1,380.2**	**6.4**	**1,386.6**
(Loss)/profit for the year		(20.7)	-	(20.7)	0.7	(20.0)
Dividends paid		-	-	-	(1.4)	(1.4)
Acquisition of NCI shares		-	1.4	1.4	(1.4)	-
Other comprehensive income		-	0.1	0.1	-	0.1
Total comprehensive (loss)/income		(20.7)	1.5	(19.2)	(2.1)	(21.3)
At 30 June 2023	**11**	**1,245.4**	**115.6**	**1,361.0**	**4.3**	**1,365.3**

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

HBF Health Limited
Consolidated statement of cash flows - Year ended 30 June 2023

	Notes	2023 $m	2022 $m
Operating activities			
Receipt of health insurance premium revenue		1,967.2	1,839.6
Receipt of health services revenue		29.8	11.8
Receipt of other income		0.4	3.4
Payment of claims		(1,791.1)	(1,666.3)
Cash give back to members		(101.9)	(45.6)
Risk equalisation receipts		110.9	115.9
Payments to suppliers and employees		(266.1)	(246.7)
Payments to suppliers and employees for transformation expenses		(89.6)	(36.6)
Income taxes paid		(0.8)	(1.1)
Interest received		17.8	2.3
Payment of interest portion of lease liabilities		-	(0.4)
Goods and services tax received (net)		11.2	16.1
Net cash flow used in operating activities	10(c)	**(112.2)**	**(7.6)**
Investing activities			
Acquisition of property, plant and equipment		(12.6)	(16.3)
Payment for intangible assets		-	(43.3)
Proceeds on sale of property, plant and equipment		3.0	0.4
Pre-payment for the QCH acquisition		(156.0)	-
Payment for purchase of businesses, net of cash acquired		-	(178.8)
Proceeds on sale of business		-	16.9
Redemption of financial assets		1,295.2	587.4
Purchase of financial assets		(898.7)	(492.7)
Distributions received		23.2	24.9
Acquisition of non-controlling interest in subsidiary		(2.4)	-
Net cash flows from/(used in) investing activities		**251.7**	**(101.5)**
Financing activities			
Dividends paid to non-controlling interests		(1.5)	(0.3)
Payment of principal portion of lease liabilities		(5.5)	(3.4)
Net cash flows from/(used in) financing activities		**(7.0)**	**(3.7)**
Net increase/(decrease) in cash and cash equivalents		132.5	(112.8)
Cash and cash equivalents at beginning of year		164.0	276.8
Cash and cash equivalents at end of year		**296.5**	**164.0**

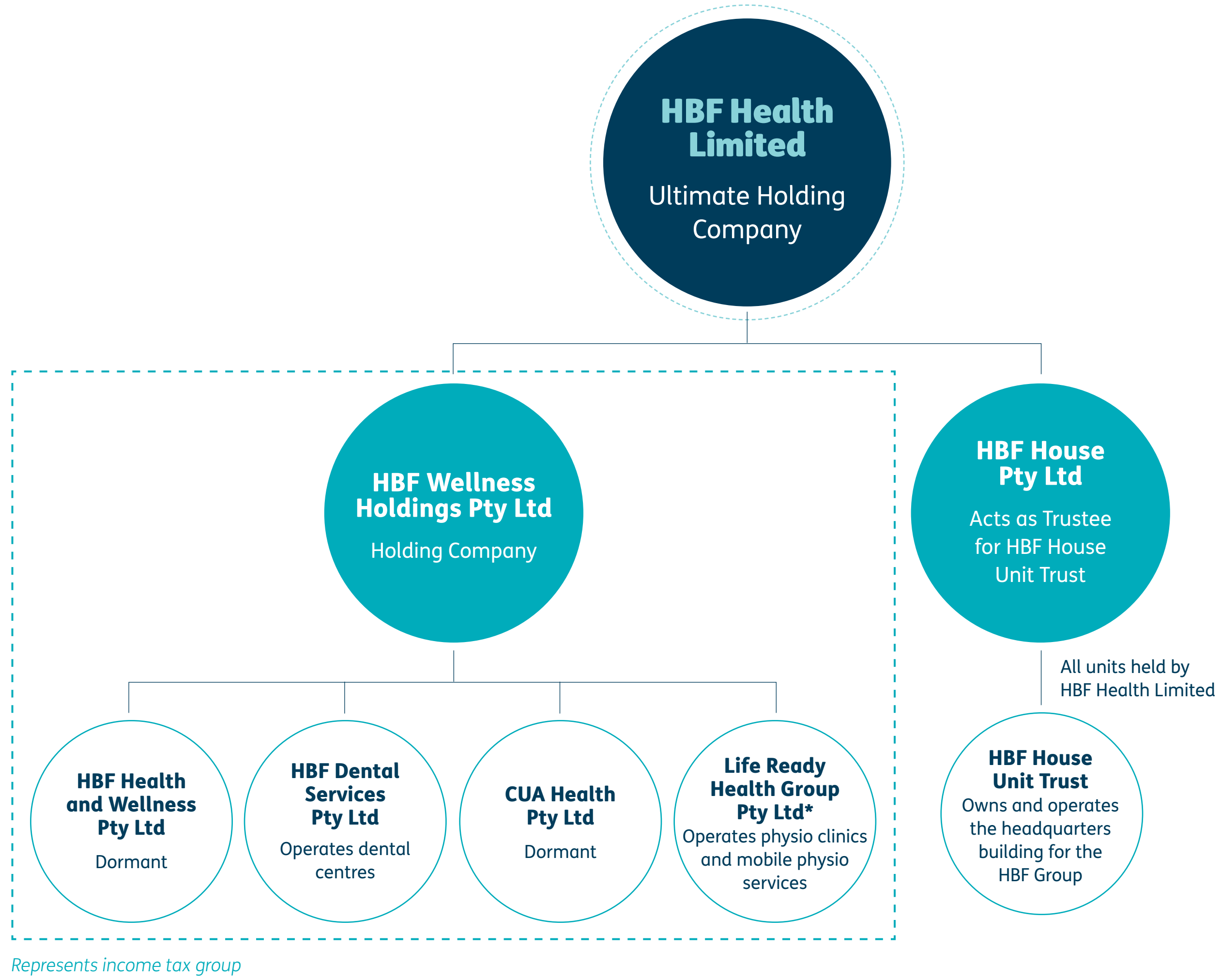
The above statement of cash flows should be read in conjunction with the accompanying notes.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

Section 1: Basis of preparation

1 Entity information

HBF Health Limited has prepared a consolidated financial report incorporating the below entities. All entities, unless otherwise stated, are 100% owned and controlled. HBF is a not-for-profit entity.



* A number of subsidiaries of the Life Ready Health Group Pty Ltd ("Life Ready") are partially owned entities. A full list of subsidiaries and the ownership interests are listed in Note 20 of the financial statements.

On 31 December 2022, the assets and liabilities of CUA Health were transferred to HBF Health Limited under a Section 33 merger. CUA Health Pty Limited is now a dormant entity and HBF Health Limited operates both the HBF and CUA registered health funds.

The **HBF Group had 1,625 employees** as at 30 June 2023 (2022: 1,565 employees).

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

2 Basis of preparation

(a) Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. Management has also incorporated the published views expressed by the Australian Securities and Investment Commission (ASIC) and Australian Prudential Regulation Authority (APRA) on certain matters.

The financial report has been prepared in accordance with the historical cost convention, except for financial assets, financial liabilities 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.

The financial report include, where necessary, updates to prior year comparatives for changes in classification of amounts in the current reporting period.

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

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of HBF Health Limited and its subsidiaries as at 30 June 2023 ("FY23"). Control is achieved when the HBF Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the HBF Group controls an investee if and only if the HBF Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The HBF Group 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.

(c) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), including having incorporated the published views from ASIC on financial reporting under COVID-19 conditions and from APRA on the measurement and recognition of a DCL in response to the unique circumstances arising from the COVID-19 pandemic.

ASIC has previously published guidance stating "private health insurers should recognise a claims liability where an insured person who knows that they have a condition is likely to continue their cover until the surgical procedure has been performed". The guidance advised that "the liability estimate should typically have regard to the pattern of claims in prior periods compared to the pattern of claims in the current year." This guidance required a provision at 30 June 2022 for the backlog of medical procedures that were expected to occur during the financial year but did not due to COVID-19 and related government control measures. This is reflected in the 2022 comparative Statement of Financial Position.

APRA has since progressively relaxed its guidance and moved to a principles-based approach as data has emerged on the impact of the pandemic, and valuation techniques have evolved. This placed greater reliance on insurers to manage their specific risks, to calculate their DCL and ensure this is done prudently. In the prior period, the valuation approach and coverage of the considerations from APRA's guidance were considered by the Appointed Actuary in determining the deferred claims liability. This liability is no longer required as at 30 June 2023 and as such, has been returned to members.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

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 involving significant judgement and the methodologies used to determine key assumptions are disclosed in the following notes:

Note 5: Insurance underwriting result

Note 8: Financial assets at fair value

Note 12: Intangible assets

Note 13: Property, plant and equipment

Note 15: Financial liabilities

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

Section 2: Operating performance

4 Segment information

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

Health Insurance

Offers private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas ancillary cover provides members with health cover for healthcare services such as dental, optical and physiotherapy.

Health & Wellness

Wellness derives its revenue from HBF dental centres and providing physiotherapy services through a network of clinics and mobile physiotherapy services to retail clients as well as corporate clients, such as nursing homes, hospitals and rehabilitation facilities.

Health and Wellness revenue is recognised when services are provided to customers and at an amount that the Group will be entitled to receive in relation to providing the services.

Segment Reporting Accounting Policy

The Chief Executive Officer (CEO) is the Chief Operating Decision Maker (CODM) and monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Year ended 30 June 2023	Health Insurance $m	Health & Wellness $m	Total segments $m	Adjustments & eliminations[1] $m	Consolidated $m
Revenue	1,964.9	37.8	2,002.7	(8.0)	1,994.7
Operating expenses					
Net claims expense	(1,722.7)	-	(1,722.7)	5.8	(1,716.9)
Employee benefits	(167.9)	(15.8)	(183.7)	2.2	(181.5)
Depreciation and amortisation expenses	(17.4)	(4.6)	(22.0)	(2.1)	(24.1)
Other operating expenses[2]	(144.6)	(26.5)	(171.1)	0.9	(170.2)
Segment loss	**(87.7)**	**(9.1)**	**(96.8)**	**(1.2)**	**(98.0)**

Year ended 30 June 2022	Health Insurance $m	Health & Wellness $m	Total segments $m	Adjustments & eliminations[1] $m	Consolidated $m
Revenue	1,843.3	11.8	1,855.1	-	1,855.1
Operating expenses					
Net claims expense	(1,611.5)	-	(1,611.5)	-	(1,611.5)
Employee benefits	(137.9)	(5.6)	(143.5)	-	(143.5)
Depreciation and amortisation expenses	(15.2)	(2.3)	(17.5)	(3.3)	(20.8)
Other operating expenses[2]	(112.8)	(12.8)	(125.6)	0.6	(125.0)
Segment loss	**(34.1)**	**(8.9)**	**(43.0)**	**(2.6)**	**(45.6)**

1. Consolidation adjustments and eliminations losses of $1.2 million (2022: $2.6 million) include items such as amortisation of customer contract intangible assets of $1.8 million (2022: $2.2 million) not allocated to segments.
2. Other operating expenses for the health insurance operating segment include transformation related expenses of $89.5 million (2022: $36.6 million)

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

4 Segment information (continued)

Segment operating profit or loss

A reconciliation of the segment operating loss to the profit/(loss) for the year before income tax of the Group is as follows:

	Notes	2023 $m	2022 $m
Total segment operating loss		**(98.0)**	**(45.6)**
Unallocated to operating segments:			
Other non-operating expenses		-	(0.1)
Net investment income/(loss) (i)	7	69.0	(28.4)
Other income (ii)		0.9	2.4
Impairment expense (iii)	13	-	(24.3)
(Loss)/profit for the year before income tax		**(28.1)**	**(96.0)**

Other items

Segment operating profit excludes the following:

(i) Net investment income of $67.4 million (2022: loss of $28.4 million) which comprises interest and distributions from other corporations and fair value movements on financial assets. This arises from investments which are managed by a central treasury function.

(ii) Other income of $0.9 million (2022: $2.4 million) which does not relate to trading activities of the Group's segment.

(iii) Impairment expenses that do not relate to the Group's reportable segments.

Segment assets and segment liabilities

Segment assets and liabilities are not reported to the CEO for the purpose of making strategic decisions, and therefore information relating to the segment assets and liabilities has not been disclosed.

Geographic information

The Group derives all of its revenues from its Australian operations.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result

(a) Insurance underwriting result

	Notes	2023 $m	2022 $m
Gross written premiums		1,972.0	1,869.2
Movement in unearned premiums		(7.1)	(25.9)
Health insurance premium revenue	5(b)	1,964.9	1,843.3
Claims expenses		(1,839.5)	(1,720.7)
Risk equalisation		122.6	109.2
Net claims expense		(1,716.9)	(1,611.5)
Gross underwriting margin		248.0	231.8
Claims handling expenses		(32.6)	(35.1)
Acquisition costs	6	(31.3)	(29.8)
Other underwriting costs		(266.0)	(201.0)
Underwriting expenses		(329.9)	(265.9)
Underwriting result after expenses		**(81.9)**	**(34.1)**

Health insurance premium revenue recognition accounting policy

Health insurance premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight-line basis between the date HBF accepts the risk from the insured under the insurance contract and the date the premium has been paid up to. Health insurance premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.

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

Claims expenses accounting policy

Claims expenses consists of amounts paid and payable to members, hospital, medical and ancillary providers, changes in claims liabilities, and applicable state levies. Claims liabilities are discussed in Note 5(b).

Risk equalisation accounting policy

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result (continued)

(b) Insurance liabilities

	Notes	2023 $m	2022 $m
Unearned premium liability	(i)	257.2	250.1
Outstanding claims liability	(ii)	164.8	135.4
Deferred claims liability	(iii)	-	97.5
GapSaver	(iv)	85.4	89.4
		507.4	572.4
Current		459.1	520.8
Non-current		48.3	51.6
		507.4	572.4
(i) Unearned premium liability			
Unearned premium at beginning of year		250.1	224.2
Additions through business combinations		-	10.9
Premium written during the year		1,972.0	1,858.3
Premium earned during the year	5(a)	(1,964.9)	(1,843.3)
Unearned premium at end of year		257.2	250.1
Current		256.9	249.7
Non-current		0.3	0.4
		257.2	250.1

Unearned premium accounting policy

Premiums received in advance are reflected as a provision that is based on an assessment of each individual member's contribution date and paid-to-date for all contribution periods. The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as unearned premium liability.

Unexpired risk liability accounting policy

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

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

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

The probability of sufficiency (POS) adopted in performing the LAT is set at 75% (2022: 75%). Since HBF has no deferred claims liability (DCL) at 30 June 2023, the risk margin used to achieve a 75% POS considers the risks of higher claims over the next period owing to the return of services deferred due to COVID-19 or provider capacity constraints. Previously, this additional uncertainty was quarantined in the DCL.

Being a test of adequacy, the LAT is intended to highlight deficiencies in portfolio pricing following an analysis of underwriting and associated expense margins. Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2023 or 30 June 2022.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result (continued)

(b) Insurance liabilities (continued)

(ii) Outstanding claims liability

	2023 $m	2022 $m
Central estimate of outstanding claims liabilities	166.3	137.6
Claims handling expenses	3.5	3.0
Risk margin	8.5	6.1
Risk equalisation	(13.5)	(11.3)
	164.8	135.4
Reconciliation of movement in claims liabilities		
Opening balance	135.4	117.9
Additions through business combinations	-	10.0
Claims incurred during the period	1,814.5	1,671.9
Claims paid during the period	(1,791.1)	(1,666.3)
Adjustments to claims incurred in prior years	5.3	0.8
Claims handling costs	0.5	0.2
Risk margin	2.4	1.2
Risk equalisation	(2.2)	(0.3)
Closing balance	164.8	135.4

Outstanding claims liability accounting policy

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

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

All outstanding claims liabilities are expected to be settled within one year.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result (continued)

(b) Insurance liabilities (continued)

(ii) Outstanding claims liability (continued)

Key estimates related to valuation of the outstanding claims liability

The outstanding claims liability as at 30 June 2023 covers the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not reported to the HBF Group. This provision comprises a central estimate, estimated claims handling expenses and a risk margin that is added to the central estimate to increase the probability that the provision will be adequate. The outstanding claims liability is in large part determined with reference to claims patterns in the months immediately preceding year-end.

(a) Central estimate

The central estimate is an estimate of the level of claims liability.

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

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

(b) Claims handling expenses

Claims handling expenses were calculated by analysis of actual expenses over the last 12 months. The allowance for claims handling expenses applies a rate of 2.1% (2022: 2.2%) to the outstanding claims liabilities.

(c) Risk margin

The determination of the appropriate level of risk margin takes into account the inherent uncertainty or variability of the central estimate. The risk margin increases the probability that the estimate of the net liability is adequate to a minimum of 80% (2022: 80%) such that enough provision has been made to cover the liabilities for four in five years. The risk margin applied to increase the level of sufficiency of the central estimate to 80% is 5.5% (2022: 4.8%).

The measurement of variability uses techniques similar to those used in determining the central estimate to estimate theoretical claims over different periods. These techniques determine a range of possible outcomes of future payments and compare it to actual outcomes. The use of a range of outcomes allows a determination of the risk margin required to provide an estimate at a given POS.

Since HBF has no DCL at 30 June 2023, the risk margin used to achieve an 80% POS has increased to fully consider the disruption to trends in claims utilisation and in processing speed since the start of the COVID-19 pandemic. Previously, movements in outstanding claims were partially offset by opposing movements in the DCL.

(d) Risk equalisation

Risk equalisation was calculated by analysis of actual claims and risk equalisation received over the last 12 months. The allocation of risk equalisation applies a rate of 8.6% (2022: 8.2%) to the hospital outstanding claims liabilities.

(e) Discounting

Given the short weighted mean term of the liability (less than two months), no explicit allowances for discounting have been deemed necessary.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result (continued)

(b) Insurance liabilities (continued)

(ii) Outstanding claims liability (continued)

Impact of changes in key variables on the outstanding claims provision

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

	Movement in variable	Profit/(loss) $m
30 June 2023		
Central estimate	+10%	(16.6)
	-10%	16.6
Risk margin and claims handling expenses	+1%	(0.1)
	-1%	0.1
30 June 2022		
Central estimate	+10%	(13.8)
	-10%	13.8
Risk margin and claims handling expenses	+1%	(0.1)
	-1%	0.1

Given the volatility of the current claims environment as claims trends return in line with expectations, a movement of 10% is considered a possible outcome.

(iii) Deferred claims liability

	2023 $m	2022 $m
Opening balance	97.5	40.1
Additions through business combinations	-	17.6
Additional deferred claims recognised	24.9	76.5
DCL utilised / claims avoided	(10.7)	(32.5)
Claims handling expenses	(0.9)	1.2
Risk equalisation adjustment	(0.8)	(5.4)
DCL utilised for payments to members	(110.0)	-
Closing balance	-	97.5

Most claims categories have returned to revised expectations of stable claims trends, following COVID 19 impacts. However, there has been limited evidence of any claims catch-up of deferred procedures and while there is still a high level of uncertainty in underlying claims, it is not possible to distinguish between returning claims and general trends. Accordingly, in keeping with its commitment not to profit from the pandemic, HBF announced that it would return approximately $110 million to members during June 2023, thereby fully extinguishing the DCL in the current reporting period with recognition of a trade payable.
At 30 June 2023, $101 million of the announced $110 million has been paid to members and $9 million that remains to be paid during July 2023 is classified as Trade Payables. Given the stablisation of claims, HBF has ceased recognising any further deferred claims from 1 April 2023.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

5 Insurance underwriting result (continued)

(b) Insurance liabilities (continued)

(iv) GapSaver liability

	2023 $m	2022 $m
Movement in provisions		
Balance at beginning of year	89.4	89.4
Member deposits	46.6	47.6
Member withdrawals	(49.0)	(45.8)
Present value adjustment	(1.9)	(2.9)
Adjustment for cancellations	0.3	1.1
Balance at end of year	85.4	89.4
Current	37.4	38.2
Non-current	48.0	51.2
	85.4	89.4

GapSaver liability accounting policy

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

Key estimates related to valuation of the GapSaver liability

In estimating the valuation of the GapSaver liability, consideration is given to the projected hospital and general treatment benefits per policy and the cancellation rate. The GapSaver product is no longer available for new members and increases therefore only occur due to existing member deposits.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

6 Deferred acquisition costs

	Notes	2023 $m	2022 $m
Deferred acquisition costs at beginning of year		40.0	22.9
Acquisition costs incurred		45.9	46.9
Acquisition costs charged to profit and loss	5(a)	(31.3)	(29.8)
Deferred acquisition costs at end of year		54.6	40.0
Current		15.0	10.0
Non-current		39.6	30.0
		54.6	40.0
(a) Acquisition costs charged to profit and loss			
Amortisation of deferred acquisition costs		(12.2)	(8.4)
Brand and distribution costs expensed		(19.1)	(21.4)
	5(a)	(31.3)	(29.8)

Deferred acquisition costs accounting policy

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

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The HBF Group amortises these costs on a straight line basis over a period of 5 years (2022: 5 years).

Effective from 1 July 2023, the Group will adopt AASB 17 *Insurance Contracts* and will elect to recognise eligible insurance acquisition cashflows as expenses when they are incurred, which differs from the current practice under which these amounts are recognised separately as deferred acquisition costs. Refer to Note 24, New accounting standards and interpretations not yet adopted, for further details.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

Section 3: Investment portfolio and capital

7 Net investment result

	2023 $m	2022 $m
Net gain/(loss) on change in fair value of investment portfolio	22.2	(44.0)
Unrealised loss on change in fair value of strategic investments (i)	(7.0)	(13.2)
Interest from other corporations	30.6	3.9
Distributions from other corporations	23.2	24.9
	69.0	(28.4)

(i) HBF holds a strategic equity related investment in Pacific Smiles Group Limited (PSG). The investment supports the relationship with a key strategic partner after signing a 10-year partnership agreement in 2020 to support HBF's expansion into dental services. The investment in PSG, which is considered strategic in nature, is not managed under the Investment Management Standard.

Investments accounting policy

Unrealised gains and losses reflect the change in the fair value of the investment portfolio that has yet to be realised. Interest revenue is recognised as it accrues using the effective interest rate method. Distributions represent realised gains, dividends and other distributions received or receivable from fund managers in association with the investment portfolio. They are recognised as revenue as they become due.

8 Financial assets at fair value

	2023 $m	2022 $m
Defensive		
Cash investments	670.7	698.0
Fixed interest	129.3	260.8
Growth		
Australian equities	56.7	225.0
International equities	10.4	70.5
Infrastructure	136.0	123.0
Strategic		
Australian equities - Pacific Smiles Group Limited	21.7	28.8
	1,024.8	1,406.1
Current	888.8	1,283.1
Non-current	136.0	123.0
	1,024.8	1,406.1

All financial assets other than global unlisted infrastructure assets are considered to be current as they are redeemable within one year of the reporting date. Unlisted infrastructure is typically redeemable within one to three years and is therefore classified as a non-current asset.

The Group's investments are managed in accordance with the respective Investment Management Standard and prescribed strategic asset allocations. The portfolio has a long-term strategic asset allocation of 35% (2022: 30%) growth and 65% (2022: 70%) defensive assets in line with the investment beliefs and risk appetite.

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

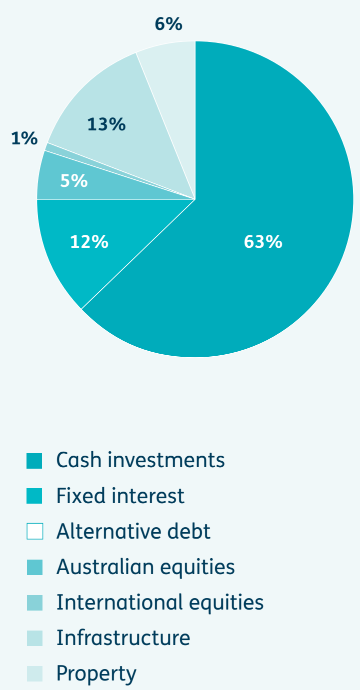
8 Financial assets at fair value (continued)

Portfolio composition (excluding strategic investments and including property):

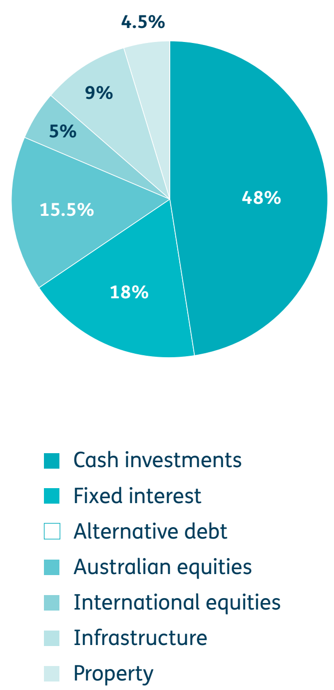
	Benchmark	Allowable range	2023	2022
Defensive				
Cash investments	45.0%	35.0% - 100.0%	62.9%	48.4%
Fixed interest	15.0%	0.0% - 25.0%	12.1%	18.1%
Alternative debt	5.0%	0.0% - 10.0%	0.0%	0.0%
	65.0%	**35.0% - 100.0%**	**75.0%**	**66.4%**
Growth				
Australian equities	10.0%	0.0% - 20.0%	5.3%	15.6%
International equities	10.0%	0.0% - 20.0%	1.0%	4.9%
Infrastructure	10.0%	0.0% - 15.0%	12.7%	8.5%
Property(i)	5.0%	0.0% - 10.0%	6.0%	4.5%
	35.0%	**0.0% - 65.0%**	**25.0%**	**33.4%**

(i) Property was reclassified as a growth asset allocation in the year ended 30 June 2023. The accounting policy for property is included in Note 13.

30 June 2023



30 June 2022



HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

8 Financial assets at fair value (continued)

Accounting policy

Assets backing insurance liabilities

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

Investments accounting policy

HBF Group's financial assets were measured at fair value through profit or loss throughout the reporting period. When financial assets are recognised initially, they are measured at fair value in the statement of financial position with any subsequent unrealised profits and losses recognised in the statement of comprehensive income.

HBF holds investments in cash, term deposits with banks, listed equities, units in unlisted unit trusts which invest in financial instruments and equities, and infrastructure investments funds. Cash investments are cash which is invested in call accounts or term deposits with HBF-approved authorised deposit taking institutions (ADI). Fixed interest comprises corporate bonds, global absolute return bonds and short duration credit.

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

Fair value hierarchy

The fair value of HBF Group investments are measured according to the following fair value measurement hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

Key estimates related to the valuation of level 2 and 3 investments.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds, adjusted for any factors likely to impact the redemption price to reflect fair value based on a likely exit price if the units were to be sold in the market. The value of the underlying investments within the unit trusts that are traded in active markets is determined by the fund managers based on their quoted market prices at the reporting date. The value of investments that are not traded in an active market is determined by the fund managers using valuation techniques. Such techniques include the use of recent arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow technique or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. The nature of such investments requires a degree of judgement and estimation based on information available at the time of deriving a valuation. The fair value of such investments is therefore subject to a level of uncertainty not present in actively traded markets.

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

8 Financial assets at fair value (continued)

Fair value hierarchy (continued)

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total
As at 30 June 2023				
Cash investments	670.7	-	-	670.7
Fixed interest	-	129.3	-	129.3
Australian equities	25.8	52.6	-	78.4
International equities	-	10.4	-	10.4
Infrastructure	-	-	136.0	136.0
	696.5	192.3	136.0	1,024.8
As at 30 June 2022				
Cash investments	698.0	-	-	698.0
Fixed interest	-	260.8	-	260.8
Australian equities	129.0	124.8	-	253.8
International equities	-	70.5	-	70.5
Infrastructure	-	-	123.0	123.0
	827.0	456.1	123.0	1,406.1

There were no transfers between levels during the 30 June 2023 or 30 June 2022 financial years.

Level 2 fair value

The level 2 fair value investments are valued at quoted market prices provided by fund managers at the reporting date.

Reconciliation of level 3 fair value

	2023 $m	2022 $m
Opening balance	123.0	110.3
Purchases	-	-
Fair value gains recognised in profit and loss	13.0	12.7
Closing balance	136.0	123.0

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

Asset classification	Fair Value $m	Valuation technique	Unobservable Input	Range
JP Morgan Infrastructure Investments Fund	63.3	Income approach	Discount rate	8.0% - 14.6%
IFM International Infrastructure Fund	72.7	Discounted cash flow	Discount rate	7.4% - 12.8%
	136.0			

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

A 10% increase/ decrease in the fair value of global unlisted infrastructure would result in a $13.6 million decrease/increase to profit or loss (2022: $12.3 million).

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

9 Risk management

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

(a) Governance framework

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

HBF's *Corporate Governance Statement* is informed by contemporary Australian standards including the Australian Securities 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. As a not-for-profit PHI, HBF has limited access to capital markets and the Board requires HBF to maintain a prudent buffer above prudential requirements. HBF is transitioning to APRA's revised capital framework in July 2023, and has set up its Internal Capital Adequacy Assessment Process (ICAAP), which is overseen by the Board. HBF monitors its capital monthly, and considers the capital outlook under a range of scenarios in business planning and other strategic decisions.

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 Audit Committee, the Risk Committee, the People, Culture and Remuneration Committee, the Transformation Committee, the Product and Pricing Committee and the Conduct and Risk Committee.

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

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

(b) Capital management framework

HBF Health Limited has a Capital Management Standard and an Investment Management Standard endorsed by the Board annually, which together incorporates APRA's minimum requirements for a capital management policy and a liquidity management plan.

HBF is transitioning to APRA's revised capital framework in July 2023, and has set up its Internal Capital Adequacy Assessment Process (ICAAP), which is overseen by the Board. The ICAAP Summary Statement documents HBF's approach to capital management, with targets that reflect the objectives and risk appetite of the Board, and a governance framework to ensure the capital outlook under a range of scenarios is used appropriately in business planning and strategic decisions.

(c) Tax governance framework

"HBF Health Limited recognises that tax governance and tax risk management play a key role in good management and corporate governance. HBF manage the taxation affairs in accordance with the Group's Tax Governance Framework (the Framework) which is approved by the Board. The Framework outlines the process HBF follow to ensure HBF manage the Group's tax risks promptly and appropriately. HBF maintains a comprehensive system of corporate governance practices designed to provide appropriate levels of disclosure and accountability. HBF reports it's tax-related activities to the Board's Audit Committee on a regular basis. The Group's processes align with the Australian Taxation Office (ATO)'s continually evolving guidance, including the Tax Risk Management and Governance Review Guide.

HBF is committed to ensuring the Group is compliant with legislative and regulatory requirements in accordance with HBF's Risk Appetite Statement, and is committed to meeting all tax compliance obligations and being open, transparent and cooperative about our tax affairs. HBF does not engage in tax avoidance schemes or aggressive tax positions.

HBF Health Limited
Notes to the financial statements – Year ended 30 June 2023

9 Risk management (continued)

(d) Insurance contracts risk

HBF provides private health insurance products including hospital cover and extras cover, as stand-alone products or packaged products that combine the two. Insurance risks and the holding of capital in excess of prudential requirements are managed through the following measures:

(i) Claims management and claims provisioning risks

Strict claims management ensures the timely and correct payment of claims in accordance with the policy conditions and provider contracts. HBF Group's approach to determining the outstanding claims provision is set out in Note 5. The Chief Actuary assesses the HBF Group's outstanding claims provision reported at reporting date.

(ii) Experience monitoring

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

(iii) Prudential capital requirements

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

(iv) Ability to vary premium rates

Actuarial-based methods and models use historical data to calculate premiums and monitor claims patterns. HBF requires regulatory approval prior to implementing annual rate increases.

(v) Risk equalisation

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

(vi) Concentration of insurance risk

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

HBF Health Limited
Notes to the financial statements – Year ended 30 June 2023

9 Risk management (continued)

(e) Financial risk management

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

(i) Cash flow and liquidity risk

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

The financial liabilities exposed to cash flow and liquidity risk are trade and other payables, insurance claims provisions and the liability recorded to reflect the commitment to purchase shares held by non-controlling-interest (NCI) holders in the Life Ready physio clinics. Trade and other payables mature within three months of the balance date. Outstanding claims mature within one year of the balance sheet date. The purchase commitment for NCI shares liability does not contain a fixed amount or timing and are based on the conditions existing at balance sheet date.

(ii) Market risk

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

(iii) Currency risk

Investments are managed by external fund managers and some investments in foreign currency denominated assets, such as international equities and fixed interest, carry the potential for currency movements (relative to the Australian dollar) to impact returns and volatility, both positively and negatively. Exposure to foreign currencies is managed by the fund managers at both an asset class and fund manager allocation level through the percentage of exposure which is hedged back to Australian dollars and unhedged.

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

	Movement in variable	Exposure $m	Profit/(loss) $m
30 June 2023			
Unhedged			
International equities	+/- 10%	14.6	+/- 1.5
Fixed income	+/- 10%	3.1	+/-0.3
Cash and cash equivalents	+/- 10%	5.3	+/- 0.5
30 June 2022			
Unhedged			
International equities	+/- 10%	70.5	+/- 7.1
International fixed interest	+/- 10%	27.4	+/- 2.7
Cash and cash equivalents	+/- 10%	6.4	+/- 0.6

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

9 Risk management (continued)

(e) Financial risk management (continued)

(iv) Price risk

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

The analysis below demonstrates the impact on profit before tax from a movement in market prices with all other variables held constant.

	Movement in variable	Exposure $m	Profit/(loss) $m
30 June 2023			
Fixed interest	+10%	129.3	12.9
	-10%	129.3	(12.9)
Australian equities	+10%	78.4	7.8
	-10%	78.4	(7.8)
International equities	+10%	10.4	1.0
	-10%	10.4	(1.0)
Infrastructure	+10%	136.0	13.6
	-10%	136.0	(13.6)
30 June 2022			
Fixed interest	+10%	260.8	26.1
	-10%	260.8	(26.1)
Australian equities	+10%	253.8	25.4
	-10%	253.8	(25.4)
International equities	+10%	70.5	7.1
	-10%	70.5	(7.1)
Infrastructure	+10%	123.0	12.3
	-10%	123.0	(12.3)

(v) Credit risk

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

To limit investment portfolio exposure to credit risk for direct investment in cash, a minimum long-term credit rating from Standard and Poor's BBB- is required prior to investment. To control the overall credit quality of direct investments in cash, HBF Group applies a credit framework requirement range of 40% - 100% for investments rated AA- and above, a range of 0% - 45% for investments rated A+ to BBB+, and a range of 0% - 15% for investments rated BBB to BBB- (as well as 0% for BB+ and below). If the credit rating of an ADI is downgraded and no longer meets the minimum long-term requirement, no further investments will be made, however existing investments will be held until maturity.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

9 Risk management (continued)

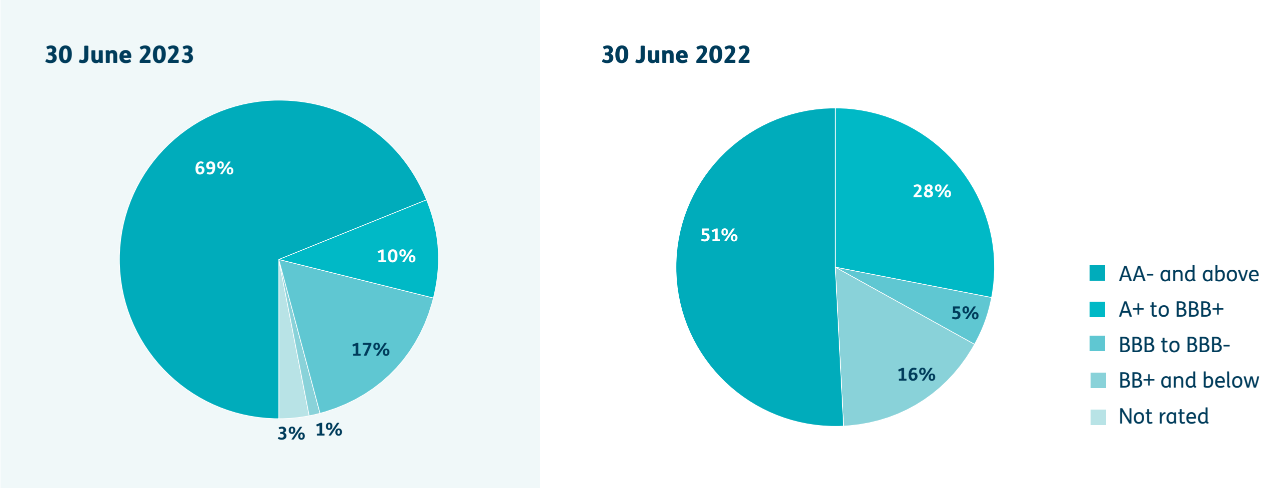
(e) Financial risk management (continued)

(v) Credit risk (continued)

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

	Notes	AA- and above $m	A+ to BBB+ $m	BBB to BBB- $m	BB+ and below $m	Not rated[1] $m	Total $m
As at 30 June 2023							
Cash and cash equivalents		297.3	-	-	-	-	297.3
Financial assets at fair value	8	570.5	160.6	271.6	22.2	-	1,024.8
Government rebate receivable	10(a)	41.3	-	-	-	-	41.3
Risk equalisation receivable on paid claims	10(a)	31.3	-	-	-	-	31.3
Settlement receivable	10(a)	156.0	-	-	-	-	156.0
Premium receivable	10(a)	-	-	-	-	4.5	4.5
Trade and other receivables	10(a)	-	-	-	-	1.2	1.2
Sundry debtors and prepayments	10(a)	2.1	-	-	-	35.2	37.3
Related party receivable	10(a)	-	-	-	-	-	-
		1,098.5	160.6	271.6	22.2	40.9	1,593.7
As at 30 June 2022							
Cash and cash equivalents		164.0	-	-	-	-	164.0
Financial assets at fair value	8	618.4	258.7	82.7	6.7	439.6	1,406.1
Government rebate receivable	10(a)	40.3	-	-	-	-	40.3
Risk equalisation receivable on paid claims	10(a)	23.1	-	-	-	-	23.1
Premium receivable	10(a)	-	-	-	-	3.4	3.4
Trade and other receivables	10(a)	-	-	-	-	1.1	1.1
Sundry debtors and prepayments	10(a)	2.0	-	-	-	20.6	22.6
Related party receivable	10(a)	-	-	-	-	0.7	0.7
		847.8	258.7	82.7	6.7	465.4	1,661.3

1. Not rated largely pertains to equity related investments and global unlisted infrastructure.



HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

10 Working capital

(a) Receivables

	2023 $m	2022 $m
Government rebate receivable	41.3	40.3
Risk equalisation receivable on paid claims	31.3	23.1
Premium receivable	4.5	3.4
Settlement receivable (i)	156.0	-
Trade and other receivables	1.2	1.1
Other debtors and prepayments	38.1	22.6
Related party receivable	-	0.7
Total gross receivables	272.4	91.2
Net receivables	272.4	91.2

(i) The settlement receivable balance of $156.0m represents the Group's right to receive the shares of QCH on 1 July 2023. Refer to Note 23 for further information.

All receivables are due within 12 months and the carrying value approximates the fair value.

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

	Neither past due nor impaired $m	Past due but not impaired: 0 to 3 months $m	Past due but not impaired: 3 to 12 months $m	Past due and impaired $m	Total $m
As at 30 June 2023					
Government rebate receivable	41.3	-	-	-	41.3
Risk equalisation receivable on paid claims	31.3	-	-	-	31.3
Premium receivable	-	4.5	-	-	4.5
Settlement receivable	156.0	-	-	-	156.0
Trade and other receivables	1.2	-	-	-	1.2
Other debtors and prepayments	38.0	-	0.1	-	38.1
Related party receivable	-	-	-	-	-
	267.8	4.5	0.1	-	272.4
As at 30 June 2022					
Government rebate receivable	40.3	-	-	-	40.3
Risk equalisation receivable on paid claims	23.1	-	-	-	23.1
Premium receivable	-	3.4	-	-	3.4
Trade and other receivables	1.1	-	-	-	1.1
Other debtors and prepayments	22.5	-	0.1	-	22.6
Related party receivable	0.7	-	-	-	0.7
	87.7	3.4	0.1	-	91.2

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

10 Working capital (continued)

(a) Receivables (continued)

Government rebate receivable accounting policy

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

Risk equalisation receivable accounting policy

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

Premium receivable accounting policy

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

Settlement receivable accounting policy

The receivable balance of $156.0m represents the Group's right to receive the shares of QCH on 1 July 2023.

(b) Trade and other payables

	2023 $m	2022 $m
Trade creditors and accrued expenses	37.6	26.3
Employee-related payables	13.3	12.0
Other payables	7.7	7.5
Return to members for surplus COVID-19 deferred claims (i)	9.0	-
	67.6	45.8

(i) On 24 March 2023, HBF publicly announced that it had committed to pay approximately $110 million back to members from the deferred claims liability. The cash repayments commenced in June 2023 with payments ranging from $45 for singles (extras-only policy) through to $330 for families with a hospital and extras policy. As at 30 June 2023, $101m of the balance has been repaid back to members. Refer also Note 5 (b) (iii).

The carrying value of trade and other payables approximates fair value.

Trade and other payables accounting policy

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

10 Working capital (continued)

(c) Reconciliation of operating profit/(loss) after tax to the net cash flows from operations

	2023 $m	2022 $m
Operating loss	(20.0)	(96.9)
Depreciation and amortisation	24.1	20.8
Net unrealised (gain)/loss on financial assets	(15.2)	57.2
Distributions received	(23.2)	(24.9)
Impairment of property, plant and equipment	-	24.3
Movement in financial liabilities	(0.4)	-
Changes in assets and liabilities:		
Decrease in trade and other receivables	29.7	6.6
(Increase)/decrease in net deferred tax assets/liabilities	(8.1)	1.3
Increase in deferred acquisition costs	(14.6)	(17.1)
Decrease in other operating assets	2.9	0.9
Decrease in trade and other payables	(134.5)	(44.5)
Increase in unearned premiums	3.1	15.0
Increase in outstanding claims	29.4	7.5
Increase in deferred claims	13.5	39.8
Increase in employee entitlements	1.1	2.4
Net cash flows used in operating activities	(112.2)	(7.6)

Cash and cash equivalents accounting policy

Cash and cash equivalents are stated at amortised cost which approximates fair value and include cash on hand, short-term term deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value. For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include all cash assets, net of outstanding bank overdrafts.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

11 Reserves and retained earnings

	2023 $m	2022 $m
Attributable to HBF Health Limited		
General reserve (i)	111.5	111.5
Retained earnings	1,245.4	1,266.1
Asset revaluation reserve (ii)	9.3	9.2
Purchase commitment for NCI shares reserve (iii)	(5.2)	(6.6)
	1,361.0	1,380.2

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 2023 and 30 June 2022.

From 1 July 2023, the capital management framework will be updated to accommodate the changes under the new insurance accounting standard, AASB 17, including reporting under the revised regulatory framework.

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

(ii) The asset revaluation reserve is used to record increments and decrements on revaluation of non-current assets as described in Note 13.

(iii) The purchase commitment for the NCI shares reserve arose on acquisition of the Life Ready Health Group. As the NCI put options are exercised, the reserve reduces.

HBF Health Limited
Notes to the financial statements – Year ended 30 June 2023

Section 4: Other assets and liabilities

12 Intangible assets

	Customer contracts $m	Goodwill $m	Transformation program $m	Computer software $m	Work in progress $m	Total $m
30 June 2023						
Cost						
Opening balance	32.5	110.4	21.5	22.4	72.9	259.7
Additions	-	-	2.6	-	-	2.6
Transfers from work in progress	-	-	1.7	-	(1.7)	-
Impairment	-	-	-	-	(6.4)	(6.4)
Disposals	-	-	-	(4.2)	-	(4.2)
Closing balance	32.5	110.4	25.7	18.2	64.8	251.7
Amortisation						
Opening balance	2.2	-	5.8	22.0	-	30.0
Amortisation	3.5	-	7.7	0.2	-	11.3
Amortisation on disposals	-	-	-	(4.2)	-	(4.2)
Closing balance	5.7	-	13.5	18.0	-	37.2
Net book value at end of the year	**26.8**	**110.4**	**12.3**	**0.2**	**64.8**	**214.5**
30 June 2022						
Cost						
Opening balance	-	-	6.7	24.0	60.2	90.9
Additions	-	-	-	-	40.0	40.0
Additions through business combinations	32.5	110.4	-	-	-	142.9
Transfers from work in progress	-	-	14.8	-	(14.8)	-
Reclassification to expenses	-	-	-	-	(8.1)	(8.1)
Reclassification to PPE	-	-	-	(1.6)	(4.4)	(6.0)
Closing balance	32.5	110.4	21.5	22.4	72.9	259.7
Amortisation						
Opening balance	-	-	2.2	21.5	-	23.7
Amortisation	2.2	-	3.6	0.7	-	6.5
Reclassification to PPE	-	-	-	(0.2)	-	(0.2)
Closing balance	2.2	-	5.8	22.0	-	30.0
Net book value at end of the year	**30.3**	**110.4**	**15.7**	**0.4**	**72.9**	**229.7**

Work in progress (WIP) largely relates to HBF's ongoing transformation program. For the purposes of impairment testing at Note 12(c) the WIP intangible asset is allocated to the Health insurance cash-generating-unit (CGU).

HBF Health Limited
Notes to the financial statements – Year ended 30 June 2023

12 Intangible assets (continued)

(a) Intangible assets accounting policy

Customer contracts

Customer contracts acquired as part of the CUA Health fund business combination in September 2021 are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the expected useful life (10 years) and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income. The customer contract intangible asset is allocated to the Health Insurance CGU for the purposes of impairment testing at Note 12(c).

Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Transformation program

HBF continues to progress with its business transformation program which includes the building and replacement of a major part of HBF's IT systems environment to support the business changes and provide the best digital experience for members, providers and employees. HBF has engaged leading software vendors and implementation partners, combined with internal subject matter experts, to deliver the program.

Costs incurred, in relation to the build up of the IT systems environment that will contribute to future period financial benefits through revenue generation and/or cost reduction, are capitalised. Costs that do not generate future benefits are classified as operating expenses. Costs capitalised include external direct costs of materials and services and direct payroll and payroll-related costs of employees' time spent directly on the transformation program. During the year ended 30 June 2023, all program costs of $96.0 million (FY22: $44.7m) have been expensed.

Assets generated from the transformation program are measured at cost less accumulated amortisation and impairment losses. The transformation program assets do not deliver benefits independent of other operating assets and are therefore tested as part of a CGU for impairment purposes. The assets have been allocated to the Health Insurance CGU as they are being developed primarily for the benefit of this CGU. Amortisation is calculated on a straight-line basis over the expected useful life of the program assets. Amortisation is recognised in other operating and administration expenses in the statement of comprehensive income.

To date, HBF has brought into use the mobile app, member portal, the HBF website, the cyber encryption program and the cloud service platform. These are currently being amortised over a useful life of three to eight years. The remaining transformation assets are planned to go-live in FY24.

(b) Impairment accounting policy

Intangible assets with a defined useful life, are assessed for impairment by HBF whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (called CGUs). Goodwill is allocated to the CGU, or group of CGUs, at which the goodwill is monitored and where the synergies of the combination are expected.

As part of its impairment assessment, the HBF Group estimates the recoverable value of a CGU and compares this against the carrying value of the CGU's assets to calculate if an impairment loss should be charged to the income statement. The recoverable amount is the higher of an CGU's fair value less costs of disposal and its value in-use. In assessing value-in-use, the CGU's estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Any impairment loss is recognised for the amount by which the carrying amounts of the CGU's assets exceed the recoverable amount.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

12 Intangible assets (continued)

(c) Impairment assessment - goodwill

Below is a CGU level summary of the Group's goodwill and other intangible assets and the key assumptions made in determining the recoverable amounts. The impact of reasonably possible changes to the more significant variables in the value in use (VIU) calculations has also been presented below. This reflects the sensitivity of the recoverable amounts to each key assumption on its own. It is possible that more than one change may occur at the same time.

Goodwill and other intangible assets included in the CGU's that are subject to impairment testing:

	Goodwill allocation $m	Intangible assets allocation $m	Total allocation $m
30 June 2023			
Health insurance	82.3	103.9	186.2
Physiotherapy	28.3	-	28.3
Total	**110.6**	**103.9**	**214.5**

Key assumptions in determining the recoverable amounts:

	Assumptions		Amount by which VIU exceeds carrying value of CGU	Consequential impact of a 1% adverse movement			
	Terminal growth rate %	Pre-tax discount rate %	$m	Terminal growth rate $m	Pre-tax discount rate $m	Forecast margin result[1] $m	Forecast operating expenses $m
30 June 2023							
Health insurance	2.5%	12.6%	75.9	(31.8)	(48.2)	(39.9)	(33.5)
Physiotherapy	2.5%	14.4%	7.4	(4.4)	(5.3)	(0.6)	(3.2)
Total			**83.3**	**(36.2)**	**(53.5)**	**(40.5)**	**(36.7)**

1. The forecast margin result reflects the underwriting margin result for the health insurance CGU and the EBITDA result for the physiotherapy CGU.

The recoverable amounts for all CGUs at 30 June 2023 were based on value in use, using management's latest four-year extended financial outlook. These are discounted cash flow projections over four years. The forecast is then extrapolated into perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use.

The key assumptions used in determining the valuations are:

- Underwriting margin result (health insurance CGU), EBITDA margin result (physiotherapy CGU) and operating expenses
- Discount rate
- Terminal growth rates used to extrapolate cash flows beyond the forecast period

As a not-for-profit organisation, the value in use of the health insurance business is (in part) driven by the lower gross margin (higher benefits paid to members) which results in lower operating profit. As a result, there is not significant headroom over asset value and small changes in key assumptions can cause materially different outcomes.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

12 Intangible assets (continued)

(c) Impairment assessment - goodwill (continued)

Growth rates and discount rates

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the four year forecast period. The long term growth rates have been based on expected growth of the CGUs and considers the respective industry long term growth outlooks. In performing the recoverable amount calculations for each CGU, the Group's estimated future cashflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the relevant CGU.

Change in key assumptions

The following table gives the percentage change in key assumptions that would reduce the headroom of CGUs to nil.

	Terminal growth rate %	Pre-tax discount rate %	Forecast margin result[1] %	Forecast operating expenses %
30 June 2023				
Health insurance	(122.1%)	28.1%	(1.9%)	2.3%
Physiotherapy	(72.4%)	20.6%	(12.5%)	2.3%

1. The forecast margin result reflects the underwriting margin result for the health insurance CGU and the EBITDA result for the physiotherapy CGU.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

13 Property, plant and equipment

	Land and buildings $m	Right-of-use assets $m	Plant and equipment $m	Motor vehicles $m	Leasehold improvements $m	Work in progress $m	Total $m
30 June 2023							
Cost or valuation							
Opening balance	92.7	23.9	26.5	0.4	30.4	3.8	177.7
Additions	-	2.9	1.9	0.2	4.7	4.4	14.1
Revaluations	-	0.8	-	-	-	-	0.8
Transfers	-	-	8.2	-	-	(8.2)	-
Disposals	-	(1.6)	(2.9)	-	(0.8)	-	(5.3)
Closing balance	92.7	26.0	33.7	0.6	34.3	-	187.3
Depreciation and impairment							
Opening balance	27.7	6.0	10.7	-	11.3	-	55.7
Depreciation expense	1.2	6.1	6.8	-	2.9	-	16.9
Revaluations	-	(1.7)	-	-	0.9	-	(0.8)
Depreciation on disposals	-	(1.5)	(0.6)	-	-	-	(2.1)
Closing balance	28.9	8.9	16.9	-	15.0	-	69.7
Net book value at end of year	**63.8**	**17.1**	**16.8**	**0.6**	**19.3**	**-**	**117.6**
30 June 2022							
Cost or valuation							
Opening balance	98.8	10.0	11.4	-	24.5	3.3	148.0
Additions	-	6.4	0.1	-	0.2	12.9	19.6
Additions through business combinations	-	7.8	0.6	0.4	1.7	-	10.5
Revaluations	(6.3)	(0.1)	-	-	-	-	(6.4)
Transfer out of work in progress	-	-	12.8	-	4.0	(16.8)	-
Reclassification from intangible assets	-	-	1.6	-	-	4.4	6.0
Transfer from assets held for sale	0.6	-	-	-	-	-	0.6
Disposals	(0.4)	(0.2)	-	-	-	-	(0.6)
Closing balance	92.7	23.9	26.5	0.4	30.4	3.8	177.7
Depreciation and impairment							
Opening balance	-	1.8	7.2	-	8.2	-	17.2
Depreciation expense	3.5	4.4	3.3	-	3.1	-	14.3
Impairment	24.3	-	-	-	-	-	24.3
Reclassification from intangible assets	-	-	0.2	-	-	-	0.2
Depreciation on disposals	(0.1)	(0.2)	-	-	-	-	(0.3)
Closing balance	27.7	6.0	10.7	-	11.3	-	55.7
Net book value at end of the year	**65.0**	**17.9**	**15.8**	**0.4**	**19.1**	**3.8**	**122.0**

Property, plant and equipment accounting policy

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

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

13 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. An impairment 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% - 33%
Building/branch renovations:	6.7% - 25%
Motor vehicles	12.5%

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

Revaluation of land and buildings

HBF assessed the fair value of Walburniny, its head off building at 570 Wellington St Perth at 30 June 2022. This fair value reflected market conditions and HBF's opinion that there are defects in the facade of the building which are the subject of ongoing investigation. The key assumptions, to which the valuation is sentive, are as follows:

- the timing and costs of façade remediation
- market capitalisation rate
- discount rate

HBF has concluded that the carrying amount of the asset as at 30 June 2023 does not differ materially from its fair value as assessed at 30 June 2022, as the fair value sufficiently reflects assumptions consistent with recent conditions in the WA property market.

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 CGU to which it belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Any impairment loss is recorded in the statement of comprehensive income.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

13 Property, plant and equipment (continued)

Reconciliation of level 3 fair value

	2023 $m	2022 $m
Opening balance	65.0	98.8
Disposals	-	(0.3)
Transfer from assets held for sale	-	0.6
Depreciation for the year	(1.2)	(3.5)
Impairment expense	-	(24.3)
Revaluation of land and buildings	-	(6.3)
Closing balance	63.8	65.0

The revaluation of land and buildings was nil for the year ended 30 June 2023 (2022: $6.3 million revaluation loss).

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

	2023 $m	2022 $m
Cost	105.2	105.2
Accumulated depreciation	(17.1)	(15.9)
Impairment	(24.3)	(24.3)
Net carrying amount	63.8	65.0

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HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

14 Leases

The table below sets out the carrying amounts of the right-of-use assets and the movements during the year.

	2023 $m	2022 $m
Balance at 1 July	17.9	8.2
Additions	2.9	6.4
Additions through business combinations	-	7.8
Revaluation	2.5	(0.1)
Transfers	-	-
Disposals	(0.1)	-
Depreciation expense	(6.1)	(4.4)
Balance at 30 June	17.1	17.9

The table below sets out the carrying amounts of the lease liabilities and the movements during the year.

Balance at 1 July	19.0	8.8
Additions	1.8	5.8
Additions through business combinations	-	7.8
Accretion of interest	0.5	0.4
Lease payments	(6.0)	(3.8)
Revaluation	2.5	-
Balance at 30 June	17.8	19.0
Current	16.3	6.9
Non-current	1.5	12.1
	17.8	19.0

Maturity analysis - contractual undiscounted cash flows

	2023 $m	2022 $m
Less than one year	4.2	5.9
One to five years	10.5	12.2
More than five years	1.7	2.1
Total undiscounted cash flows	16.4	20.2

Financial report

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

14 Leases (continued)

Leases accounting policy

Group as a lessee

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

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The depreciation methods adopted by the Group are shown in the table below:

Buildings:	1-9 years
Plant and equipment:	3 years
Motor vehicles	3-5 years

(ii) Lease liabilities

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

15 Financial liabilities

The following tables detail the Group's liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities that the entity can access at the measurement date;
Level 2: Inputs other than quoted prices included within level 1 that are observable for liability, either directly or indirectly; and
Level 3: Unobservable inputs for the liability.

HBF Group's financial liabilities that are measured and recognised at fair value on a recurring basis, are classified as a level three liabilities. This includes the purchase commitments for NCI shares which is valued at $3.9m at 30 June 2023 (2022: $6.6m).

The table below sets out the fair value of the level 3 liability and the movements during the year.

	Notes	2023 $m	2022 $m
Balance at beginning of year		6.6	-
Arising from business combinations		-	6.6
Purchases during the year	(i)	(2.3)	-
Fair value movement recognised in finance liabilities		(0.4)	-
		3.9	6.6

(i) During the year, the Group purchased the remaining 50% interest in Life Ready Busselton Pty Ltd, Life Ready Point Cook Pty Ltd and Life Ready Midland Pty Ltd; increasing its ownership interest in these entities to 100%. Cash consideration of $2.3m was paid to the non-controlling shareholder on the transaction date. The financial liability was revalued immediately before the transaction and then extinguished by payment of the exercise price.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

15 Financial liabilities (continued)

Purchase commitments for NCI shares accounting policy

The Group has written put options over the equity of its Life Ready Group subsidiaries which permit clinic shareholders to acquire their NCI shareholding at a future date under certain circumstances. A financial liability for this purchase commitment was recognised and revalued in accordance with AASB 139, being the estimate of the fair value of the consideration to acquire the clinic partners shares that are subject to the commitment. The financial liability is valued at each reporting date based on the likely settlement amount. At 30 June 2023, the fair value of the liability has been assessed to be $3.9 million (2022: $6.6 million).

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

Financial liability	Fair Value $m	Valuation technique	Unobservable Input	Range
Purchase commitment for NCI shares	3.9	Market approach	EBITDA multiple	4.0x - 5.0x

A 10% increase/decrease in the fair value of the purchase commitment would result in a $0.4 million decrease/increase to profit or loss (2022: $0.7 million).

16 Employee benefits

		2023 $m	2022 $m
(a)	**Employee benefits liability**		
	The aggregate employee benefit liability is comprised of:		
	Annual leave	8.7	8.6
	Long service leave	10.5	10.6
	Other employee related provisions	1.1	0.1
		20.3	19.3
	Current	16.0	15.6
	Non-current	4.3	3.7
		20.3	19.3
(b)	**Employee benefits expense**		
	Included in HBF's employee benefits expense are the following:		
	Employee costs (excluding superannuation plan expenses)	168.4	131.9
	Defined contribution superannuation plan expenses	13.1	11.6
		181.5	143.5

Employee benefits accounting policy

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

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

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

Section 5: Other

17 Taxation

		2023 $m	2022 $m
(a)	**Income tax expense**		
	Current tax	0.5	0.2
	Deferred tax	(4.3)	0.4
	Adjustment for tax of prior period	(4.3)	0.3
	Income tax expense reported in the statement of comprehensive income	(8.1)	0.9
(b)	**Reconciliation of tax expense to prima facie tax on accounting profit**		
	Total loss before income tax	(28.1)	(96.0)
	Tax at the Australian tax rate of 30% (2022: 30%)	(8.4)	(28.8)
	Tax effect of tax exempt entity	(12.5)	21.2
	Non-deductible expenses for tax purposes:	-	
	Impairment of buildings	-	7.3
	Other non-deductible expenses	12.8	1.2
	Aggregate income tax expense	(8.1)	0.9
(c)	**Deferred tax assets and liabilities**		
	Deferred tax balances comprise temporary differences relating to the following:		
	Tax losses	1.7	1.8
	Intangible assets	-	(9.1)
	Property, plant and equipment	(0.9)	(4.0)
	Employee entitlements	-	0.1
	Provisions & accruals	0.3	5.2
	Other liabilities	0.8	(0.2)
	Net deferred tax asset / (liability)	1.9	(6.2)
(d)	**Unrecognised deferred tax assets**		
	Gross tax losses - Capital (i)	49.0	-
		49.0	-

(i) A capital gains tax (CGT) event has arisen within the Wellness Holdings tax consolidated group under the Section 33 fund merge for the transfer of the CUA Health fund to the HBF Health fund. The CGT event resulted in a capital loss of $49.0 million as a result of different assumptions applied at the s33 merge date; a deferred tax assets has not been recognised in respect of this event, because it is not probable that the Wellness Holdings tax consolidated group will generate sufficient future taxable profits to utilise the losses. Unrecognised deferred tax assets do not expire under current tax legislation.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

17 Taxation (continued)

Tax consolidation legislation

HBF Health Limited is exempt from income tax in accordance with section 50(30) of the Income Tax Assessment Act 1997. Despite being a tax-exempt entity, the subsidiaries of HBF Health Limited are for-profit and subject to corporate taxation giving rise to the current and deferred tax consequences in the current period.

HBF Wellness Holdings Pty Limited and its wholly-owned Australian controlled entities are members of a tax consolidated group. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements. The entities in the tax consolidated group are part of a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, HBF Wellness Holdings Pty Ltd.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate HBF Wellness Holdings Pty Limited for any current tax payable and are compensated by HBF Wellness Holdings Pty Limited for any current tax receivable.

Income tax accounting policy

Current taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and according to tax laws enacted, or substantively enacted, at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

The carrying amount of deferred income tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

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.

Deferred income tax is provided on temporary differences at reporting date between accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

1) where they arise 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; and
2) where taxable temporary differences relate to investments in subsidiaries, associates and interests in joint ventures:
   a) Deferred tax liabilities are not recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
   b) Deferred tax assets are not recognised if it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will not be available to utilise the temporary differences.

Deferred tax liabilities are not recognised on recognition of goodwill. Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Offsetting balances

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Goods and Services Tax accounting policy

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

18 Auditor's remuneration

	2023 $	2022 $
Amounts received or due and receivable by Ernst & Young for:		
Audit of the financial reports	559,770	623,500
Other assurance services for regulatory reporting	314,410	204,300
Audit & assurance services	874,180	827,800
Consulting advice	5,500	56,900
Tax compliance	39,500	31,465
Other services	45,000	88,365
Total auditors' remuneration	919,180	916,165

Non-audit services accounted for 4.9% of total auditor's remuneration (2022: 9.6%). 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.

19 Commitments

	2023 $m	2022 $m
Commitments		
Within one year	27.3	21.9
After one year but not more than five years	13.9	9.9
More than five years	-	-
	41.2	31.8

As at 30 June 2023, HBF had $41.2 million (2022: $30.0 million) in contractual commitments for the transformation program. These commitments are not recognised as liabilities as the assets or services have not yet been received.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

20 Group structure

Subsidiaries

The consolidated financial statements of the Group include:

		% equity interest	
Name	**Principal activities**	**2023**	**2022**
HBF Health Limited	Ultimate Holding Company	100%	100%
HBF Wellness Holdings Pty Ltd	Holding Company	100%	100%
HBF Health and Wellness Pty Ltd	Dormant	100%	100%
HBF Dental Services Pty Limited	Dental	100%	100%
HBF House Pty Ltd	Trustee for HBF House Unit Trust	100%	100%
HBF House Unit Trust	Own and operate the headquarters building for the HBF Group	100%	100%
CUA Health Pty Limited	Health insurance	100%	100%
Life Ready Health Group Pty Ltd	Physiotherapy	100%	100%
Life Ready Baldivis Pty Ltd	Physiotherapy	100%	100%
Life Ready Butler Pty Ltd	Physiotherapy	100%	100%
Life Ready Camberwell Pty Ltd	Physiotherapy	100%	100%
Life Ready Rockingham Pty Ltd	Physiotherapy	100%	100%
Life Ready Mobile Pty Ltd	Physiotherapy	100%	100%
Gempine Holdings Pty Ltd	Physiotherapy	100%	100%
Life Ready Midland Pty Ltd	Physiotherapy	100%	50%*
Life Ready Point Cook Pty Ltd	Physiotherapy	100%	50%*
Life Ready Busselton Pty Ltd	Physiotherapy	100%	50%*
Life Ready Cockburn Pty Ltd	Physiotherapy	80%*	80%*
Life Ready Floreat Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Marangaroo Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Maribyrnong Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Bayswater Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Spearwood Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Studio Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Warwick Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Yokine Pty Ltd	Physiotherapy	50%*	50%*
Life Ready Canning Vale Pty Ltd	Physiotherapy	50%*	50%*
Mandurah Physiotherapy Pty Ltd	Physiotherapy	50%*	50%*
Trinh Scarborough Pty Ltd	Physiotherapy	50%*	50%*
Trinh & Garvey Pty Ltd (Perth CBD)	Physiotherapy	50%*	50%*
Trinh & Harrington Pty Ltd (South Perth)	Physiotherapy	50%*	50%*
Trinh & Thomas Pty Ltd (Inglewood)	Physiotherapy	50%*	50%*

* The HBF Group consolidates this entity based on control. See Note 2(c) for more details.

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

21 Related party disclosures

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

Directors:

Ms D Smith-Gander AO
Mr A Crawford
Ms J Seabrook
Mr R England
Ms H Kurincic
Ms G McGrath
Mr B Stewart
Dr L Henderson (commenced 13/02/2023)

Executives and senior management:

Mr S Walsh (Interim CEO to 13/02/2023; Deputy CEO from 14/02/2023, resigned 9/06/2023)
Ms S Torrance
Ms D Carrington
Ms A Stanley
Dr D Heredia
Mr S Gupta
Mr B Comrie (commenced 27/03/2023)
Mr A Stock (resigned 14/08/2022)

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

(b) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the HBF Group during FY23. All transactions were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors, executives or senior management during the current or prior financial years.

(c) Key management personnel remuneration

	2023 $	2022 $
Directors		
Short-term benefits	2,701,521	3,209,360
Superannuation	156,747	131,846
Termination benefits	-	77,241
	2,858,268	3,418,447
Other key management personnel		
Short-term benefits	3,571,711	4,415,857
Superannuation	158,078	200,339
Termination benefits	-	56,307
	3,729,788	4,672,503
Total	6,588,056	8,090,950

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

21 Related party disclosures (continued)

(d) Balances with other related parties

Note 20 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of outstanding balances with related parties.

	Notes	2023 $m	2022 $m
Outstanding balances with related parties			
Amounts receivable from related parties	10	-	0.7

22 Information relating to HBF Health Limited (the "Parent")

(a) Summary financial information

	2023 $m	2022 $m
Current assets	1,416.9	1,514.8
Non-current assets	595.2	468.8
Total assets	2,012.1	1,983.6
Current liabilities	519.7	520.9
Non-current liabilities	68.3	81.4
Total liabilities	588.0	602.3
Net assets	**1,424.1**	**1,381.3**
General reserve	111.5	111.5
Retained earnings	1,303.3	1,260.6
Asset revaluation reserve	9.3	9.2
Total equity	**1,424.1**	**1,381.3**
Loss of the parent entity	(20.5)	(101.2)
Revaluation of land and buildings	0.1	-
Total comprehensive loss of the parent entity	**(20.4)**	**(101.2)**

(b) Guarantees entered into by parent entity

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries.

(c) Contingent liabilities of the parent entity

The parent entity has no contingent assets or liabilities as at 30 June 2023 (2022: nil)

(d) Contractual commitments of the parent entity

The parent entity has contractual obligations to purchase plant, equipment and software for $41.2 million (2022: $30.0 million).

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

23 Significant events after reporting date

On 1 July 2023 HBF Wellness Holdings Pty Limited (a wholly owned subsidiary of HBF Health Lmited) acquired 100% of the shares in Queensland Country Health Fund Pty Ltd (QCH).

QCH is based in Townsville and currently serves approximately 70,000 members, predominantly on the east coast of Australia. QCH has six retail centres, 23 product distribution centres and three dental centres across regional Queensland. The acquisition advances the Group's national growth strategy by further strengthening the Group's membership base outside of Western Australia. The acquisition also includes a Distribution Agreement whereby QCB will also continue to sell QCH products.

The initial purchase consideration of $156.6 million was transferred on 30 June 2023 and has been recognised as a settlement receivable on 30 June 2023. The receivable balance of $156.6m represents the Group's right to receive the shares of QCH on 1 July 2023. HBF Group's determination of the acquisition date as 1 July 2023 represents a significant judgment based on when legal and operating control passes to the Group.

To date, the Group has incurred costs for due diligence, integration and other legal fees amounting to $5.5 million and these are predominantly recognised in professional services fees for the year ended 30 June 2023.

The final purchase price will be determined once the net asset position of QCH is finalised. An initial estimate of the total purchase consideration and the fair value of assets and liabilities acquired has been presented below, however, it should be noted that this estimate excludes any potential identifiable intangible assets acquired as part of the transaction with all excess consideration allocated to Goodwill.

	Fair value estimate on $m
Estimated assets	113.1
Estimated liabilities	36.2
Estimated identifiable net assets at fair value	**76.9**
Estimated goodwill arising on acquisition	79.1
Estimated purchase consideration transferred	**156.0**

A comprehensive valuation and purchase price allocation (PPA) exercise will be performed to identify and assess the fair value of the QCH assets and liabilities acquired, including identifiable intangible assets. The results will be reflected in the financial statements for the year ending 30 June 2024.

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

HBF Health Limited
Notes to the financial statements - Year ended 30 June 2023

24 New accounting standards and interpretations not yet adopted

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 Group's assessment of the impact of these new standards is set out below.

The Group will apply AASB 17 and AASB 9 for the first time for the annual reporting period beginning 1 July 2023. While AASB 9 Financial Instruments is not expected to have a material impact on the Group, AASB 17 Insurance contracts will result in changes to the accounting for insurance contracts and is expected to have a material effect on the Group's consolidated financial statements in the period of initial application.

Estimated impact of the adoption of AASB 17 and AASB 9.

The Group has estimated the impact of adopting AASB 17 and AASB 9 in its consolidated financial statements. Based on the assessments undertaken to date, the total adjustment (after tax) to the balance of the Group's total equity is estimated to be an increase of $20.1m at 1 July 2022, as summarised below:

Estimated increase/(reduction) in the Group's total equity ($'m)	1 July 2022 $m
Adjustment due to adoption of AASB 17	20.1
Adjustment due to adoption of AASB 9	-
Estimated impact of adoption of AASB 17 and AASB 9	**20.1**

The Group plans to adopt the full retrospective approach on transition, in which the prior period comparative financial statements will be restated on the initial date of application, with any impact of applying the standard recognised in opening retained earnings on the initial date of application (i.e. 1 July 2022).

The assessment above is preliminary and the actual impact of adopting AASB 17 and AASB 9 on 1 July 2022 and 2023 may change during the course of the financial year ending 30 June 2024 given:

- The Group is continuing to refine the new accounting processes and internal controls required for applying AASB 17 and AASB 9;
- Although parallel runs were carried out in the second half of the financial year, the associated controls in place have not been operational for a more extended period; and
- The new accounting policies, assumptions, judgements, and estimation techniques employed are subject to change until the Group finalised its first financial statements that include the date of initial application.

AASB 17 Insurance Contracts

AASB 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participating features.

The standard introduces a new general measurement model based on the estimated value of future cashflows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risks and a contractual service margin. However, a simplified measurement model called the Premium Allocation Approach (PAA) is available for insurance contracts that meet the eligibility criteria. The Group will apply the PAA to all contracts as the coverage period of each contract in the Group is one year or less, with any exceptions considered immaterial to the Group.

Impact assessment

Although the PAA is similar to the Group's current accounting treatment, the following changes are expected in the accounting for insurance contracts:

- The Group will recognise a liability for remaining coverage or LfRC (previously unearned premium liability). This includes the recognition of a loss component on onerous contracts to the extent that the current estimate of the fulfilment cashflows (that relate to the liability for remaining coverage) exceed the carrying amount of the liability for remaining coverage.
- The Group will recognise a liability for incurred claims or LIC (previously outstanding claims liability) at the amount of fulfilment cash flows relating to incurred claims, noting that the future cash flows will not be discounted due to the eligibility to apply the PAA method.
- The Group will include a risk adjustment for non-financial risk (not explicitly allowed under the current standard) in the fulfilment cashflows to reflect the compensation that the Group would require for bearing non-financial risks and its degree of risk aversion. This replaces the current risk margin and will be included in the valuation of both the LIC and the loss component for onerous insurance contracts.

HBF Health Limited
Notes to the financial statements – Year ended 30 June 2023

24 New accounting standards and interpretations not yet adopted (continued)

AASB 17 Insurance Contracts (continued)

Impact assessment (continued)

- The Group will elect to recognise eligible insurance acquisition cashflows as expenses when they are incurred, which differs from the current practice under which these amounts are recognised separately as deferred acquisition costs.
- The Group will derecognise the DCL on the basis that the DCL does not meet the AASB 17 definition of an insurance liability in its current form.
- The GapSaver liability will no longer be presented separately in the consolidated statement of financial position, but will be included in the LIC. It will, however, be separately disclosed in the notes. The valuation methodology of the liability remains consistent with prior reporting periods.

Presentation changes

AASB 17 will significantly change how insurance contracts are presented and disclosed in the Group's consolidated financial statements.

Under AASB 17, portfolios of insurance contracts (both assets and liabilities) will be presented on a net basis. Balances, such as insurance receivables and payables, will no longer be presented separately. Further, amounts recognised in the profit or loss will be disaggregated into:

(a) An insurance service result, comprising insurance revenue and insurance service expenses; and

(b) Insurance finance income or expenses (not currently applicable for HBF and its subsidiaries).
The separate presentation of underwriting and financial results under AASB 17 and AASB 9 will provide added transparency about the sources of profit and quality of earnings.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 July 2018. However, the Group has met the relevant criteria and has applied the temporary exemption from AASB 9 (and accounting under the current insurance standard AASB 1023) for annual periods before 1 July 2023. Consequently, the Group will apply AASB 9 for the first time on 1 July 2023 at the same time as adopting AASB 17 *Insurance Contracts.*

The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed as well as the financial assets contractual cash flow characteristics. AASB 9 requires, that except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Subsequently, an entity shall measure a financial asset at either:

(a) Amortised cost;

(b) Fair value through other comprehensive income; or

(c) Fair value through profit or loss.

AASB 9 also replaces the 'incurred loss' impairment model in AASB 139 with a forward looking 'expected credit loss' model (ECL). This will require judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis. The new impairment model will apply to the Group's financial assets measured at amortised cost.

AASB 9 requires a loss allowance to be recognised at an amount equal to either the 12-month ECL or lifetime ECL. The lifetime ECL is the ECL that results from all possible defaults over the expected life of the financial instrument. In addition, 12-month ECL is the portion of the lifetime ECL that results from default events on a

Impact assessment

The new classification requirements are not expected to have any financial impact on the Group's equity at 1 July 2022 or 1 July 2023, as all financial assets and liabilities are measured using the same classification before and after transition to AASB 9. Furthermore, the Group estimates that the application of the AASB 9 impairment requirements will result in an immaterial financial impact on the Group's consolidated financial statements and therefore a detailed impact assessment has not been performed based on materiality. New disclosures under AASB 9 will be applied

Other accounting standards or amendments that will become applicable in future reporting periods are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

HBF Health Limited
Director's declaration – Year ended 30 June 2023

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

In the opinion of the directors: HBF Health Limited (the "Parent") is a not-for-profit Group limited by guarantee, incorporated and domiciled in Australia. The parent and its' subsidiaries listed in Note 20 of the financial statements collectively form the "Group". The registered office is located at 570 Wellington Street, Perth WA 6000.

(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 2023 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;

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

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

On behalf of the Board,

Diane Smith-Gander AO
Chair

Perth, 5 September 2023

HBF Health Limited
Auditor's independence declaration

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

As lead auditor for the audit of the financial report of HBF Health Limited for the financial year ended 30 June 2023, 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.

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

T M Dring
Partner
5 September 2023

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HBF Health Limited
Independent auditor's report

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

Opinion

We have audited the financial report of HBF Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 and of its consolidated financial performance for the year ended on that date; and

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

Basis for opinion

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

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

Emphasis of matter – Private Health Insurance Basis of Accounting

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

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

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

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

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

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HBF Health Limited
Independent auditor's report

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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

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HBF Health Limited
Independent auditor's report

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to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
5 September 2023

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