Annual Report.

2020

Contents.

1	2020 at a glance
4	Chairman's report
6	CEO's report
10	Executive team
12	Financial performance
18	Strategic overview
27	Corporate social responsibility
32	Governance report
38	Board and Executive Director remuneration report
44	Directors' report
50	Financial report
91	Auditor's independence declaration
92	Independent auditor's report

2020 at a glance.

HBF members and policies

Source: APRA data at 30 June 2020

NT
1,538 Members
802 Policies
1.6% Share

WA
865,880 Members
440,163 Policies
49.9% Share

QLD
17,200 Members
8,205 Policies
0.7% Share

NSW
35,952 Members
15,927 Policies
0.7% Share

SA
5,133 Members
2,469 Policies
0.5% Share

ACT
2,413 Members
1,148 Policies
0.8% Share

VIC
35,172 Members
17,184 Policies
1.1% Share

TAS
1,925 Members
1,076 Policies
0.8% Share

7.3% share Australia-wide

87.2 cents

Returned in every dollar we received in premiums back to members as claims in 2019

Source: Commonwealth Ombudsman 2019 State of the Health Funds Report (published February 2020)

16.4 years

Average length of HBF membership

(at 21 July 2020)

Major areas of hospital claims

Private hospitals $735.3 million	Medical $179.8 million	Prostheses $159.4 million	Public hospitals $53.9 million	Licensed day surgeries $37.86 million	GapSaver $45.4 million	Ambulance $25.76 million

Source: HBF claims data, 1 April 2019 to 31 March 2020

Major areas of general treatment claims

$217.2m	$51.6m	$28.3m
Dental	Optical	Physiotherapy
$20.8m	$10m	$7.8m
Chiropractic/ osteopathy	Health programs and appliances	Podiatry

Source: HBF claims data, 1 April 2019 to 31 March 2020

Our response to COVID-19

- HBF was rated by CHOICE as the best-performing health fund for its response to COVID-19
- HBF was the only major health fund to cancel – not just delay – its 2020 premium increase at a cost of $37 million
- Temporary benefits for some allied health treatments delivered via telehealth
- Comprehensive assistance package for members experiencing financial hardship – at a cost of $1.05 million (at 30 June 2020)
- $575,000 to 170 WA charities which had hoped to benefit from the cancelled HBF Run for a Reason – including a $100,000 donation to Lifeline
- $190,000 to assist Foodbank WA, The Salvation Army, Anglicare WA and Silver Chain to respond to community need
- Ten laptops to the Royal Flying Doctor Service
- 2,750 face masks to Silver Chain and the Department of Health
- $2.5 million to fund the State Government's DETECT Snapshot program, for research and increased testing of frontline employees across a range of industries

Claims trends for common surgeries
(average fees and average length of hospital stay (LOS))

Hip replacement

Period	Average fees	Average LOS
2015 – 2016	$25,235	5.2 days
2016 – 2017	$25,005	4.5 days
2017 – 2018	$24,522	4.4 days
2018 – 2019	$24,563	4.2 days
2019 – 2020	$24,856	4.3 days

Cardiac valve replacement

Period	Average fees	Average LOS
2015 – 2016	$50,963	11.6 days
2016 – 2017	$53,622	11.4 days
2017 – 2018	$54,556	9.8 days
2018 – 2019	$56,164	9.3 days
2019 – 2020	$57,180	8.4 days

Pacemaker implantation

Period	Average fees	Average LOS
2015 – 2016	$24,033	2.3 days
2016 – 2017	$25,894	2.5 days
2017 – 2018	$24,675	2.3 days
2018 – 2019	$22,538	2.8 days
2019 – 2020	$22,754	2.9 days

Coronary bypass surgery

Period	Average fees	Average LOS
2015 – 2016	$39,673	10.6 days
2016 – 2017	$42,568	10.4 days
2017 – 2018	$42,329	10.2 days
2018 – 2019	$43,095	10.1 days
2019 – 2020	$43,815	10.7 days

Source: HBF claims data, 1 April 2019 to 31 March 2020
Average fees are inclusive of accommodation, medical, prostheses and any sundry hospital fees

Claims paid by diagnosis-related group (DRG)

DRG	2017-18	2018-19	2019-20
Orthopaedic	$291,061,827	$287,878,208	$294,261,962
Cardiovascular	$154,008,606	$148,095,771	$158,314,923
Digestive	$103,914,826	$103,482,241	$102,841,471
Public Hospital	$85,451,139	$77,964,118	$79,948,113
Obstetrics	$60,245,549	$57,204,695	$55,015,170
Mental Disorders	$46,269,585	$47,944,503	$41,739,092
Endocrine and Metabolic	$46,476,907	$42,343,390	$30,761,522

Source: HBF claims data, 1 April to 31 March
Data includes accommodation, prostheses, medical, and other hospital and medical services

Chairman's report.

2020 achievements:

- Continued high standard of service despite COVID-19
- Cancellation of 2020 premium increase
- $1.05 million in assistance to members experiencing financial hardship (as at 30 June 2020)
- Lowest percentage of complaints relative to market share
- Reduction in waiting times for members
- Strengthening of the Board with the appointment of Diane Smith-Gander
- Launch of HBF Dental Services Pty Ltd

HBF continued to deliver essential healthcare outcomes for our members while prudently managing the business...

Tony Crawford
Chairman

During one of the most challenging financial years for all Australians and in line with our purpose, vision and values, HBF continued to ensure our members were at the heart of every decision we made. Working through the impacts of the COVID-19 pandemic, HBF continued to deliver essential healthcare outcomes for our members while prudently managing the business to ensure its continued sustainability and support our growth and transformation journey.

Management has played a critical role in facilitating HBF's response to the challenges impacting the community and alongside extending our hardship options to ensure all members could access assistance should they need it, our most significant decision during the year was to cancel the 2020 premium increase – supporting our member-owned ethos.

While it is too early to ascertain the true impact of the pandemic on member claims, HBF's long-term sustainability is underpinned by our ability to manage our underwriting result and investment returns.

The underwriting result for 2020 has fallen slightly from the previous year, driven by declining premium revenue and claims, although claims have declined at a slower rate. Factors impacting premium revenue include a slight reduction in membership, the cancellation of the 2020 rate increase, our COVID-19 hardship assistance measures, and members choosing lower tier products which better suit their needs. Claims experience is also influenced by membership numbers and a shift towards lower tier products, along with strong hospital contracting outcomes (resulting in lower average claims costs) and a continued focus on reducing claims fraud and overcharging.

Additionally, and despite the uncertainty in global financial markets, decisions to reduce HBF's equity exposure insulated HBF from downside market impacts and resulted in a favourable investment return for the year – as explained by the comments included in this report by Mark Barnaba, the Chair of our Management Investment Committee.

HBF is committed to honouring its promise to our members and will return any extraordinary profits resulting from the impacts of the pandemic under guidance from our Appointed Actuary. We expect claims utilisation to continue increasing and normalise over the six months from July, which is supported by the fact approximately 90 per cent of our members reside in Western Australia, where social restrictions have eased faster than other parts of the country.

Member experience remains one of HBF's highest priorities and despite the many challenges, Ombudsman data once again confirms that, of the major funds, HBF receives the lowest percentage of complaints relative to our market share. Our service delivery also improved during the year, with member contact average wait times reducing and supporting channel of choice through increased interactions through chat and emails compared to telephone. The outstanding efforts of our employees also contributed to HBF's net promoter score improving, a significant achievement considering the external environment.

As part of HBF's commitment to improving member experience, during the year a significant amount of work was undertaken in response to recommendations which emerged from our Member Promises Review. This voluntary review, undertaken in the first half of 2019, is an important step to advancing the maturation of HBF's organisational risk and accountability culture and aligns with our corporate objectives and strategic outcomes. The implementation of the review recommendations resulted in a positive remediation impact on more than 60,000 of our members – reinforcing our promise to do the right thing.

During the year, HBF continued to strengthen its governance arrangements and in May 2020 we welcomed Diane Smith-Gander to the Board. Diane is a prominent West Australian and brings significant experience in the areas of economics and governance to the Board. Diane also serves on the boards of a broad range of organisations and is a strong advocate for diversity and inclusion. The appointment is timely as the regulatory activities and oversight from various regulators including APRA, ASIC and the ACCC, along with community expectations, continue to increase.

As I reflect on the 12 months just gone, and we embark on a new year, our members' health and experience while delivering value remain at the forefront of our strategic vision and plan for growth. Our plan to open our own HBF-branded dental clinics is a significant step towards delivering on our strategy. I would like to thank my fellow Non-Executive Directors, John Van Der Wielen, the Executive Team and all HBF employees for their significant efforts and commitment in progressing our strategy and helping deliver to our one million members in the moments that matter.

Tony Crawford
Chairman

CEO's report.

- Rated by CHOICE as the number one fund in Australia for its COVID-19 response
- Improved member contact experience across our communications channels during WA's COVID-19 'lockdown'
- $41 million to assist members and the community due to COVID-19
- New Extras product suite
- Launch of our Melbourne kiosks as we transform into a truly national insurer – with an east coast marketing campaign featuring a family of cheeky quokkas
- Refreshed mobile app

Our ability to continue to provide support to the community is underpinned by rigorous financial discipline...

John Van Der Wielen
Managing Director
& Chief Executive Officer

Overview

I commence my report with the obvious statement that it has been a year like no other. The Global Financial Crisis seems like a distant memory and we are now confronted with COVID-19. HBF has survived many challenges in its 80-year history and I want to assure members that COVID-19 will be no different.

Federal and State Government actions in response to the COVID-19 pandemic resulted in the short-term reduction of elective surgery and a focus on COVID-19 in the public health system. The pandemic also fixed people's attention on the value on both the public and private health systems. HBF took rapid decisions during COVID-19 to assist its members, its people and the broader community. We are particularly proud of how we stood out from others in our ability to service members, support government, and present the benefits of a not-for-profit fund.

Even before the COVID-19 pandemic derailed the financial year, the affordability of private health insurance remained a concern for many Australians. Over several years, HBF has taken steps to minimise premium increases and our proposed government-approved premium increase for 2020 was the lowest of Australia's 37 health insurers at 1.98 per cent. When the financial impacts of the pandemic and the slowing of the economy became apparent, we announced we would cancel our April 2020 premium increase, a move supported by government and commended by consumer advocacy groups. CHOICE rated HBF the number one fund in Australia for its COVID-19 response.

Supporting our members through the pandemic remained a high priority for HBF, so in response we extended our existing conditions where we offer support to members in hardship by offering to freeze their cover and retain length-of-service benefits, while members in financial distress were able to access premium relief measures for up to nine months. Members were also able to utilise a range of telehealth services, including clinical psychology, occupational therapy and speech pathology.

Like so many businesses in our community, our operations were severely impacted by control measures mandated by State Governments, which caused the closure of our branches and the relocation of our employees to their homes. Despite continued disruptions, we improved our member contact experience across our communication channels, which was reflected in strong net promoter scores for the period.

As one of the most respected and trusted businesses in Western Australia, HBF maintains strong ties with the community and throughout the years we have built, sponsored and promoted many major charitable events. We understand the impact our events have on these charities, so while we had to cancel the 2020 HBF Run for a Reason, we sought to ensure those organisations which planned to raise funds during the event, such as Lifeline, received much-needed financial support.

Additionally, in partnership with the Western Australian State Government, HBF contributed $2.5 million towards the DETECT Snapshot program, which sought to identify COVID-19 infection within the community through widespread testing of asymptomatic frontline workers, including those in health, education and retail.

Zero

per cent premium increase in 2020

2.1
Per cent investment return

$1.16b
In hospital claims paid

$1.48b
Total claims paid

88.6
Per cent payout ratio

More than 18,000 people were tested over a two-week period, and with no instances of COVID-19 identified, the government was able to confirm WA's success in containing the disease which enabled social restrictions to be eased.

We also took steps to build stronger relations with Indigenous Australians and partnered with Reconciliation WA to begin work on a Reconciliation Action Plan. We are committed to building stronger relations with Indigenous Australians and using our resources to help meet specific needs, particularly in Western Australia.

Financial performance

Our ability to continue to provide support to the community is underpinned by rigorous financial discipline. The ongoing management of our capital reserves is critical to the long-term stability of the fund. Investment decisions made during the financial year, which included a well-timed reduction in our equity exposures, resulted in HBF producing a positive investment return. HBF produced a 2.1 per cent investment return in a year when many organisations reported negative returns.

The impact of COVID-19 on the private health insurance sector has certainly caused several financial and forecasting complications. While the nation is focussed on guaranteeing insurers return any 'super profits' to policyholders, our experience has been that the hospital and ancillary claims utilisation rates have been higher, and sooner than expected. This phenomenon can be partly attributed to the geographical concentration of HBF members residing in Western Australia, where social distancing restrictions have eased earlier than other parts of the nation. HBF members in WA, who were previously prevented from accessing surgical services, are now able to access all services.

We have taken a provision in the accounts, based on historical utilisation rates, to ensure claims expenses related to the 2020 financial year do not impact 2021.

Once the final position has been validated by our Appointed Actuary, this approach will enable us to easily and transparently quantify any excess premiums which will allow us to, once claims experience is known, deliver on our promise that our members will be the beneficiaries of any surplus funds arising from the pandemic.

Claims management continues to be strengthened by the improved outcomes resulting from the realignment of dental benefits to industry standard as implemented in previous years. HBF paid more than $217 million in dental claims, and more than $555 million in orthopaedic, cardiovascular and digestive procedures alone. The total amount of claims paid for members receiving hospital treatments during the year was in excess of $1.16 billion, while total claims paid was $1.48 billion, resulting in a payout ratio of approximately 88.6 per cent.

The results also identify an increase in operating costs driven by the implementation of strategic initiatives including our east coast campaign, which is resulting in net policy growth for the first time in many years. We continue to invest in our technology transformation, which pleasingly resulted in the release of the new HBF member mobile application. The application is a market-leading technology development that allows members to claim online and access their historical information.

What lies ahead

HBF has launched an east coast business to diversify our membership base. A new campaign introducing our brand to the rest of Australia is producing some exciting results. It is based upon a quintessential West Australian icon – the quokka. Our quokkas have taken up residence at our new Melbourne office and have been successfully leading the charge in showing the east coast community our unique brand of health insurance.

Our strategic plan also includes exploring new business opportunities to deliver improved experiences for our members. A significant achievement of 2020 has been the decision to establish HBF-owned Member Plus dental clinics in Western Australia.

With the support of our Board, we have entered into an agreement with Pacific Smiles Group – experts in dental clinic management – and expect the first HBF Dental clinics to open early in the new year. The management team and I will continue to implement the strategic plan, with a firm view on enhancing the experience for our members and new customers.

The journey to transform our ageing technology platforms, to ensure members receive an enhanced experience and our ever-increasing regulatory requirements continue to be met, is well underway. We expect the transformation program to improve organisational performance across a significant portion of our business, with members the beneficiaries of improvements such as enhanced access to services, a better understanding of our products and other offerings, and superior customer service.

Our efforts in delivering such service have, once again, been validated by data published by the independent Ombudsman, which shows that of the top five private health insurance funds, HBF leads its peers in terms of its low complaints ratio – which will remain a focus into the future.

Our Executive team was further strengthened with the appointment of Amy Stanley as Executive General Manager People and Corporate Affairs. For the first time in its history, HBF now has an internal Appointed Actuary; Johannes Boshoff joined HBF from the large South African health insurer Momentum Metropolitan Holdings.

We will continue to invest in the best people, and a highlight of the year was the naming of Selina Torrance, HBF's Executive General Manager Member Experience, as Telstra Businesswoman of the Year (Medium and Large Business) in WA. As HBF is now one of only a few large financial institutions in Western Australia, our ambition is to become the employer of choice in financial services.

As a member-based organisation, HBF is focussed on delivering the best value to members by maintaining high payout ratios and exceptional customer service and providing our members with access to the most comprehensive medical services framework in Australia. We have achieved the lowest rate increases on average over 10 years while maintaining market-leading capital strength and we will soon have state-of-the-art technology systems to continue supporting our strategic goals.

We believe our strategic outlook and growth strategies will ultimately lead to HBF becoming the most sustainable and customer-centric private health insurance fund in Australia.

John Van Der Wielen
Managing Director &
Chief Executive Officer

Executive team.

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

1

Selina Torrance

Executive General Manager,
Member Experience

BBus, PGradDipHRM,
MBA, GAICD

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

2

Amy Stanley

Executive General Manager,
People and Corporate Affairs

BA (Hons), GradDipHR

Appointed 20 April 2020

Prior to HBF:
General Manager Human Resources and Corporate Affairs at ATCO Australia
Director Human Resources at Coca-Cola South Pacific

3

John Van Der Wielen

Managing Director and CEO

MBA, FAICD

Prior to HBF:
CEO at Friends Life UK and International
Managing Director Wealth at ANZ Bank
CEO at Clerical Medical and Halifax Life

4

Adam Stock

Executive General Manager,
Governance and Risk
Chief Risk Officer

MSc, PMIIA

Appointed 8 August 2019

Prior to HBF:
Partner at Deloitte
Head of Internal Audit, UK Government

5

Simon Walsh

Chief Digital and Transformation Officer

BEng (Electronic), MBA, GAICD

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

Prior to HBF:
Managing Director at Bankwest
Head of Group Strategy and Mergers and Acquisitions at HBOS Australia
Chief Information Officer at P&N Bank
Executive Manager Customer and Corporate Services at Western Power

6

Donna Carrington

Chief Financial Officer

BCom, CA

Appointed 16 September 2019

Prior to HBF:
Partner at Deloitte

Financial performance.

2020 highlights.

$34.7m
Investment income

2.1 per cent
Net return

> **The impact and disruption of the COVID-19 pandemic on economies and investment markets could not have been predicted, however, HBF was well positioned...**

Mark Barnaba
Chair, Management Investment Committee

As Chair of the Management Investment Committee, I'm proud to report an investment income result of $34.7 million for the full year, corresponding to a net return of 2.1 per cent. This is a very strong result given events over the past 12 months and an investment environment in which Australian Equities returned -7.6 per cent and the RBA cash rate fell to an historic low of 0.25 per cent.

I would like to thank the Board and the Executive team for their support, in particular Brent Stewart (who serves on the Committee) and John Van Der Wielen, as well as the other members of the Management Investment Committee for an outstanding job.

Since the formation of the Management Investment Committee just over 12 months ago, the approach to making decisions and managing HBF's investments has progressively evolved, with a focus on generating higher returns within the approved risk appetite. Higher investment returns enable HBF to minimise premium rate increases.

There were two key decisions during the year which had a significant and favourable impact on HBF's investment performance. In October 2019, the decision was made to reduce exposure to equities by 50 per cent on the basis of increased uncertainty in the global economic environment and an underlying desire to reduce downside risk and maintain the stability of HBF's strong capital position. The impact and disruption of the COVID-19 pandemic on economies and investment markets could not have been predicted, however, HBF was well positioned and avoided significant losses when equity markets fell by as much as 35 per cent in February and March 2020.

The unprecedented speed and severity of the pullback contributed to the decision in mid-March to begin to gradually increase exposure to equities. This decision was made with a long-term view and the belief that the measures put in place to support economic repair and recovery would also support and stabilise investment markets. The sharp rally which has occurred since late March has meant that the decision to re-allocate to equities has proved beneficial to performance, although the level of volatility and risk continues to be closely monitored.

Within a COVID-19 environment of unknowns and uncertainty, the Management Investment Committee continues to meet frequently and focus upon the investment strategy. Ensuring that the return generated by HBF's balance sheet is optimised whilst minimising risks remains a key focus and increasingly important in an environment characterised by low interest rates and heightened levels of volatility.

Mark Barnaba

Mark Barnaba
Chair, Management Investment Committee

About HBF

HBF is a not-for-profit organisation incorporated under the *Corporations Act 2001*, and a private health insurer under the *Private Health Insurance Act 2007*.

Founded in Perth in 1941, HBF has provided private health insurance to generations of Western Australians. Today, HBF is Australia's second-largest not-for-profit health fund, providing hospital, ancillary and general insurance to more than one million members nationwide.

Summary Group income statement

	2020 $'000	2019 $'000	Change %
Premiums	1,631,004	1,685,583	(3.2%)
Net claims*	(1,477,268)	(1,503,068)	1.7%
Underwriting expenses	(158,074)	(154,366)	(2.4%)
Underwriting result	**(4,338)**	**28,149**	**(115.4%)**
Commission income	12,414	15,285	(18.8%)
Other non-operating revenue	4,046	5,437	(25.6%)
Net investment income	34,675	65,939	(47.4%)
Other operating and administration expenses	(7,985)	(21,129)	62.2%
Profit for the year	**38,813**	**93,681**	**(58.6%)**

* Includes claims handling expenses

Generating a net profit in 2020 should not be overlooked, despite the decrease from the surplus generated in 2019. In delivering this result, we have invested $13.7 million in assisting our members and community during challenging times, and our investment management has delivered returns of 2.1 per cent, significantly in excess of Australian equities returns of a negative 7.6 per cent and Reserve Bank of Australia interest rates of 0.25 per cent.

It is important to note that the result for the year ended 30 June 2020 includes a provision of $94.3 million for the claims that were deferred due to COVID-19 elective surgery shutdowns and government control measures. These claims are still expected to be incurred on behalf of members.

Premiums decreased by $54.6 million (3.2 per cent), due to a combination of:

- Cancelling premium increases in April 2020, delivering $9.4 million directly to our members in the current financial year, with a further $28.1 million to be delivered next financial year, consistent with our commitment to being there for our members in the moments that matter;
- Financial hardship support offered to our members in response to COVID-19 of $1.05 million;
- An increasing trend towards lower tier products by members, consistent with a trend across the private health insurance industry, lowering the average premium paid by members; and
- The continuing impact of a decline in the membership base driven by industry-wide affordability concerns, and the previous decisions by HBF with respect to removing incentives and exiting the sale of policies by brokers.

Consistent with HBF's strategy to generate profitable growth and diversify the membership base from Western Australia, HBF expanded its focus nationally in the latter part of 2020. In addition, management has been focussed on actions that generate better outcomes for members and address HBF's competitiveness in the market, including but not limited to maintaining low rate increases and improved product offerings. Both the national expansion and improved competitiveness have driven improving sales trends over the last quarter of FY20 that are expected to continue and will increase the membership base in future years.

Nationally, the health insurance market reduced marginally (0.7 per cent), while HBF's West Australian and national market share fell to 49.9 per cent (2019: 51.7 per cent) and 7.3 per cent (2019: 7.5 per cent) at 30 June 2020.

HBF's health insurance business contributed 99.0 per cent to the Group's total revenue (excluding net investment income) in 2020, with almost all revenue generated from health insurance policies sold to Australian residents and only a small amount generated from overseas visitors' health cover policies.

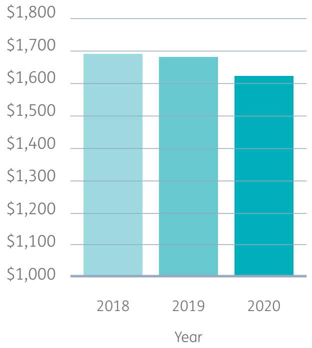
Net claims incurred by HBF members represented 88.6 per cent (2019: 87.2 per cent) of health insurance premium revenue in 2020, down $25.8 million (1.7 per cent) on 2019 to $1.48 billion.

The key drivers behind the decrease in net claims expense were:

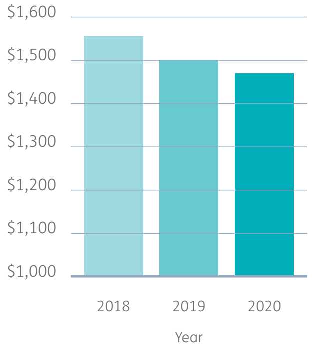
- An increase in members choosing lower level Hospital products and products with an excess;
- Hospital contracting outcomes lowering average claims costs; and
- A concerted focus on reducing claims fraud and overcharging.

Underwriting expenses increased 2.4 per cent ($3.7 million) on 2019. The main reasons for the increase are HBF's investment in growing nationally ($10.2 million) and higher employee costs ($4.8 million) as we build capability and capacity of the workforce to deliver strategic initiatives.

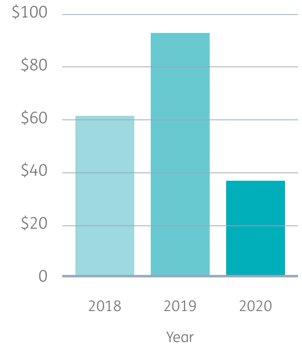
Premiums
(millions)



Net claims
(millions)



Profit for the year
(millions)



These increased costs were partly offset by a reduction in strategic project costs as the transformation program transitioned from the research and planning phase to development, with a significant proportion of costs incurred during development capitalised as Intangible Assets.

Other operating and administration expenses decreased by $13.1 million (62.2 per cent) from the last financial year. In 2019, HBF set aside a Corporate Social Responsibility Fund ("CSR Fund") of $4.2 million to be drawn on in future years. This one-off initial funding supported initiatives such as the DETECT Snapshot program and donations to organisations such as Foodbank WA, The Salvation Army, Anglicare WA and Silver Chain during 2020. The CSR Fund will be maintained at appropriate levels going forward, but there is no related expense in 2020. As we disclosed last year, HBF is committed to 'doing the right thing' by our members, with a major part of this being our 'Member Promises Review' program. In FY20 the costs of the Member Promises Review were $6.3 million lower than 2019, reflecting the progress and maturity of the program.

Commission income is earned by HBF from the sale of general and life insurance products to its members. HBF general insurance products are underwritten by Insurance Australia Group Limited (IAG), while the life insurance products are provided by Zurich Financial Services Australia Limited (Zurich).

Commission income decreased by $2.9 million (18.8 per cent) primarily due to restructuring commission agreements with both IAG and Zurich. HBF accepted a lower commission rate from IAG in order to keep premiums lower and address affordability following the removal of the multi-policy discount. In addition, HBF sold the Future Trail Commissions relating to the life insurance portfolio to Zurich and amended the distribution agreement to only receive an up-front commission on life insurance.

Other revenue decreased by $1.4 million (25.6 per cent) during the year primarily due to the prior year's recognition of the profit on sale of the Group's investment in Whitecoat Operating Pty Limited.

Net investment income decreased by $31.3 million (47.4 per cent) to $34.7 million in FY20 following the emergence of COVID-19 and the significant economic consequences of this global pandemic. Significant shocks were experienced in equity markets, and cash rates have been reduced to historical lows as a result of those economic consequences. The decision to de-risk the equities portfolio in October 2019 and the opportunity to gradually reinvest in Australian equities from March 2020 have enabled HBF to deliver returns of 2.1 per cent of the year, outstripping benchmark results as set out in the commentary from the Chair of the Management Investment Committee, Mark Barnaba.

HBF continues to be well capitalised and in a strong financial position. At 30 June 2020, net assets exceed both the Australian Prudential Regulation Authority's (APRA) Minimum Capital Requirement and HBF's internal capital requirement of 1.4 times the Minimum Capital Requirement. As a not-for-profit health fund HBF does not have access to capital markets and consequently holds a higher level of capital to ensure members' needs are protected in the short and long term. In doing this, HBF looks to maintain a balance between providing value to members and maintaining the financial strength of the fund. This will continue to be monitored as capital is invested in the delivery of the strategic initiatives.

Group financial position and capital management

	2020 $'000	2019 $'000	Change %
Assets			
Cash and cash equivalents	62,334	57,642	8.1%
Receivables	76,547	92,292	(17.1%)
Financial assets at fair value	1,732,972	1,635,783	5.9%
Property, plant and equipment	25,296	26,147	(3.3%)
Intangible assets	41,291	3,380	1121.8%
Assets held for sale	98,801	105,488	(6.3%)
Deferred acquisition costs	5,665	11,804	(52.0%)
Total Assets	**2,042,906**	**1,932,536**	**5.7%**
Liabilities			
Insurance liabilities	518,487	439,386	(18.0%)
Trade and other payables	30,209	39,016	22.6%
Employee benefits	13,832	12,633	(9.5%)
Total Liabilities	**562,528**	**491,035**	**(14.6%)**
Net assets	**1,480,378**	**1,441,501**	**2.7%**
Equity			
General reserve	111,513	111,513	0.0%
Retained earnings	1,353,221	1,314,408	3.0%
Asset revaluation reserve	15,644	15,580	0.4%
Total Equity	**1,480,378**	**1,441,501**	**2.7%**

During the 2020 financial year, HBF's net assets increased by $38.9 million (2.7 per cent). The major balance sheet movements during the year were:

- A $97.2 million increase in financial assets that has been driven in part by the gains in the investment portfolios, as well as the cash impact of the COVID-19 deferred claims, which has been invested in term deposits and equities;
- The $37.9 million increase in intangible assets is related to the investment in HBF's transformation program; and
- A $79.1 million increase in insurance liabilities is primarily due to the recognition of the deferred claims liability of $94.3 million. Restrictions on medical services and social distancing requirements introduced by the Australian Government in March 2020 in response to COVID-19 have affected claims by HBF members between March and early June 2020. During this time members were unable to access a range of Hospital and ancillary services.

The deferred claims liability is calculated with regard to the claims that were expected to occur during the current financial year but did not eventuate and assumes that 100 per cent of the deferred claims will return. The unearned premium liability and outstanding claims liability reduced by $7.2 million and $8.0 million respectively.

Strategic overview.

HBF's purpose, vision and values form the foundation of our strategy and articulate our commitment to put our members' interests first.

Our purpose
Why we exist as a business

To deliver for our members in the moments that matter

Our vision
What we want to be

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

Our values
How we behave

MEMBERS ARE OUR REASON

WE ARE BRAVE

WE DO THE RIGHT THING

WE WORK AS ONE

HBF's strategy is to leverage our strengths as a well-capitalised, member-centric, not-for-profit organisation to transform into a highly competitive national health insurance provider. We will support the core private health insurance business by diversifying into new services that enhance member satisfaction and deepen member relationships.

Below is a summary of key activities and achievements over the past year.

Optimise and grow

Our aim is to grow and improve our competitiveness to become a world-class provider of health insurance products, making private health insurance more affordable and creating a high-quality, seamless experience for HBF members.

Focusing on affordability
HBF was poised to implement the lowest premium increase of all health funds in 2020 (after the second lowest increase amongst competitors the year prior) but, recognising COVID-19 was significantly affecting the financial security of our members, we instead cancelled the increase altogether.

We continued our efforts to negotiate better pricing from major hospital groups and address claims leakages (including fraud), which will help keep future premium increases as low as possible.

Better products and services
In February 2020, we launched a new suite of Extras products designed to give members greater flexibility, choice, control and value. Developed in response to member feedback, HBF's suite of products is competitive and affordable.

In March 2020, we launched an improved HBF app, designed to make it simpler and easier for members to manage their health cover. It offers a more convenient claims process and the ability to track remaining benefits for the calendar year.

All of our Hospital insurance products complied with the Federal Government's gold, silver, bronze and basic categorisation by the time the new tiers were adopted in April 2020.

HBF Health Navigator launched in January to support vulnerable members managing chronic illness and those at risk of avoidable hospitalisations. Providing individualised and co-ordinated care, Health Navigator has assisted almost 250 members to date. The Coach Program, now its 11th year, provides telephone support for eligible members following a heart procedure and those who are managing type 2 diabetes; 337 members received coaching from HBF's experienced team in 2020.

Our strategy

How we get there

Optimise and grow our core business

Diversify our business

Enhance our capabilities

55,778
Free flu vaccinations

1,026
Permanent employees
(as at 19 August 2020)

For our members
HBF membership includes access to a range of discounts, wellbeing incentives and free health services to improve members' quality of life.

Our free outdoor exercise classes in 18 metropolitan and four regional sites attracted 14,565 registrations in Spring 2019 and Summer 2020. Unfortunately, the Autumn season had to close to comply with COVID-19 restrictions.

HBF includes flu vaccinations as a claimable service for most members and in 2020 we paid for a record number of vaccinations before winter even began. By the end of the financial year, we had delivered (through the Pharmacy 777 network) 55,778 free flu vaccinations to HBF members – a significant rise from previous years (36,708 in 2019; 27,956 in 2018), likely due to heightened awareness in the community during the COVID-19 pandemic and people seeking the vaccination earlier in the flu season.

Responding to the difficulty in accessing some ancillary services during the COVID-19 lockdown, HBF introduced temporary benefits for eligible members for psychology, clinical psychology, physiotherapy, exercise physiology, podiatry, occupational therapy, speech therapy, dietetics and nutrition services delivered via phone or video channels.

Our people
With just over 1,000 permanent employees, a high-performing workforce is critical if HBF is to be there for members in the moments that matter. Developing a strong employee value proposition will be a key focus in 2021 to attract and retain the best people to lead HBF through its strategic transformation program and achieve our vision to be Australia's most trusted and valued member-based organisation.

Enhance capabilities

Our aim is to build world-class capabilities in our workforce, core insurance processes and technology.

HBF's transformation program is in full swing, with investment in new technology and capabilities advancing at a rapid pace. This whole-of-business change program will replace our ageing technology platform, providing new business capabilities and internal efficiencies and a more secure, intuitive and personalised service for members.

Key areas include:

Transforming HBF's member-and employee-facing systems, including the new mobile app, refreshed HBF website and new CRM (customer relationship management) system, which includes a new myHBF self-service member portal

Transitioning our data platform, enabling faster and more informed business decisions

Upgrading our core health insurance technology for policy administration, claims processing, finance and medical provider interactions that will allow us to deliver claims services more efficiently

Diversify

Our aim is to grow HBF nationally and create new streams of business to provide a range of products and services for members across Australia.

Member access to a larger network of pharmacies
HBF sold the Friendlies master franchise, under which 31 WA pharmacies operated, to Pharmacy 777 in August 2019 – uniting the two networks under the one brand. HBF's alliance with Pharmacy 777 doubled the number of pharmacy clinics servicing HBF members, enabling us to make important services like health checks and flu vaccinations accessible to many more members.

Expanding nationally
2020 marked the start of a new era for HBF as it hired its first employees outside of Western Australia and established an office in Melbourne.

Our team has been working hard to increase HBF's interstate profile, and in February a new marketing campaign was launched featuring a family of quokkas – a quintessentially Western Australian marsupial.

The east coast-specific campaign addresses pain points experienced by many health fund members and highlights HBF's key points of difference, including our decision to cancel the 2020 premium increase. The campaign is generating new policy growth and has positioned HBF as a serious challenger in a cluttered insurance market.

HBF kiosks opened in three of Melbourne's major shopping centres at the end of June, although the resurgence of COVID-19 forced these to close.

HBF dental
In the next financial year, establishing HBF-owned dental centres in the Perth metropolitan area will be an important step in the diversification of our business and an increase in value to members. In July 2020, an agreement was signed with Pacific Smiles Group to establish and manage HBF-branded dental clinics, the first of which are expected to open early in the new year. Our Member Plus benefits will be available through Pacific Smiles-branded clinics on the east coast.

Beyond health insurance, we continue to offer general insurance and life insurance products to members, as we know the convenience of holding multiple insurance products with one provider is highly valued.

Risk management
The HBF Board is ultimately responsible for HBF's Risk Management Framework, and for the oversight of its implementation and operation by management. The Board is supported in this role primarily by the Risk Committee and the Audit Committee. A dedicated Risk function supports the implementation of risk management processes across HBF.

Through the year, the Board approved revisions to HBF's Risk Management Framework (RMF), which includes the Risk Appetite Statement (RAS) and the Risk Management Strategy (RMS). In combination these documents set out HBF's approach to identification and assessment of risk, the parameters under which risk is to be taken to achieve strategy, and how those risks are managed.

Impact of COVID-19 to HBF's risk profile
This financial year saw a pandemic event which challenged many companies, including HBF, in different ways. HBF's risk management procedures continued to operate through COVID-19, with the Board, Risk Committee, Executive Management team and APRA receiving regular updates on HBF's operational (business continuity) response and the potential implications to HBF's strategy.

Operationally during the pandemic, HBF was successful in maintaining continuity of member services by distributing our workforce. Despite the disruption, during the height of the pandemic we observed higher member service levels, less unplanned leave, and no recorded cases of COVID-19 within our workforce. We achieved this by being able to retain our employee workforce, a principle adopted for our pandemic response, and to redeploy workers where their skillsets were most needed. This was most evident when we closed our branch network and redeployed branch staff to our Member Contact Centre.

There continues to be uncertainty resulting from the COVID-19 outbreak and the response of Federal and State Governments in dealing with the pandemic. This uncertainty has led to impacts on the economic outlook, consumer activity levels, the affordability of private health insurance, member claims, and driven significant volatility in global financial markets. The scale and duration of these developments remains uncertain. HBF could be impacted by future outbreaks of COVID-19 and will continue to focus on supporting our members and the community whilst managing and responding to these.

Material business risks

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

Zero

Cases of COVID-19 within our workforce

Risk category	Risk management approach
Strategic risks There is risk inherent to the PHI industry, the broader financial sector, and in the macro-economic environment which may impact HBF's ability to achieve our strategic objectives. This year's COVID-19 pandemic placed increased pressure on the wider economy, including the affordability of PHI. The impact from COVID-19 on the broader economy has the potential to delay the timing for HBF to deliver key strategic initiatives, including national growth across our policy base and diversification of HBF's core business.	*HBF identifies and assesses strategic risks as part of the annual strategic and business planning processes.* *Initiatives are underway to manage these risks, including the launch of HBF in the eastern states and diversification into adjacent business lines such as the recently announced dental agreement with Pacific Smiles Group.* *In addition to these initiatives, HBF has commenced a multi-year technology transformation to replace ageing technology. This program will deliver a more advanced and intuitive digital experience and seamless claims processing that provides an enhanced member experience and supports growth objectives.* *In their consideration of strategic risk, the Board confirmed that HBF's current business strategy remains relevant.*
Operational risks From time to time, internal processes and control failures may lead to financial loss, reputational damage or a less than optimal member experience. Like many companies, HBF faces operational risks from technology and cyber vulnerabilities, employee health and safety incidents, outsourcing of business processes, business disruption and regulatory or policy non-compliance.	*HBF has established risk management processes, supported by a Board-approved risk management framework, that are designed to identify, assess, treat and report operational risks.* *HBF continues to operate its quality assurance, risk monitoring and oversight, and internal audit procedures which are designed to ensure effective risk management and to enable continuous business improvement.*
Financial risk HBF is exposed to financial risk through its investment portfolio, the need to maintain minimum levels of cash assets and capital reserves, and through the buying and claiming patterns of our insured member base.	*HBF limits its exposure to financial risk through rigorous investment disciplines set out within the Group Investment Policy, which are administered by the Management Investment Committee.* *To ensure satisfactory levels of cash and capital, the Board has established minimum liquidity and capital holding requirements, which are set out within the Risk Appetite Statement and Capital Management Policy. Adherence to these requirements is measured monthly.*
Insurance risk HBF's core insurance activities primarily involve the underwriting of policies and claims management. The combination of PHI participation in the community, claiming patterns of members, competitiveness of products and the composition of the member base has the potential to create risk in HBF's insurance business.	*For HBF to achieve sustainable profitable growth in the delivery of PHI to members, insurance risk is managed across product development, product pricing, and claims management.* *Together these elements ensure we balance the composition of our existing policy base (through retention, lapse and cancellation management), sales (by acquiring new policies and switchers from other funds), and claims (to achieve a sustainable underwriting margin).* *HBF's Health Strategy is an important initiative which introduces programs intended to improve member health outcomes.*

Risk category	Risk management approach
Member promises risk At HBF, we aim to conduct business impartially and ethically, ensuring integrity in our business practices at all times to protect our members and the broader community. When dealing with our members, it is possible that on occasion we have not done, or may be perceived to have not done, the right thing.	*As part of our commitment to better member outcomes, we have developed a Code of Conduct to ensure all staff have a clear understanding of what acceptable conduct means and to ensure we are 'doing the right thing' by members.* *During the year we made a significant investment in understanding any potential conduct-related vulnerabilities in our business, continuing the 'Member Promises Review' which commenced in the previous year. If we find we have fallen short, we will always correct our mistakes.* *A number of recommendations from the review were implemented to improve processes and to reinforce the importance of professional and ethical business practices.*
Regulatory risk HBF operates in a highly regulated sector of the financial services industry. There continue to be changes in the prudential standards framework within which HBF operates, and the recent royal commission outcomes (into the banking sector) are an indicator of the expectations for all financial services companies. Being compliant is an expectation. From time to time, however, there is a risk HBF may not fully meet (or be able to demonstrate it has met) all prudential requirements. HBF accepts that to operate as a PHI carries a level of sovereign risk, whereby the government of the day has control over policies and legislation which govern the financial services and private health insurance sector directly or indirectly.	*HBF structures its business across the 'three lines of defence' risk assurance model to implement its risk management and compliance frameworks.* *Accountability for compliance with prudential standards is allocated across functional lines (first line) and it is required that compliance against the standards is demonstrated annually.* *This position is validated by the second line of defence (from within the Compliance function).* *The extent of regulatory and policy change, and the impact to HBF, is monitored by HBF's Legal and Compliance functions, and the assessed risk confirmed with the Risk function.*
Technology and data privacy risk To provide our core insurance services, we collect, process and manage significant amounts of personal and sensitive health information. Protecting this information from internal and external threats is critical if HBF is to protect its reputation. Like all companies, HBF must continue to be vigilant to ensure its systems protect against the ever-evolving threat of cyber attack. These threats continually evolve and there is a risk that vulnerabilities are exploited in HBF systems.	*HBF adopts leading information security practices in its technology architecture and in its approach to system design.* *This year, a cyber-improvement program was approved by the Board to further uplift HBF's technology controls within the technology transformation program.* *HBF has a Privacy Office and has implemented a Privacy Impact Assessment (PIA) process which is used to identify and assess initiatives planned or underway from an information privacy and data protection perspective.*

Corporate social responsibility.

As a trusted, not-for-profit organisation, we recognise that we must be more than just a well-managed health insurer for our members.

With the COVID-19 pandemic causing the greatest health and financial crisis in a generation, never has it been so important to show we are an intrinsic part of the community and a key player in the health infrastructure of our home state, Western Australia.

We commit to four core principles in our corporate social responsibility (CSR) activities. These are fundamental in realising our vision of becoming Australia's most trusted and valued member-based organisation:

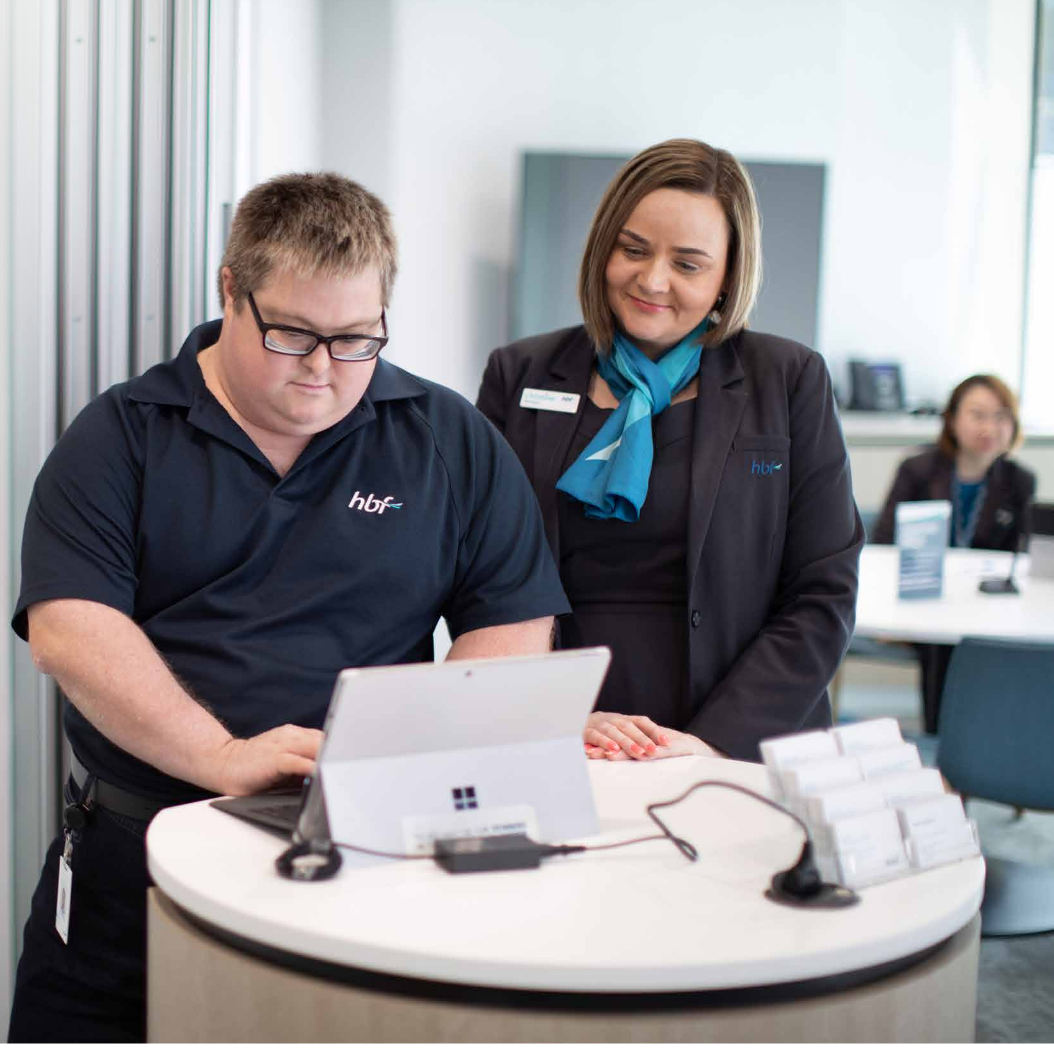
$50,000

To fund mental health services for fire and emergency services

1. Members

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

- **In January 2020, we announced a relief package** for HBF members affected by Australia's unprecedented bushfires as well as a $50,000 donation to fund counselling and mental health services for frontline fire and emergency service volunteers and employees.
- **As the financial impact of COVID-19 became apparent**, we were the only major health fund to cancel our approved 2020 premium increase. In addition, we provided a comprehensive hardship package to ensure members could maintain their health insurance coverage and by the end of May, 10,000 members had applied for our Hardship Waiver, Health Cover Protection provisions or to re-apportion their accrued GapSaver entitlements to help pay their premium. This package has been extended until 31 December 2020.
- **Our Member Promises Review** program thoroughly analyses all parts of our business processes and member service to ensure that, without exception, we meet our obligations to our most important stakeholders – HBF members. Where we find we have fallen short, we correct our mistakes, remediating where necessary. In 2019/2020, we remediated members who had received an incorrect multi-policy discount. This program has resulted in improvements to member experience, operational efficiencies, and compliance and risk.



77%

Overall staff engagement score

2. Our people

We provide employees with opportunities to thrive in a safe, supportive and respectful workplace.

Employee benefits include:

- **Competitive** remuneration
- **Salary packaging** options
- **Health** and general insurance discounts
- **14 weeks**' primary carer parental leave (in addition to the legislated 18 weeks)
- **Free HBF Fitness sessions**, annual health checks, flu vaccinations, weight loss and quit smoking programs, and 24-hour-a-day counselling and psychological support
- **Two volunteering days**. We also encourage our employees to give to our community through blood donation drives and workplace given programs, and offer two 'wellness days'.

We are proud to work with Down Syndrome WA, which has supported HBF in customising employment opportunities for people with disability. Business administration assistant Andrew De Domahidy works part-time to learn about and assist in various sectors of the organisation, and works closely with Chief Executive Officer John Van Der Wielen to raise awareness of the importance of diversity and different perspectives in the workplace.

Our strong financial position enabled HBF to retain all employees during the COVID-19 pandemic, when many other businesses were forced to cut working hours and retrench staff. As HBF branches were closed and our Kings Square headquarters operated on a skeleton staff, the majority of employees worked from home or in other locations and some roles were temporarily re-purposed. No taxpayer-funded government relief (JobKeeper) was accessed.

In May 2020, we recorded an overall engagement score of 77 per cent in a survey of our staff – 21 points higher than the same time in 2019. This places HBF in the top quartile of organisations measured and demonstrates that our efforts to keep employees connected and working flexibly during the pandemic had a positive impact.

UN sustainable development goals

An independent assessment has shown that we once again have achieved a `Very High' score for our sustainability contribution and that we are in the top six per cent of global companies for our contribution to the UN Sustainable Development Goals (UN SDGs).

In 2015, the 17 United Nations Sustainable Development Goals (SDGs) were adopted by 193 countries, including Australia. The SDGs provide a blueprint to put the world on a sustainable path to 2030 and address economic, social and environmental challenges.

Many of the SDGs are relevant to our business in some way, however, the assessment also showed that we contribute to the achievement of some SDGs more directly than others, as highlighted below: SDG 1 – No Poverty, SDG 3 – Good Health and Well-being, SDG 8 – Decent Work and Economic Growth and SDG 11 – Sustainable Cities and Communities.

We will continue to support the advancement of these SDGs through our various initiatives and programs related to corporate social responsibility.

HBF currently contributes predominantly to the achievement of SDG 1, 3, 8 and 11

Top 6 per cent

(of 18,500 registered global companies)

very high sustainability contribution score

3. Sustainability and environment

We operate as an environmentally – and socially-responsible not-for-profit organisation.

We:

- **Are committed to playing our part** to address the global challenge of climate change, which is a key element of our CSR program. This program is currently under development and includes a range of actions to reduce our environmental footprint and support a low-carbon future
- **Maintain the current five-star National Australian Built Environment Rating System (NABERS)** Energy Base Building rating at our headquarters in Perth and comply with environmental management system certification (ISO 14001) and the sustainable e-waste management standard (AS/NZS 5377)
- **Follow sustainable sourcing practices** where possible and measure our building waste and recycling efforts each month
- **Empower our people and members** to play their part in caring for the environment and reducing the amount of waste going to landfill

4. Community

We actively connect with and support the communities in which we operate.

- **We distributed $575,000 to nearly 170 WA charities** (including health organisations such as Cancer Council WA, Heart Foundation, Diabetes WA and Lifeline WA) which had hoped to fundraise through the 2020 HBF Run for a Reason (cancelled due to COVID-19). Our donations included a special $100,000 contribution to Lifeline WA to help it meet the unprecedented demand for its services at a time when many West Australians were experiencing severe mental stress

- **With COVID-19 placing additional pressure on many local charities**, HBF donated nearly $200,000 to assist four organisations which are recognised leaders in responding to areas of community need: Foodbank WA, The Salvation Army, Anglicare WA and Silver Chain

- **We donated $2.5 million** to fund the State Government's DETECT Snapshot program, for research and increased testing of frontline employees across a range of industries

- Our Chief Executive Officer, John Van Der Wielen, has joined the State Recovery Advisory Group, which provides advice to the government about restoring Western Australia's economy, supporting the community and building infrastructure to create jobs following the pandemic

- **Through our Community Partnership Program**, each year we partner with an organisation making a significant difference to the health of West Australians. HBF provides up to $300,000 over three years to each community partner in support of a particular program or initiative.

  In July 2019, HBF partnered with Red Cross Lifeblood to help establish WA's first public faecal microbiome transplant facility. The pilot program, scheduled to begin in 2020, will provide Fiona Stanley Hospital with a reliable supply of faecal microbial transplants to treat, and potentially cure, patients suffering from life-threatening recurrent Clostridium difficile infection.

  In April 2020, we received 21 applications from organisations seeking to become HBF's second Community Partner.

- **Each quarter, HBF allocates small grants of up to $10,000 to WA** organisations involved in community health initiatives. Since April 2019, we have provided $103,500 to 10 programs. Among them are groups supporting children with autism and Down Syndrome.

- **Four times a year,** HBF employees are invited to nominate a charity to receive up to $5,000 through our Workplace Giving program. Recognising the severity of the bushfires across Australia, our staff donated $17,000 in December 2019 to the Red Cross Disaster Relief Fund. HBF donated an additional $50,000 to fund mental health and general health initiatives for first responders in Victoria and New South Wales.

- **As naming rights partner** to the 24hr Fitness Challenge, HBF supported Fuller Fitness to raise $275,000 for Telethon. Thirty HBF employees also volunteered their time in the call centre during the weekend

- **HBF commenced work** on a Reconciliation Action Plan, with assistance from Reconciliation WA and Kambarang Services, to assist us in developing respectful and meaningful relationships with Aboriginal and Torres Strait Islander people

- **The HBF-created website Direct Advice for Dads** launched a weekly podcast in March, providing information and advice for new and expectant fathers, with a total of 36,723 unique downloads (11 May 2020)

- **We are proud to partner with VenuesWest** through the naming rights of HBF Stadium, HBF Arena and HBF Park, three of WA's premier sporting and recreation centres. Our partnership provides year-round member discounts and access to special offers to support them to live active and healthy lives.

  Ninety-eight sporting groups played and trained at these facilities and more than 12,700 training hours were logged by some of the state's top elite athletes during the last financial year. Nearly 50 public entertainment events were held.

$2.5m
Donated to
DETECT
Snapshot
Program

$200,000
To assist
Foodbank WA,
The Salvation Army,
Anglicare WA
and Silver Chain

$275,000
For Telethon
through the 24hr
Fitness Challenge

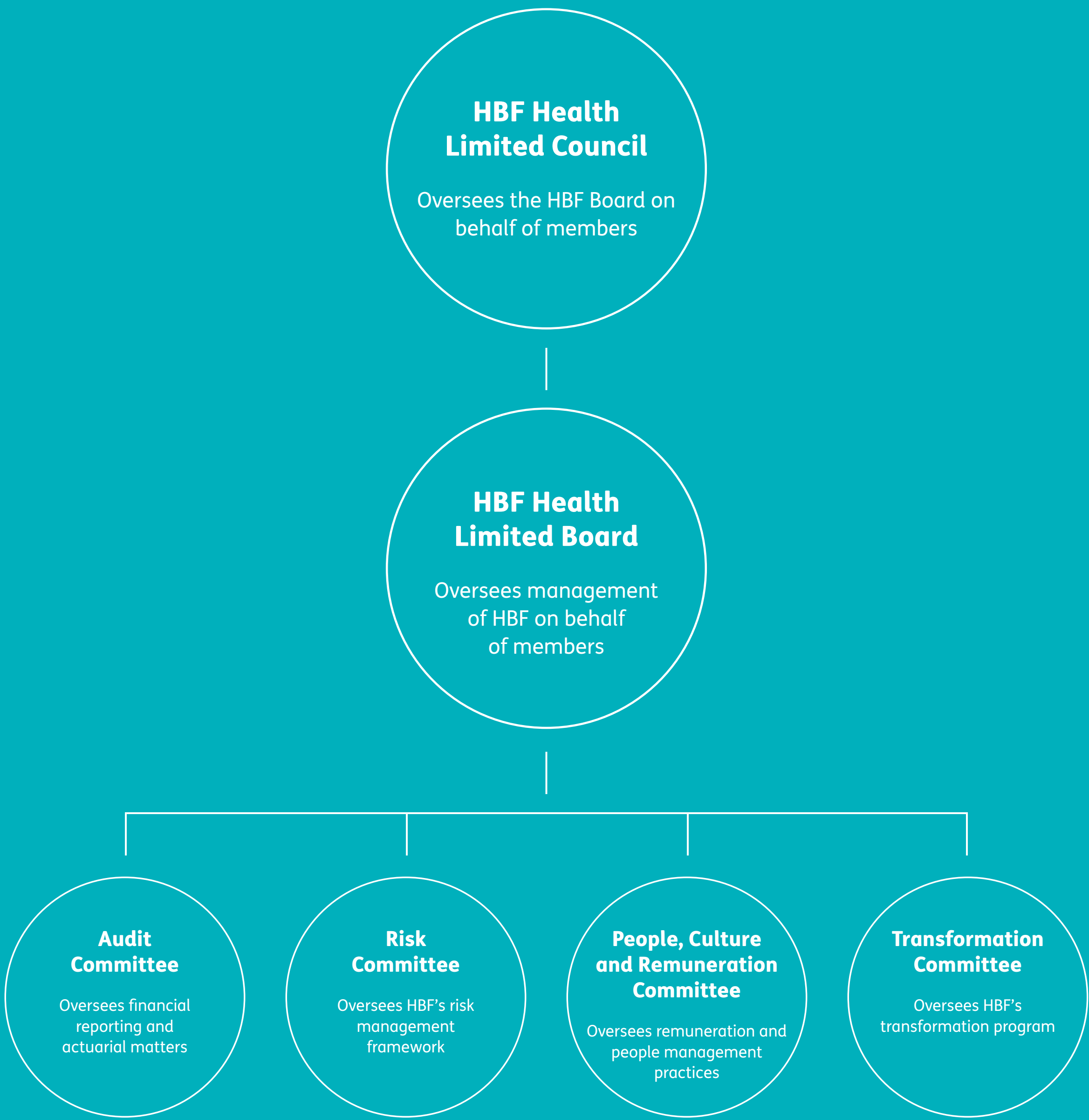
Direct Advice for Dads
Podcast launched

Creating a
Reconciliation
Action Plan

$300,000
Partnership with
Red Cross Lifeblood

CEO part of the
WA State Recovery
Advisory Group

Governance report.



HBF is committed to aligning itself with best practice corporate governance principles such as those found in contemporary Australian and international standards, and the Australian Stock Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations.

HBF applies these principles in a manner consistent with its governance structure and status as a not-for-profit membership organisation, to lay solid foundations for management and oversight of operational activities, promote ethical and responsible decision-making, and to structure the Board to add value while identifying and managing risk.

Governance structure

HBF has established a Council of member representatives, which, together with the Board of Directors, plays an important role in the oversight, governance and performance of HBF. Corporate governance processes are detailed in the *HBF Constitution*, *Governance Regulations* and *Board Charter* which are available on the HBF website.

Council

HBF is a membership-based organisation operating under mutual principles. Councillors are appointed as the 'formal members' of the company. The Council generally meets twice annually and its role is to ensure suitable persons are elected to Board positions, Director remuneration is appropriate and to oversee the long-term sustainability of HBF for the benefit of the organisation and its policyholders.

The HBF Council comprises:

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

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

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

Elected Councillors	General Councillors	Board Councillors
Anthony Evan	Jodie Hede	Rod Moore
David Brown	Steven Cole	Tony Crawford
Michael Gurry**	Jeff Dowling*	Richard England
Moira Watson	Fiona Kalaf	Brent Stewart
David Carvosso	Will Moncrieff	Helen Kurincic
Susan Milos	Valerie Davies	Gai McGrath††
	Peter Moore	
	Wendy Newman	
	Kenneth Perry	
	Tri Suseno	
	Brian Roche†	
	Stephen Jones†	

**Ceased role of General Councillor on 10 September 2019*
***Ceased role of General Councillor on 23 October 2019*
†Appointed to the role of General Councillor on 23 October 2019
††Appointed to the role of Board Councillor on 5 August 2019

Board

The HBF Board has overall responsibility for corporate governance of HBF Health Limited and its subsidiaries. This includes ensuring HBF complies with all legal and regulatory obligations including those required by the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), Department of Health (DOH), Services Australia and Australian Competition and Consumer Commission (ACCC).

The Board, through the application of good governance principles, is responsible for the effective oversight of the organisation and remains accountable to all members via the Council for the performance of the HBF. The Board and Board Sub-Committees meet regularly in accordance with an annual meeting schedule while additional meetings are called as required to deal with specific matters requiring attention. The Board also holds planning days to review HBF's strategic direction and set the context for development of the annual business plan.

Roles and responsibilities of the Board and management

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

Without preventing the exercise of any powers by the Directors, the *HBF Constitution* permits the Board to delegate any powers exercisable by it to the Chief Executive Officer. As such, the Board has established a delegation framework in which responsibility for the operational and administrative management of HBF has been given to the Chief Executive Officer. Specific responsibilities have been retained by the Board in the areas of strategy, governance, executive appointments, financial approvals and risk management.

Among other things, the Chair is responsible for leading the Board in relation to all corporate governance issues and providing support and guidance for individual Directors and the CEO. The Chair is also responsible for fostering a positive and constructive relationship with members and other stakeholders, while representing and communicating the Board's position on relevant matters.

HBF has a written agreement with each Director setting out the terms of their appointment, remuneration, time commitment, and other arrangements and obligations. Directors are expected to make effective and appropriate contributions in order to meet their fiduciary duties and enable the Board to perform its role effectively. The role of Directors is further detailed in the *Board Charter*. Directors must also comply with the duties imposed on them by the *Corporations Act 2001 (Cth)* and relevant regulations. Directors agree to be bound by the *HBF Code of Conduct* and the *Australian Institute of Company Directors Code of Conduct*.

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

Structure and composition of the Board

The *HBF Constitution* requires the Board to have a minimum of six and no more than nine members, of whom a majority must be independent, while allowing the Board to also appoint the Chief Executive Officer to be an additional director. As of the date of this report, the Board comprised an independent Non-Executive Chair, six independent Non-Executive Directors, and one Executive Director. Professional biographies for each Director, including their length of service, can be found in the Directors' Report.

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

Independence

When carrying out their responsibilities, Directors are required to ensure they are free from any interest or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the organisation. Directors must ensure they understand the business risks facing HBF and the frameworks and processes employed to mitigate and manage these risks. The Board assesses the independence of Directors on appointment and annually by an attestation by each Director. When reviewing the independence of Directors on an annual basis, the Board applies best practice principles and relevant criteria prescribed by APRA and other regulators.

Appointment and re-election of Directors

Directors are appointed, reappointed and removed from the Board of HBF in accordance with the *HBF Constitution*. The Board may appoint an individual to fill a Director vacancy by ordinary resolution for a term which expires on commencement of the next Annual General Meeting, after which the individual is eligible for election.

When a Board vacancy does arise, the People, Culture and Remuneration Committee identifies and assesses competencies which maintain the skills, experience and expertise required for the continued effective operation of the Board. When recruiting new Directors, and before recommending a candidate for appointment, checks are performed to confirm relevant eligibility criteria, including independence, have been met.

Director induction, education and access to information

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

All Directors have unrestricted access to organisational records and information during their tenure and after retirement for the longer of seven years or the completion of any action, enquiry or hearing in which they are involved, via an access and indemnity deed with HBF. Directors have unfettered access to the Chief Executive Officer, Executive General Managers, and the Company Secretary and regularly consult with and request information from management. Directors may also source external professional advice in respect of any matter connected with the discharge of their responsibilities as considered necessary, at the expense of HBF, subject to prior consultation with the Chair.

Board skills mix

The *HBF Constitution* requires the Board to have the necessary skills, experience and knowledge to guide the business of the HBF Group and in meeting its legal and prudential obligations. This may include collective skills, experience and knowledge in the areas of health services, insurance, commerce, finance, accounting, corporate and general management, marketing and law.

Board performance evaluation

The Board has established a process to regularly assess and review its composition and performance, including performance of its Sub-Committees, while seeking opportunities for continuous improvement.

This process includes annual surveys, one-on-one meetings co-ordinated by the Board Chair, and an external review conducted every three years. Processes are forward-focused and directed at ensuring the Board and its Sub-Committees are equipped with appropriate skills to deliver on the strategic plan and address future challenges.

The Board assesses the performance of the Chief Executive Officer and Executives against key corporate, strategic and operational objectives as determined in its annual planning and review cycle.

Sub-Committees of the Board

The Board has established four standing Sub-Committees to assist in fulfilling its obligations.

The Charter for each committee is available on the HBF website. Each committee comprises Non-Executive Directors and has an independent Chair. The Committees meet approximately four times per year and additionally as required.

Audit Committee

Role: Oversight of financial reporting, internal and external audits, and actuarial performance.

Members:

Richard England (Chair), Helen Kurincic, Dr Rod Moore, Diane Smith-Gander (appointed to committee May 2020)

People, Culture and Remuneration Committee

Role: Oversight of Board and Director performance, Director and Chief Executive Officer appointments, and the remuneration framework.

Members:

Tony Crawford (Chair), Richard England, Helen Kurincic, Gai McGrath (appointed to committee May 2020)

Risk Committee

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

Members:

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

Transformation Committee

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

Members:

Brent Stewart (Chair), Gai McGrath, Diane Smith-Gander (appointed to committee May 2020)

The individual attendance of Directors at the various standing committee meetings held during the year is set out on page 49 of the Annual Report.

Executive Leadership Team

The following individuals were Executive General Managers at 30 June 2020:

Mr John Van Der Wielen
Chief Executive Officer

Mr Prasad Arav*
Chief Digital and Transformation Officer
**Mr Arav resigned from HBF effective 7 August 2020*

Ms Donna Carrington
Chief Financial Officer

Ms Amy Stanley
Executive General Manager People and Corporate Affairs

Mr Adam Stock
Executive General Manager Governance and Risk

Ms Selina Torrance
Executive General Manager Member Experience

Mr Simon Walsh*
Executive General Manager Strategy and Ventures
**Mr Walsh was appointed Chief Digital and Transformation Officer on 10 August 2020*

Ethical standards

All Board members, Executives and employees are required to observe the highest standards of ethical, moral and legal business conduct. Directors adhere to the principles set out in the *Australian Institute of Company Directors Code of Conduct* and the *HBF Code of Conduct*, while the Board also requires Directors to properly manage any actual, potential or perceived conflicts of interest.

A Director who has a material personal interest in a matter which relates to the affairs of the HBF, or one of its subsidiaries, must provide the Board with notice of such interest. The Company Secretary maintains a register of standing Director declarations of interest and reports these to the Board. A Director who has a material personal interest in a matter being considered at a meeting of the Directors is not permitted to be present at the meeting while the matter is being considered or vote on the matter except as permitted by the *Corporations Act 2001 (Cth)*.

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

All Board members, Executives and employees are required to comply with legal, ethical and other obligations related to privacy and confidentiality. Executives and employees undertake not to disclose or make use of confidential information, unless expressly authorised or required by law. They must also maintain proper and secure custody of all confidential information.

Diversity

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

Our commitment to equality is documented in organisation-wide policies related to recruitment and retention of employees, promotion, talent identification and provision of training and development. HBF provides individuals equal opportunity regardless of ethnicity, nationality, pregnancy or family responsibilities, race, religion, gender, age, sexual orientation or preference, physical or mental impairment, political stance or any other prohibited attribute. HBF does not tolerate behaviours that could be considered harassment (sexual or otherwise), bullying (including cyber bullying), direct or indirect discrimination or other inappropriate behaviour that causes offence to another individual.

HBF's Gender Equality Indicators are reported to the Workplace Gender Equality Agency annually in accordance with the *Workplace Gender Equality Act 2012*. As at 30 June 2020, females accounted for:

- 68% of the workforce
- 50% of executives
- 34% of senior managers
- 44% of all manager promotions
- 61% of all non-manager promotions

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

Integrity of financial reporting

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

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

Audit Committee members are appointed based on their qualifications and experience to ensure the Committee can adequately discharge its duties. Although any Director may attend a committee meeting, at least one Audit Committee member is also a member of the Risk Committee. Representatives of management, the internal auditor, the Appointed Actuary, and external Appointed Auditors are invited to attend Audit Committee meetings.

Financial reporting assurances

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

In line with good governance practice, HBF seeks to align its financial governance practices with those detailed in the *Corporations Act 2001 (Cth)* in relation to financial reporting assurance, specifically section 295A. The Chief Executive Officer and Chief Financial Officer provide the Board with a declaration confirming the financial records of HBF have been properly maintained, and the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. The declaration indicates the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the full year ended 30 June 2020.

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

Internal audit

HBF maintains an internal audit function managed by the Head of Internal Audit to provide an independent and objective review of the adequacy and effectiveness of HBF's risk management framework and related internal control systems. In order to maintain independence of the function, the annual Internal Audit Plan is reviewed and approved by the Audit Committee. The annual Internal Audit Plan is developed using a risk-based approach and is informed by HBF's strategic and risk profiles. The Head of Internal Audit has full access to all records, properties and personnel of HBF and reports to the Audit Committee.

Risk management framework

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

The framework complies with all regulatory obligations, including the APRA Prudential Standard *CPS 220 Risk Management (CPS 220)*, and is aligned to *AS/NZS ISO 31000:2018 Risk Management*.

The Risk Management Framework, reviewed on an annual basis, includes the *Risk Appetite Statement*, the *Risk Management Strategy,* the *Capital Management Policy* and the relevant documents and resources required for the management of HBF's material risks. The Board sets the HBF Risk Appetite including risk tolerance, risk limits and triggers.

The *Risk Management Strategy* facilitates successful delivery of HBF strategic and operational business objectives. The strategy is reviewed annually as part of strategic and business planning to ensure material risks and actions to treat or control the risks are identified. The strategy also sets out risk culture objectives designed to guide operational activities to continuously improve risk culture.

HBF's material business risks are provided in the Material Business Risks section of the Strategic Overview within the Annual Report.

The Risk Committee assists the Board through the regular review of the risk management framework, confirming the appropriateness and effectiveness of the implementation and internal control systems, to adequately identify, assess, manage and report on the risks which could prevent HBF from achieving its objectives or have a material impact on the business.

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

Board and Executive Director remuneration report.

Since 2018, the Board of HBF has agreed to include a Remuneration Report for the Executive Director (CEO) and Non-Executive Directors within the Annual Financial Report.

As an unlisted, not-for-profit member-based entity, while there is no obligation to provide such information, the HBF Board believes such transparency aligns with our corporate values and remains an important aspect of our annual reporting which informs our members and other stakeholders.

Our remuneration approach

In 2019 we refined our approach to Executive remuneration to address the risks associated with the competitiveness of the health insurance and financial services sectors in which HBF operates. The responsibilities associated with managing a business with revenue of $1.6 billion, returning more than $1.5 billion to members, means HBF must attract and retain Executives of the highest calibre.

In the highly challenging environment faced by all Australian health insurers, our ability to deliver on our strategic objectives will depend on having an engaged, high performing workforce. The Board recognises the significant work undertaken during the COVID-19 period to benefit our members such as cancelling our 2020 rate increase, broadening our hardship measures, investing in the broader community through the State Government's DETECT Snapshot program and our continued support of charities impacted by COVID-19. The Board has considered carefully the need to reward effort and strong performance in a very challenging time with community and member expectation. In the same way we are committed to making decisions that benefit our members and the community, we are also committed to rewarding and retaining our employees who have supported members during this period of uncertainty.

We have ensured our people have remained employed with meaningful work that benefits members and rapidly enabled the entire organisation to work from their homes to continue delivering a high standard of service. We acknowledge the disruption this has caused but also the commitment from our people to be flexible and resilient and work as one.

The Board recognises the need to align remuneration principles with the interests of our members. These principles are taken into consideration by the Board in its determination of the *Remuneration Policy* and relevant incentive plans. We believe this approach, with a balanced scorecard including both financial and non-financial measures, drives improved operational performance, satisfactory risk management and compliance to applicable prudential standards, and meets the expectations of our members and stakeholders.

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

2. Remuneration governance

People, Culture and Remuneration Committee

In 2020, we expanded the scope of the Nomination and Remuneration Committee from assisting the HBF Board in fulfilling its responsibilities relating to the remuneration of the Non-Executive Directors and the Executive Director to also including governance of culture. The Committee is now called the People, Culture and Remuneration Committee ('Committee') and its responsibilities include:

People, Culture and Remuneration Committee	Responsibilities
Composition: • Minimum three members • All must be non-executive • A majority must be independent • Chair must be independent and elected by the Board *Membership:* Tony Crawford (Chair) Helen Kurincic Richard England Gai McGrath *(appointed 27 May 2020)*	• Establishing, reviewing and overseeing people and workforce strategies, including diversity and inclusion, employee engagement, values and behaviours. • Establishing and promoting an organisational culture which aligns to the vision, values and purpose. • Establishing and applying the Board Renewal Policy while making recommendations to the Board for the appointment of directors. • Monitoring the remuneration framework and overseeing the remuneration arrangements for the Non-Executive Directors, CEO and Executives, and Responsible Persons. • Approving succession planning approaches for the Chief Executive Officer, Executive and Responsible Persons.

Further information regarding the Committee members can be found in the Governance Report and the Committee Charter can be found on the HBF website.

Remuneration Advisor

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

3. Remuneration Framework

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

HBF has developed and implemented an equitable and transparent remuneration framework which promotes desired behaviours consistent with the performance and risk management culture within HBF. This framework applies to all Directors, Executive roles, Responsible Persons and employees within HBF, and includes a *Remuneration Policy* which outlines remuneration principles and how performance within the organisation is rewarded. When developing the remuneration framework, the Committee considered both financial and non-financial objectives such as risk management, customer satisfaction and employee engagement.

The principles contained within the *Remuneration Policy* are subject to continuous review and are updated by the Board after being recommended by the Committee. The Board is also able to audit any element of the *Remuneration Policy*, including its implementation. These principles ensure that the remuneration framework:

a) Supports the risk management framework and financial soundness of HBF;

b) Does not compromise the independence of individuals responsible for risk and financial control when carrying out their duties;

c) Enables HBF to attract and retain individuals with the required calibre, skill and experience through appropriate levels of remuneration;

d) Is drafted in an appropriate manner to ensure employees are not able to influence or approve any aspect of their own remuneration; and

e) Allows an annual external review of the Executive Director and other Executive roles to be conducted by an independent third party from time to time. The Committee may recommend changes to executive remuneration to the Board for consideration.

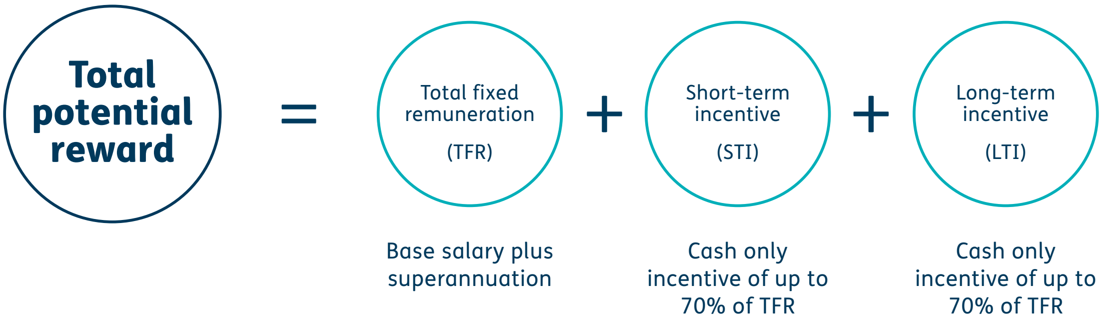
4. Executive Director remuneration framework

The Executive Director remuneration includes a combination of fixed and variable remuneration components as demonstrated in *Figure 1* below. This includes:

- Total Fixed Remuneration (TFR), comprising base salary and superannuation;
- Short-Term Incentive (STI), based on pre-determined key targets and individual targets set by the Board and outlined in a balanced scorecard; and
- Long-Term Incentives (LTI), based on pre-determined key performance indicator targets set by the Board and outlined in an LTI balanced scorecard. The LTI scheme on foot during the 2020 financial year was a five-year LTI scheme commencing 1 July 2019.

As a not-for-profit entity, HBF does not issue shares or options to any Director, Executive or employee, and all remuneration, fixed or variable, is cash-based.

Figure 1: Components of the Executive Director's remuneration.



Total fixed remuneration
TFR for the Executive Director is regularly benchmarked against the external market and is based on the relevant responsibilities and accountabilities in addition to the skill and experience level of the individual.

The Committee annually reviews the Executive Director's remuneration to ensure it remains aligned to the *Remuneration Policy* and is competitive with the external market. Any such review is conducted independent from Management and may be performed through an external remuneration advisor.

Variable remuneration
Variable remuneration for the Executive Director is dependent on the successful achievement of organisational measures and individual measures.

The Committee may, at its full discretion, recommend the Board modifies the variable remuneration components of total potential reward downwards to zero, if necessary, in response to significant unexpected/unintended events or to protect the financial soundness of the Company. Previous years' performance outcomes may be referenced in support of such a decision.

Any right to a payment under an incentive plan will end on the date the Executive Director ceases to be an employee of the Company through resignation or dismissal, however, the Committee may recommend to the Board an exception be granted in certain circumstances.

The Committee and the Board are currently reviewing the incentive plans, in light of emerging regulatory and market trends, to ensure they continue to motivate and retain key employees during a period of considerable growth and expansion at HBF.

Variable remuneration – Short-Term Incentive
The Executive Director has the potential to receive STI payments up to 70 per cent of TFR if the Group scorecard and individual performance measures are successfully met, as determined by the Board. The STI for the year ended 30 June 2020 was based on individual measures (10 per cent) and corporate measures (90 per cent), which included:

- Financial – income statement focused
- Member and stakeholders – member satisfaction, brand effectiveness and key stakeholder/regulatory interaction focus
- People and strategy – leadership and culture and strategy focus
- Risk – human resources management and organisational risk focus

The Board is ultimately responsible for setting the individual targets on the STI scorecard and for assessing the performance of the Executive Director against the targets. The Board has full discretion to approve STI payments following any recommendation made by the Committee in relation to the Executive Director's performance.

Any STI award approved by the Board is payable in October and relates to the Executive Director's performance in the prior financial year ending 30 June.

Variable remuneration – Long-Term Incentive
The purpose of the LTI scheme is to incentivise and reward the Executive Director for achievement of key performance indicators aligned to the longer-term strategy of the organisation.

As part of the LTI scheme, the Executive Director was eligible to receive up to 70 per cent of TFR, subject to the satisfactory delivery against the performance measures at the end of the third year and following assessment and approval by the Committee and Board.

The LTI scheme performance measures for the 2019 to 2024 financial years focussed on:

- Diversification – Percentage non-WA PHI revenue and percentage non-PHI revenue
- Financial - MER in average of top six health funds and WA market share

Variable remuneration – malus and clawbacks
Notwithstanding any other provision of the STI or LTI Plan and regardless of whether any performance condition has been met, the Board, following a recommendation from the Committee may, in its absolute discretion, adjust any variable remuneration before delivery (malus) or reclaim after delivery (clawback) within two years if an adjustment event occurs.

Adjustment events are specified in the STI and LTI Plan rules and may include any material misstatement in the audited consolidated accounts of the Company, or if a participant's actions or conduct have amounted to a failure of risk management, fraud or gross misconduct.

The Board retains the right to alter the list of adjustment events in respect of all future awards.

Non-monetary benefits
The Executive Director is provided with a car parking bay at an estimated value of $3,872 per annum and, like all employees, is eligible for a subsidy toward HBF insurance premiums.

5. Non-Executive Director remuneration

Non-Executive Director fees

In 2007, the HBF Council approved the creation of a pool from which Non-Executive Director fees are paid, providing the HBF Board with the flexibility to manage director fees for membership on the HBF Board, its standing Committees and subsidiary company Boards.

HBF's Non-Executive Directors receive a base fee, along with an additional fee if they are members of other HBF Committees.

The following table shows applicable fees (inclusive of superannuation) for HBF's Board and Committees prior to and following the adjustment effective 1 November 2018.

Position	Fee to 1 November 2019	Fee from 1 November 2019
HBF Board Director	$103,121	$123,745
HBF Board Chair	$237,178	$284,745
Subsidiary Board Director	$12,375	$12,375
Subsidiary Board Chair	$24,749	$24,749
Audit Committee member	$12,375	$12,375
Audit Committee Chair	$24,749	$24,749
PCR Committee member	$12,375	$12,375
PCR Chair	Nil (included in HBF Board Chair fee)	Nil (included in HBF Board Chair fee)
Risk Committee member	$12,375	$12,375
Risk Committee Chair	$24,749	$24,749
Transformation Committee member	$12,375	$12,375
Transformation Committee Chair	$24,749	$24,749
Management Investment Committee attendee	$12,375	$12,375

Non-Monetary Benefits
The Non-Executive Directors are eligible for a subsidy toward HBF insurance premiums.

6. Remuneration tables

Remuneration for the year ended 30 June 2020

The actual remuneration earned by the Non-Executive Directors and the Executive Director in FY20 is presented below.

Name	Year	Fixed Cash salary and fees $	Non-monetary benefits $	Superannuation contributions $	Variable Short-term incentives $	Long-term incentives $	Total remuneration $
Non-Executive Directors							
Tony Crawford	FY20	250,551	–	22,234	–	–	272,785
Richard England	FY20	152,926	–	14,528	–	–	167,454
Helen Kurincic	FY20	152,926	–	14,528	–	–	167,454
Gai McGrath	FY20	131,441	–	12,487	–	–	143,928
Rod Moore	FY20	143,434	–	13,626	–	–	157,060
Diane Smith-Gander *(appointed 11 May 2020)*	FY20	13,040	–	1,239	–	–	14,279
Brent Stewart	FY20	156,001	–	14,820	–	–	170,821
Sub-total Non-Executive Directors		**1,000,319**	**-**	**93,462**	**-**	**-**	**1,093,781**
Executive Director							
John Van Der Wielen, CEO	FY20	1,108,545	–	25,153	737,003	-	1,870,701
Sub-total Executive Director		**1,108,545**	-	**25,153**	**737,003**	-	**1,870,701**
Total		**2,108,864**	-	**118,615**	**737,003**	**-**	**2,964,482**

Remuneration – Short-Term Incentive Scheme for the Executive Director

The actual STI earned by the Executive Director in FY20 is presented below.

Name	Incentive scheme performance year	STI %	On target performance $	Max value $	Total incentive amount $	Proportion of on target incentive %	Incentive amount to be paid Oct 2020 (70% of total)	Incentive amount to be paid Oct 2021 (30% of total)
John Van Der Wielen, CEO	FY20	70	809,893	890,882	737,003	91.0	515,902	221,101

Remuneration – Long-term Incentive Scheme for the Executive Director

The Executive Director is not entitled to any LTI payment in FY20 as part of the current scheme. The first payment will be considered in FY23 as per the plan rules.

Contract terms for the Executive Director

The Executive Director is a permanent employee of HBF with an employer-initiated notice period of 12 months and employee-initiated notice period of six months.

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 2020.

Directors

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

Mr Tony Crawford
(Chairman)

Mr John Van Der Wielen
(Managing Director and CEO)

Ms Gai McGrath

Dr Rod Moore

Mr Richard England

Ms Helen Kurincic

Mr Brent Stewart

Ms Diane Smith-Gander
(Appointed 11 May 2020)

Tony Crawford
Chairman

LLB, BA, FAICD

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

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

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

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

John Van Der Wielen
Managing Director and Chief Executive Officer

MBA, FAICD

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

John has more than 30 years' experience in insurance, wealth management, private banking and investments and has held executive positions within several global financial services groups.

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

John is currently a Non-Executive Director of KYCKR, an ASX-listed Reg Tech company. He is on the Board of the University of Western Australia's Business School and on the Board of the Royal Flying Doctor Service Western Australia.

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

Richard England

FCA, MAICD

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

Richard is Chair of QANTM Intellectual Property Limited and Hobart International Airport Pty Ltd. He is also a Non-Executive Director of Japara Healthcare Limited and Friendly Society Medical Association Limited. He previously served as Chair of Automotive Holdings Group and Ruralco Holdings and was a Director of Nanosonics Limited and Bingo Industries Limited.

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

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

Helen Kurincic

MBA, FAICD

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

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

Previously, Helen held various executive and non-executive healthcare sector roles including Non-Executive Director of DCA Group Limited, AMP Capital Investors Domain Principal Group, Melbourne Health and Orygen Research Centre, and was CEO of Benetas. She was formerly the Chief Operating Officer and Director of Genesis Care from its earliest inception – creating and developing the first and largest radiation oncology and cardiology services network across Australia.

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

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

Gai McGrath

BA, LLM, GAICD

Ms McGrath was appointed a Director of HBF Health Limited in May 2019 and serves as a member of the HBF Risk Committee, People, Culture and Remuneration Committee and Transformation Committee. She is an experienced Non-Executive Director with 34 years' experience as a senior executive across Australia and New Zealand including in retail banking, superannuation, investments, life and general insurance, and wealth management. In 2015, Ms McGrath left Westpac and has since built a diverse Board portfolio. She currently serves as a Director of Steadfast Group (ASX: SDF), Genworth Mortgage Insurance Australia (ASX: GMA), IMB Bank and Toyota Finance Australia, and is Chair of Humanitix.

Gai is a highly respected executive as demonstrated by being awarded Australia's Corporate Lawyer of the Year (2003), Customer Service Executive of the Year (2009), and Best Retail Banker of the Year - Asia Pacific (2015).

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

Dr Rod Moore

MBBS, GradDipSpMed, FAICD

Dr Moore was appointed a Director of HBF in October 2012 and serves as Chair of the HBF subsidiary Board, HBF Wellness Holdings Pty Ltd. Rod is also a member of the HBF Audit Committee. Since 2014, he has served as the Chair of MDA National (a major Australian medical indemnity provider) and was a Councillor of MDA National from 1998. Rod was appointed a Director of the Mutual Board of MDA National in 2011 and MDA National Insurance Pty Ltd in 2007.

Rod is a member of the Human Research Ethics Committee at the University of Western Australia.

As a Graduate of the UWA Medical School, Rod began his career in general practice and has been in specialist sports medicine and musculoskeletal practice since 1995. He is the founding principal of two of Western Australia's leading multi-disciplinary sports medicine centres. Rod is a Fellow of the Australian Institute of Company Directors.

Brent Stewart

BSc, BPsych, FAICD

Mr Stewart was appointed a Director of HBF in November 2015 and serves as Chair of the HBF Transformation Committee. Brent is also a member of the Risk Committee and Management Investment Committee. He is currently Executive Chair of Waveride Capital Limited in addition to Etherington Inc. Brent also serves as a Non-Executive Director of Paragon Care Limited (ASX: PGC) and Argonaut Limited.

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

Brent has served on numerous West Australian government committees and working groups and has occupied national Board roles for industry-based organisations. He has been a regular guest speaker for many industry associations and universities in strategy, marketing and market research. Brent is a Fellow of the Australian Institute of Company Directors.

Diane Smith-Gander AO

BEcon, MBA, FAICD, FGIA, FAIM

Ms Smith-Gander was appointed a Director of HBF in May 2020 and serves as a member of the Audit Committee and Transformation Committee. Currently, Diane is the National Chair of the Committee for Economic Development of Australia, Chair of Safe Work Australia, Chair of the World Anti-Doping Agency Nominations Committee, a Non-Executive Director of AGL Energy Limited, and a Director of Wesfarmers, North Queensland Airports group of companies, and Keystart Loans.

Prior to becoming a professional Non-Executive Director, Diane started her career in banking and has held a range of governance positions, including the role of commissioner of Tourism Western Australia. She also serves as a Senior Advisor to McKinsey & Company and is an Adjunct Professor in Corporate Governance at the University of Western Australia. Diane is an advocate for gender equality and is a past president of Chief Executive Women while also being actively involved in sports administration, having held roles as the Chair of both Basketball Australia Limited and the Australian Sports Drug Agency.

In the 2019 Queen's Birthday Honours, Diane was made an Officer of the Order of Australia (AO) in recognition of her "distinguished service to business, to women's engagement in executive roles, to gender equality, and to the community." In 2015, Diane was awarded an Honorary Doctor of Economics by the University of Western Australia. She also holds an MBA from the University of Sydney and is a Fellow of the Australian Institute of Company Directors.

Company Secretary

Adam Simpson

LLB, FGIA

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

Adam has more than 13 years' corporate governance experience in both the financial and utilities sectors, holds a Bachelor of Law from the University of Canterbury, is a Fellow of the Governance Institute of Australia, and is a practicing lawyer in Western Australia.

Principal activities

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

Objectives

As a not-for-profit health insurer, HBF's core objective is to deliver value to its members through high quality, affordable health insurance products which provide access to the highest quality healthcare. HBF looks for opportunities to grow its membership nationally, while remaining the leading provider of health insurance in Western Australia.

Performance measures

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

Review of operations

Information on the operations and financial position of the HBF Group, the impact of the COVID-19 pandemic, and HBF's strategy and future prospects is set out in the Financial Performance on pages 12 – 17 of this Annual Report.

Dividends

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

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.

Significant events after reporting date

Subsequent to financial year-end, HBF entered into a management services agreement (MSA) with Pacific Smiles Group Ltd. Pacific Smiles Group Ltd operates dental clinics and provides all of the resources necessary to enable dentists to provide optimal clinical services. Under the MSA, HBF will build a minimum of five HBF Dental clinics in Western Australia over a period of 18 months, with the first clinics due to be opened early in 2021.

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

Indemnification and insurance of Directors and officers

During the financial year, the entity paid a premium in respect of a contract insuring the Directors and officers of HBF Health Limited and its subsidiaries against liability incurred for conduct, other than conduct involving a wilful breach of duty, to the extent permitted by the Corporations Act 2001. Details of the premium paid and nature of the liability is not disclosed as this is prohibited by the insurance contract.

Indemnification of auditors

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

Directors' benefits

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

Directors' meetings

Attendance at scheduled Board and Committee meetings held during the financial year, including additional meetings called, are noted below for each Director during their respective term of office:

	Board		Audit Committee		People Culture and Remuneration Committee		Risk Committee		Transformation Committee	
	Scheduled (8)	Additional (8)	Scheduled (4)	Additional (–)	Scheduled (3)	Additional (4)	Scheduled (3)	Additional (4)	Scheduled (6)	Additional (1)
Mr T Crawford[2]	8	7	4*	–	3	4	3*	4*	6[2]	1
Mr R England	8	7	4	–	3	4	3	4	5	–
Ms H Kurincic	8	8	4	–	3	4	3	4	2*	–
Ms G McGrath	8	8	3*	–	3*	1*	3	4	6	1
Dr R Moore	6	8	4	–	3*	1*	2*	2*	2*	–
Ms D Smith-Gander[1]	1	1	1*	–	1*	–	1*	–	1	–
Mr B Stewart	7	8	3*	–	1*	–	3	4	6	1
Mr J Van Der Wielen	8	7	4*	–	–	–	3*	1*	6*	1*

1. Ms Smith-Gander was appointed as a Non-Executive Director in May 2020.

2. Mr Crawford attended one scheduled meeting as an invitee, and five scheduled meetings and one additional meeting as a member.

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

Environmental regulations

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

Rounding

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

Auditor's independence and non-audit services

The non-audit services provided by HBF's auditor Ernst & Young are reported in Note 17 of the Financial Report. The Directors are satisfied the provision of non-audit services by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means auditor independence was not compromised.

The auditors have provided their independence declaration which can be found on page 91 and forms part of this report.

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

Tony Crawford
Chairman

22 September 2020
Perth

HBF Health Limited

Financial report.

For the year ended 30 June 2020

Contents

Consolidated financial statements

Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of changes in equity
Consolidated statement of cash flows

Notes to the financial statements:

Section 1: Basis of preparation

1 Entity information
2 Basis of preparation
3 Critical accounting judgements and estimates

Section 2: Operating performance

4 Insurance underwriting result
5 Deferred acquisition costs
6 Other revenue

Section 3: Investment portfolio and capital

7 Net investment income
8 Financial assets at fair value
9 Risk management
10 Reserves and retained earnings

Section 4: Other assets and liabilities

11 Receivables
12 Assets held for sale
13 Intangible assets
14 Property, plant and equipment
15 Trade and other payables
16 Employee benefits

Section 5: Other

17 Auditors' remuneration
18 Taxation
19 Contingencies and commitments
20 Cash flow statement
21 Related party disclosures
22 Significant events after reporting date
23 Information relating to HBF Health Limited (the Parent)
24 New accounting standards and interpretations

Signed reports

Directors' declaration
Auditor's independence declaration
Independent auditor's report

HBF Health Limited
Consolidated statement of comprehensive income
Year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Revenue			
Health Insurance premium revenue	4(a)	1,631,004	1,685,583
Other revenue	6	16,460	20,722
		1,647,464	1,706,305
Expenses			
Net claims expense	4(a)	(1,444,340)	(1,469,332)
Employee benefits	16(b)	(106,324)	(97,832)
Depreciation and amortisation expenses		(8,117)	(12,647)
Marketing expenses		(32,291)	(29,096)
Professional services fees		(20,009)	(34,325)
IT maintenance expenses		(12,622)	(11,151)
Office and administration expense		(10,728)	(12,076)
Other expenses		(8,895)	(12,104)
		(1,643,326)	(1,678,563)
Profit for the year before net investment income		4,138	27,742
Net investment income	7	34,675	65,939
Profit for the year		38,813	93,681
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	14	64	(7,330)
Total comprehensive income for the year		38,877	86,351

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

HBF Health Limited
Consolidated statement of financial position
At 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	20(b)	62,334	57,642
Receivables	11	76,547	92,292
Financial assets at fair value	8	1,732,972	1,635,783
Deferred acquisition costs	5	3,233	4,773
Assets held for sale	12	98,801	105,488
Total current assets		1,973,887	1,895,978
Non-current assets			
Intangible assets	13	41,291	3,380
Property, plant and equipment	14	25,296	26,147
Deferred acquisition costs	5	2,432	7,031
Total non-current assets		69,019	36,558
Total assets		2,042,906	1,932,536
Liabilities			
Current liabilities			
Trade and other payables	15	30,209	39,016
Insurance liabilities	4(b)	469,311	391,207
Employee benefits	16	11,562	10,231
Total current liabilities		511,082	440,454
Non-current liabilities			
Insurance liabilities	4(b)	49,176	48,179
Employee benefits	16	2,270	2,402
Total non-current liabilities		51,446	50,581
Total liabilities		562,528	491,035
Net assets		1,480,378	1,441,501
Equity			
General reserve	10	111,513	111,513
Retained earnings	10	1,353,221	1,314,408
Asset revaluation reserve	10	15,644	15,580
Total equity		1,480,378	1,441,501

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 2020

	Notes	General reserve $'000	Retained earnings $'000	Asset revaluation reserve $'000	Total $'000
At 30 June 2018		111,513	1,220,727	22,910	1,355,150
Profit for the year		-	93,681	-	93,681
Other comprehensive income		-	-	(7,330)	(7,330)
Total comprehensive income		-	93,681	(7,330)	86,351
At 30 June 2019	10	111,513	1,314,408	15,580	1,441,501
Profit for the year		-	38,813	-	38,813
Other comprehensive income		-	-	64	64
Total comprehensive income		-	38,813	64	38,877
At 30 June 2020	10	111,513	1,353,221	15,644	1,480,378

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 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipt of health insurance premium revenue		1,625,912	1,679,128
Receipt of commission income		12,844	15,512
Receipt of other income		3,450	3,630
Payment of claims		(1,478,319)	(1,585,071)
Risk equalisation receipts		127,499	110,760
Payments to suppliers and employees		(201,188)	(171,371)
Distributions received		14,738	21,206
Interest received		26,742	31,300
Goods and services tax received (net)		9,475	5,500
Net cash flows from operating activities	20(c)	141,153	110,594
Cash flows used in investing activities			
Acquisition of property, plant and equipment		(4,148)	(5,583)
Acquisition of intangible assets		(40,965)	(217)
Sale of assets held for sale		7,040	7,937
Redemption of financial assets at fair value		1,287,913	300,219
Purchase of financial assets at fair value		(1,386,543)	(405,659)
Net cash flows used in investing activities		(136,703)	(103,303)
Net increase in cash and cash equivalents		4,450	7,291
Cash and cash equivalents at beginning of year		57,884	50,593
Cash and cash equivalents at end of year	20(b)	62,334	57,884

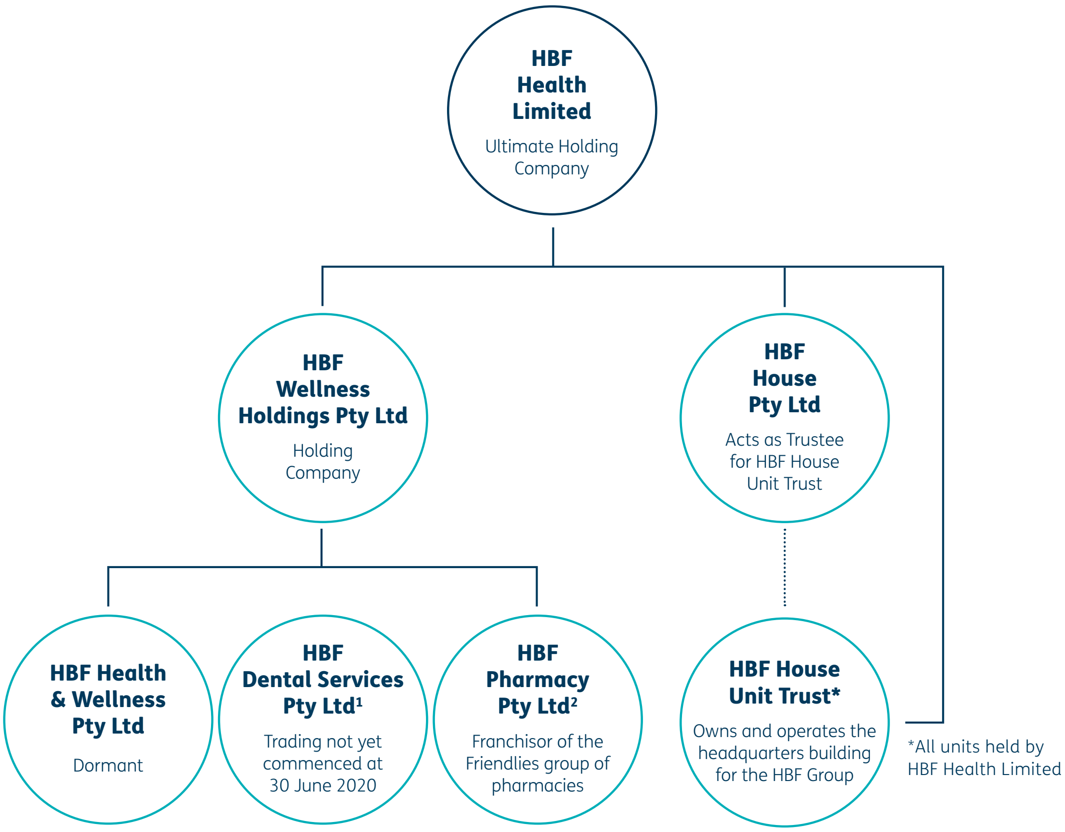
The above statement of cash flows should be read in conjunction with the accompanying notes.

Section 1: Basis of preparation

1 Entity information

HBF Health Limited is registered under the *Corporations Act 2001* as a company limited by guarantee. HBF Health Limited is a not-for-profit entity. HBF Health Limited is registered at 570 Wellington St, Perth WA 6000.

HBF Health Limited and its subsidiaries (HBF Group) are incorporated and domiciled in Australia. HBF Health Limited has prepared a consolidated financial report incorporating the following entities that it 100 per cent owned and controlled during the financial year:



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

- Provision of health insurance to individuals and families.
- Distribution of general insurance and life insurance products to individuals and families.
- Act as the franchisor to a group of community pharmacies.[2]

[1] HBF Dental Services Pty Ltd was registered on 18 June 2020 and as at 30 June 2020 had not yet commenced trading. Refer to Note 22 for further detail regarding the Management Services Agreement entered into with Pacific Smiles Group Ltd subsequent to financial year end.

[2] HBF Pharmacy Pty Ltd including the Friendlies master franchise was sold to Pharmacy 777 in August 2019. Refer to Note 12 for further detail.

The HBF Group had 888 full-time equivalent employees as at 30 June 2020 (2019: 836 full-time equivalent employees).

2 Basis of preparation

a) Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*. Management has also incorporated the published views expressed by Australian Securities and Investment Commission (ASIC) and Australian Prudential Regulation Authority (APRA) on certain matters in its application of accounting standards as they specifically relate to the recognition of the deferred claims liability set out in Note 4(b)(iii). The financial report has been prepared in accordance with the historical cost convention, except for financial assets and certain classes of property, plant and equipment and assets held for sale, which are measured at fair value. Cost in relation to assets represents the cash amount paid or fair value of the assets given in exchange. Liabilities are stated at amortised cost except where actuarial valuations are provided in which case they are measured at fair value.

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

b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), including having incorporated the published views from ASIC and APRA on the measurement and recognition of a deferred claims liability in response to the unique circumstances arising from the COVID-19 pandemic. ASIC published an FAQ regarding 30 June 2020 financial reporting stating "Private health insurers should recognise a claims liability where an insured person who knows that they have a condition is likely to continue their cover until the surgical procedure has been performed", in effect requiring a provision at 30 June 2020 for the backlog of medical procedures that were expected to occur from March 2020 to 30 June 2020, but did not due to COVID-19 and related government control measures. APRA has published the "Application of the Capital Framework for COVID-19 Related Disruptions", which endorsed the recognition of this deferred claims liability and further outlined guidance for its measurement. The prior year comparative amounts have not been adjusted.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of HBF Health Limited and its subsidiaries (HBF Group) as at 30 June 2020. Control is achieved when the HBF Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the HBF Group controls an investee if and only if the HBF Group has:

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

The HBF Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the HBF Group obtains control over the subsidiary and ceases when the HBF Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the HBF Group gains control until the date the HBF Group ceases to control the subsidiary. Investments in controlled entities are carried at cost less provision for impairment if any. All controlled entities have a June financial year-end.

d) Change in presentation

Effective 1 July 2019, the HBF Group has changed its presentation of the Consolidated statement of comprehensive income to reflect expenses by nature on the face of the statement rather than in the notes. The expenses have been analysed and grouped by relevance to the HBF Group. The change in presentation is to simplify the financial statements and make it easier for users of the financial statements to analyse and understand the Group's financial performance.

2 Basis of preparation (continued)
d) Change in presentation (continued)

	Restated 2019 $'000	Originally presented 2019 $'000
Consolidated statement of comprehensive income:		
Benefits / claims expense	-	(1,582,296)
Risk equalisation	-	112,964
	-	(1,469,332)
Expenses by function:		
Claims handling expenses	-	(33,736)
Acquisition costs	-	(33,225)
Other underwriting costs	-	(121,141)
Other operating and administration expenses	-	(21,129)
	-	(209,231)
Expenses by nature:		
Net claims expense	(1,469,332)	-
Employee benefits	(97,832)	-
Depreciation and amortisation expenses	(12,647)	-
Marketing expenses	(29,096)	-
Professional services fees	(34,325)	-
IT maintenance expenses	(11,151)	-
Office and administration expense	(12,076)	-
Other expenses	(12,104)	
	(1,678,563)	-

Certain comparative balances have been reclassified to conform with current period presentation. A reconciliation to the prior year's presentation is shown below:

	Restated 2019 $'000	Originally presented 2019 $'000
Consolidated statement of comprehensive income:		
Commission income	-	15,285
Other revenue	20,722	5,437
	20,722	20,722

Effective 1 July 2019, the HBF Group has changed its presentation of the Consolidated statement of financial position to reflect risk equalisation receivable on outstanding claims, previously presented in Receivables, to be netted in Insurance liabilities. The change in presentation is to better present the nature of risk equalisation related to outstanding claims. Certain comparative balances have been reclassified to conform with current period presentation. A reconciliation to the prior year's presentation is shown below:

	2019 $'000
Consolidated statement of financial position:	
Receivables originally presented	103,062
Risk equalisation netted in Insurance liabilities	(10,770)
Receivables restated	92,292
Insurance liabilities originally presented	(401,977)
Risk equalisation previously presented in Receivables	10,770
Insurance liabilities restated	(391,207)

3 Critical accounting judgements and estimates

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

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

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

Section 2: Operating performance

4 Insurance underwriting result
(a) Insurance underwriting result

	Notes	2020 $'000	2019 $'000
Gross written premiums		1,638,196	1,674,716
Movement in unearned premiums		(7,192)	10,867
Health Insurance premium revenue	4(b)	1,631,004	1,685,583
Claims expenses		(1,572,349)	(1,582,296)
Risk equalisation		128,009	112,964
Net claims expense		(1,444,340)	(1,469,332)
Gross underwriting margin		186,664	216,251
Claims handling expenses		(32,928)	(33,736)
Acquisition costs	5	(36,218)	(33,225)
Other underwriting costs		(121,856)	(121,141)
Underwriting expenses		(191,002)	(188,102)
Underwriting result after expenses		(4,338)	28,149

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

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

4 Insurance underwriting result (continued)
(a) Insurance underwriting result (continued)

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

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

(b) Insurance Liabilities

	Notes	2020 $'000	2019 $'000
Unearned premium liability	(i)	217,008	224,200
Outstanding claims liability	(ii)	115,911	123,940
Deferred claims liability	(iii)	94,296	-
GapSaver	(iv)	91,272	91,246
		518,487	439,386
Current		469,311	391,207
Non-current		49,176	48,179
		518,487	439,386

(i) Unearned premium liability

	Notes	2020 $'000	2019 $'000
Unearned premium at beginning of year		224,200	235,067
Premium written during the year		1,623,812	1,674,716
Premium earned during the year	4(a)	(1,631,004)	(1,685,583)
Unearned premium at end of year		217,008	224,200
Current		216,713	223,821
Non-current		295	379
		217,008	224,200

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

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

4 Insurance underwriting result (continued)
(b) Insurance Liabilities (continued)
(i) Unearned premium liability (continued)
Unexpired risk liability policy (continued)

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

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

The probability of sufficiency (POS) adopted in performing the liability adequacy test is set at 80%, consistent with the percentile adopted in determining the outstanding claims liabilities. Being a test of adequacy, the POS for LAT is intended to highlight deficiencies in product pricing following an analysis of the Group's profit margins and after having regard to regulatory requirements and prudent industry practice.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2020 or 30 June 2019. The LAT did not include the deferred claims liability at 30 June 2020.

(ii) Outstanding claims liability

	2020 $'000	2019 $'000
Central estimate of outstanding claims liabilities	121,627	128,714
Claims handling expenses	2,554	2,574
Risk margin	3,376	3,422
Risk equalisation	(11,646)	(10,770)
	115,911	123,940

Reconciliation of movement in claims liabilities

	2020 $'000	2019 $'000
Opening balance previously stated	-	137,485
Risk equalisation previously presented in receivables	-	(10,392)
Opening balance restated	123,940	127,093
Claims incurred during the period	1,476,510	1,598,816
Claims paid during the period	(1,478,319)	(1,585,071)
Adjustments to claims incurred in prior years	(5,278)	(16,448)
Claims handling costs	(46)	(18)
Risk margin	(20)	(54)
Risk equalisation	(876)	(378)
Closing balance	115,911	123,940

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

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

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

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

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

Key estimates related to valuation of the outstanding claims liability
At 30 June 2020 the most significant factor affecting the estimate of the outstanding claims liability is the impact of COVID-19 related government control measures on claims trends in the period between March and June 2020 (the "deferred claims"). Outstanding claims liabilities are in large part determined by reference to claims patterns in the months immediately preceding year-end i.e. those months most significantly impacted by the deferred claims. In assessing the adequacy of insurance liabilities at 30 June 2020 it is important to note that any shortfall in the outstanding liability would be offset by the deferred claims liability as the two liabilities together represent 100% of the total claims expected to arise as a result of events prior to 30 June 2020.

(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 Risk Equalisation Special Account (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) 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% (2019: 80%) i.e. such that there is a four in five probability that enough provision has been made to cover the liabilities. The risk margin applied to increase the level of sufficiency of the central estimate to 80% is 3.0% (2018: 2.8%).

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 probability of sufficiency.

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

(d) 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% (2019: 2.0%) of the outstanding claims liabilities.

Impact of changes in key variables on the outstanding claims provision
The central estimate, risk margin, claims handling expenses are the key outstanding claims variables. A 10% increase/decrease in the central estimate would result in a $12.2 million decrease/increase to profit (2019: $12.9 million). A 1% movement in other key outstanding claims variables, including risk margin and claims handling expenses, would result in an insignificant decrease/increase to profit.

(iii) Deferred claims liability

	2020 $'000	2019 $'000
Claims deferred, expected to return	99,102	-
Claims handling expenses	2,081	-
Risk equalisation	(6,887)	-
	94,296	-

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

Restrictions on medical services and social distancing requirements introduced by the Australian Government in March 2020 in response to COVID-19 have affected claims by HBF members between March and early June 2020. During this time members were precluded from accessing treatment and other benefits. A liability for these deferred claims that would have otherwise been incurred has been recognised at 30 June 2020. Given the short-term nature of these COVID-19 restrictions it is considered highly likely that members will still incur these claims.

Deferred claims accounting policy
The deferred claims liability is calculated with regard to the claims that were expected to occur during the current financial year but did not eventuate. Consideration has been given to forecast claims adjusted for changes in membership and/or product mix. The deferred claims liability will be unwound as the deferred claims materialise and claims are paid.

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

The provision is created on the basis that the forecast for the COVID-19 impacted period between March and early June 2020 is an accurate estimate of claims that would otherwise have occurred and that the baseline forecast is accurate. The deferred claims liability has been recognised on the expectation that 100% of the deferred hospital and ancillary claims will return.

Impact of changes in key variables on the deferred claims liability
The key variable in the deferred claims liability estimate is the portion of deferred claims that will return. A 10% increase/decrease in the value of deferred claims returning would result in a $10.1 million decrease/increase to profit.

(iv) GapSaver

	2020 $'000	2019 $'000
Movements in provisions		
Balance at beginning of year	91,246	89,916
Member deposits	51,597	54,664
Member withdrawals	(52,193)	(54,070)
Present value adjustment	748	933
Adjustment for cancellations	(126)	(197)
Balance at end of year	91,272	91,246
Current	42,391	43,446
Non-current	48,881	47,800
	91,272	91,246

GapSaver 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 claim payable on that treatment). The balance of the GapSaver provision (i.e. the excess of GapSaver contributions made over GapSaver contributions utilised) is subject to discounting based on actuarial calculations.

Key estimates related to valuation of the GapSaver liability
In estimating the valuation of the GapSaver liability consideration is given to the COVID-19 relief payments for the remainder of the 2020 calendar year, the projected Hospital and General treatment claims utilisation and average claims size and the cancellation rate.

5 Deferred acquisition costs

	Notes	2020 $'000	2019 $'000
Deferred acquisition costs at beginning of year		11,804	20,694
Acquisition costs incurred		30,079	24,335
Acquisition costs charged to profit and loss	4(a)	(36,218)	(33,225)
Deferred acquisition costs at end of year		5,665	11,804
Current		3,233	4,773
Non-current		2,432	7,031
		5,665	11,804

(a) Acquisition costs charged to profit and loss

	Notes	2020 $'000	2019 $'000
Amortisation of deferred acquisition costs		(6,139)	(8,890)
Brand and distribution costs expensed		(30,079)	(24,335)
	4(a)	(36,218)	(33,225)

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 over the average retention rate of the insurance contracts to which they relate. The HBF Group amortises these costs on a straight line basis over a period of 5 years (2019: 5 years).

6 Other revenue

	2020 $'000	2019 $'000
Insurance commission income	12,414	15,285
Rental revenue	279	330
Other non-operating revenue	3,767	5,107
	16,460	20,722

Insurance commission income accounting policy

Commission income is earned on general insurance and life insurance policies sold on behalf of insurers where HBF's obligation is to act as an agent. The sale of products underwritten by third party insurers is a continuous and on-going obligation satisfied over time rather than a series of different obligations. Commission rates are fixed within the contract and the commissions are earned when payments for products sold or renewed are received. Commission income is recognised when payments are made by policyholders to the insurers, upon which the right to receive the commission is established.

Section 3: Investment portfolio and capital

7 Net investment income

	2020 $'000	2019 $'000
Unrealised (loss) / gain on change in fair value of investments	(1,442)	14,966
Interest from other corporations	21,379	29,767
Distributions from other corporations	14,738	21,206
	34,675	65,939

Investment income accounting policy

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

8 Financial assets at fair value

	2020 $'000	2019 $'000
Defensive		
Cash investments	892,566	1,123,103
Fixed interest related investments	460,254	77,065
Growth		
Equity related investments	279,904	387,545
Global unlisted infrastructure	100,248	48,070
	1,732,972	1,635,783

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

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

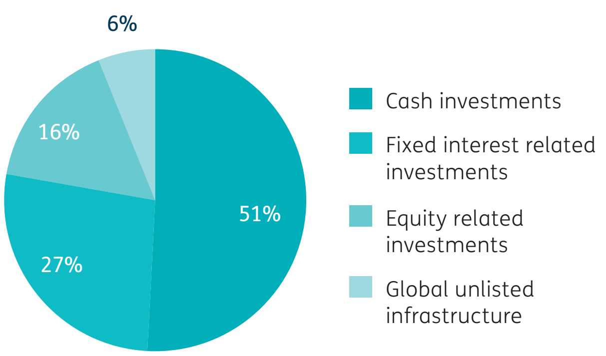
8 Financial assets at fair value (continued)

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

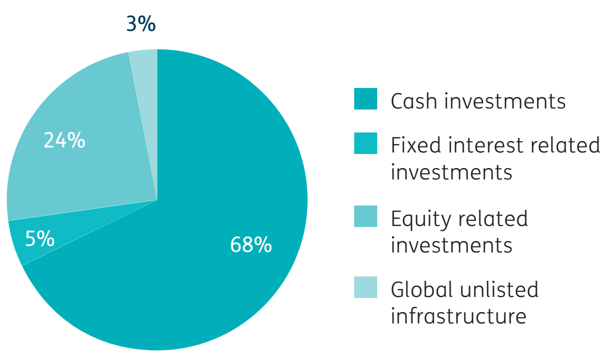
Portfolio composition:

	Benchmark	Allowable range	2020	2019
Defensive				
Cash investments	65.0%	45.0% - 80.0%	51.5%	68.7%
Fixed interest related investments	5.0%	0.0% - 35.0%	26.6%	4.7%
	70.0%	**60.0% - 80.0%**	**78.1%**	**73.4%**
Growth				
Equity related investments	18.0%	5.0% - 40.0%	16.1%	23.7%
Global Unlisted Infrastructure	6.0%	0.0% - 12.0%	5.8%	2.94%
Australian Direct Property	6.0%	0.0% - 12.0%	-	-
	30.0%	**20.0% - 40.0%**	**21.9%**	**26.6%**
	100.0%	**100.0%**	**100.0%**	**100.0%**

30 June 2020



30 June 2019



8 Financial assets at fair value (continued)

Accounting policy

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

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

HBF holds investments in cash, term deposits with banks, listed equities, units in unlisted unit trusts which invest in financial instruments and equities, managed funds and infrastructure investments funds. Cash investments are cash which is invested in Call Accounts or Term Deposits with an HBF approved Authorised Deposit Taking Institutions (ADI). Fixed interest comprises corporate bonds, global absolute return bonds and short duration credit.

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

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 managers valuation process, infrastructure assets are valued by independent appraisers on a quarterly basis. Asset valuations and the salient valuation-sensitive assumptions of each interest are reviewed by the fund manager. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three valuation techniques that can be used: the market, income or cost approach; the appropriateness of each approach depends on the type of assets or business being valued.

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

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

8 Financial assets at fair value (continued)

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

Level 1: quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;
Level 2: valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable); and
Level 3: valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2020				
Cash investments	892,566	-	-	892,566
Fixed interest related investments	-	460,254	-	460,254
Equity related investments	105,905	173,999	-	279,904
Global unlisted infrastructure	-	-	100,248	100,248
	998,471	634,253	100,248	1,732,972
As at 30 June 2019				
Cash investments	1,123,103	-	-	1,123,103
Fixed interest related investments	-	77,065	-	77,065
Equity related investments	-	387,545	-	387,545
Global unlisted infrastructure	-	-	48,070	48,070
	1,123,103	464,610	48,070	1,635,783

There were no transfers between levels during the 30 June 2020 or 30 June 2019 financial years.

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

Reconciliation of Level 3 fair value

	2020 $'000	2019 $'000
Opening balance	48,070	-
Purchases	49,348	47,500
Fair value gains recognised in profit and loss	2,830	570
Closing balance	100,248	48,070

8 Financial assets at fair value (continued)

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

Asset classification	Fair Value $'000	Valuation technique	Unobservable Input	Range
JP Morgan Infrastructure Investments Fund	51,320	Income Approach	Discount rate	8.5%-17.6%
IFM International Infrastructure Wholesale Fund II	48,928	Discounted Cash Flow	Discount rate	8.25%-13.9%
	100,248			

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

A 10% increase/ decrease in the fair value of Global unlisted infrastructure would result in a $10.0 million decrease/ increase to profit (2019: $4.8 million).

9 Risk management

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

(a) Governance framework

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

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

The directors execute their responsibility directly and via participation in Board Committees. Each Committee has a charter approved by the HBF Board that details its purpose, focus, powers and authority. This includes the HBF Group Audit Committee, the Group Risk Committee, the Group People, Culture and Remuneration Committee and the Group Transformation 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 fulfilling their responsibilities relating to the remuneration of the Non-Executive Directors and the Executive Director. The primary objective of the Transformation Committee is to assist the Group Board in fulfilling its responsibilities relating to governance of the HBF Business Transformation Program, including providing oversight of the adequacy and effectiveness of the Business Transformation Program and the key initiatives within it.

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

(b) Capital management framework

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

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

9 Risk management (continued)

(b) Capital management framework (continued)

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

(c) Insurance contracts risk

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

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

(i) Claims management and claims provisioning risks
Strict claims management ensures the timely and correct payment of claims in accordance with the policy conditions and provider contracts. The HBF Group's approach to determining the outstanding claims provision is set out in Note 4. The Chief Actuary assess 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 using 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 Risk Equalisation Special Account (RESA).

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

(d) Financial risk management

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

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

The financial liabilities exposed to cash flow and liquidity risk are the trade payables and accruals and the claims provisions. Trade payables and accruals mature within three months of the balance date. Outstanding claims mature within one year of the balance sheet date.

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

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

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

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

	Movement in variable	Exposure $'000	Surplus $'000
30 June 2020			
Unhedged			
International equities	+10%	63,362	6,336
	-10%	63,362	(6,336)
30 June 2019			
Unhedged			
International equities	+10%	154,901	15,490
	-10%	154,901	(15,490)

Interest rate risk
The HBF Group is exposed to interest rate risk through its cash investments and fixed interest investments. Interest rate risk on fixed term deposits has been managed both by limiting the term of deposits and also dividing funds into multiple accounts with different maturity dates.

The analysis below demonstrates the impact on the surplus and equity of a movement in interest rates on funds invested in cash investments, with all other variables held constant.

	Movement in variable	Exposure $'000	Surplus $'000
30 June 2020			
Cash investments	+0.5%	892,566	(3,220)
	-0.5%	892,566	3,220
30 June 2019			
Cash investments	+1%	1,123,103	(6,614)
	-1%	1,123,103	6,614

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

Price risk
The 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 HBF Group Board approves limits on the proportion of the investment portfolio held in fixed interest, international equities, domestic equities and infrastructure thereby limiting exposure to price risk.

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

	Movement in variable	Exposure $'000	Surplus $'000
30 June 2020			
Fixed interest related investments	+10%	460,254	46,025
	-10%	460,254	(46,025)
Equity related investments	+10%	279,904	27,990
	-10%	279,904	(27,990)
Global unlisted infrastructure	+10%	100,248	10,025
	-10%	100,248	(10,025)
30 June 2019			
Fixed interest related investments	+10%	77,065	7,707
	-10%	77,065	(7,707)
Equity related investments	+10%	387,545	38,755
	-10%	387,545	(38,755)
Global unlisted infrastructure	+10%	48,070	4,807
	-10%	48,070	(4,807)

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 the HBF Group's insurance business does not expose it to credit risk concentrations from its products and services. The HBF Group considers credit exposure when entering significant counterparty contracts with suppliers and intermediaries.

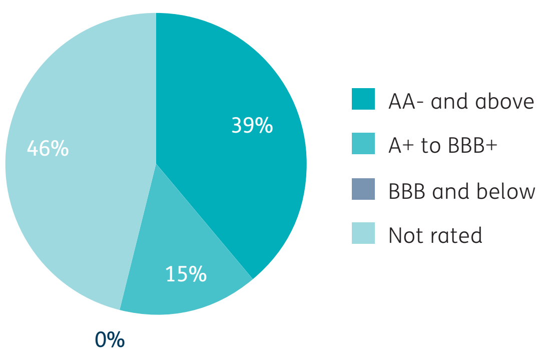
To limit investment portfolio exposure on cash, fixed interest and short duration credit investments, the minimum long-term credit rating which qualifies an approved Authorised Deposit Taking Institution (ADI) as prescribed by the HBF Investment Standard for a direct investment is BBB+ as rated by Standard and Poor's. To control the overall credit quality of the direct investments in cash HBF applies a credit framework limit of 100% (AA- and above), 40% (A+ to BBB+) and 0% (BBB and below). If the credit rating of an ADI is downgraded and no longer meets the minimum long-term requirement, no further investments will be made, however existing investments will be held until maturity.

9 Risk management (continued)
(d) Financial risk management (continued)
(iii) Market risk (continued)
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.

	AA- and above $'000	A+ to BBB+ $'000	BBB and below $'000	Not rated $'000	Total $'000
As at 30 June 2020					
Cash and cash equivalents	62,334	-	-	-	62,334
Financial assets at fair value	619,788	272,778	-	840,406	1,732,972
Government rebate receivable	33,406	-	-	-	33,406
Risk equalisation receivable on paid claims	22,627	-	-	-	22,627
Premium receivable	-	-	-	3,523	3,523
Sundry debtors and prepayments	1,409	-	-	11,737	13,146
Commission income accrued	-	-	-	726	726
Investment interest receivable	1,597	1,522	-	-	3,119
	741,161	274,300	-	856,392	1,871,854
As at 30 June 2019					
Cash and cash equivalents	57,642	-	-	-	57,642
Financial assets at fair value	728,013	395,090	-	512,680	1,635,783
Government rebate receivable	34,276	-	-	-	34,276
Risk equalisation receivable on paid claims	29,880	-	-	-	29,880
Premium receivable	-	-	-	4,727	4,727
Sundry debtors and prepayments	1,265	-	-	12,506	13,771
Commission income accrued	-	-	-	1,156	1,156
Investment interest receivable	4,064	4,418	-	-	8,482
	855,140	399,508	-	531,069	1,785,717

30 June 2020



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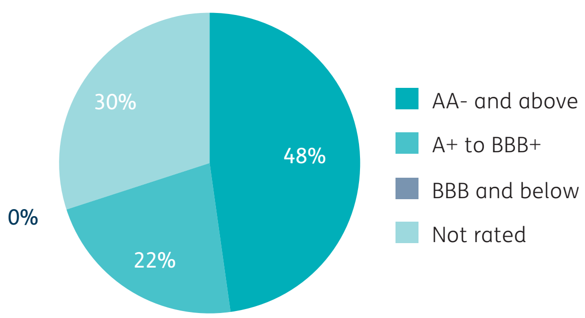

10 Reserves and retained earnings

	2020 $'000	2019 $'000
Attributable to HBF Health Limited		
General reserve	111,513	111,513
Retained earnings	1,353,221	1,314,408
Asset revaluation reserve	15,644	15,580
	1,480,378	1,441,501

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

The asset revaluation reserve is used to record increments and decrements on revaluation of non-current assets as described in Note 14.

The *Private Health Insurance Act 2007* requires health benefit organisations to maintain sufficient reserves so that, at any time, the value of the assets of the fund is sufficient to meet the obligations of the fund, at that date, to policyholders and creditors referable to the fund, under adverse conditions. The reserves of HBF Health Limited met the requirements of the *Private Health Insurance (Prudential Supervision) Act 2015* and the Solvency Standard and Capital Adequacy Standard contained therein as at 30 June 2020 and 30 June 2019.

Section 4: Other assets and liabilities

11 Receivables

	2020 $'000	2019 $'000
Government rebate receivable	33,406	34,276
Risk equalisation receivable on paid claims	22,627	29,880
Premium receivable	3,523	4,727
Sundry debtors and prepayments	13,170	13,797
Commission income accrued	726	1,156
Investment interest receivable	3,119	8,482
Total gross receivables	76,571	92,318
Allowance for impairment loss	(24)	(26)
Net receivables	76,547	92,292
Current	76,547	92,292
Non-current	-	-
	76,547	92,292

The carrying value of Receivables approximates fair value.

11 Receivables (continued)

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

	Neither past due nor impaired $'000	Past due but not impaired 0 to 3 months $'000	Past due but not impaired 3 to 12 months $'000	Past due and impaired $'000	Total $'000
As at 30 June 2020					
Government rebate receivable	33,406	-	-	-	33,406
Risk equalisation receivable on paid claims	22,627	-	-	-	22,627
Premium receivable	-	3,523	-	-	3,523
Sundry debtors and prepayments (gross)	13,146	-	-	24	13,170
Commission income accrued	726	-	-	-	726
Investment interest receivable	3,119	-	-	-	3,119
	73,024	3,523	-	24	76,571
As at 30 June 2019					
Government rebate receivable	34,276	-	-	-	34,276
Risk equalisation receivable on paid claims	29,880	-	-	-	29,880
Premium receivable	-	4,727	-	-	4,727
Sundry debtors and prepayments (gross)	13,771	-	-	26	13,797
Commission income accrued	1,156	-	-	-	1,156
Investment interest receivable	8,482	-	-	-	8,482
	87,565	4,727	-	26	92,318

Government rebate receivable accounting policy
Government Rebate receivable represents the rebate component of member's insurance cover owed and expected to be received from Services Australia. Contributions (rebate) 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 Risk Equalisation Special Account (RESA) which is administered by the Australian Prudential Regulation Authority (APRA). The RESA is a scheme to subsidise health insurers for high cost claims and age based claims amongst health insurers. The RESA is an estimated accrual based upon an industry survey of eligible claims. The final amounts receivable from the RESA are determined by APRA after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

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.

12 Assets held for sale

	2020 $'000	2019 $'000
Land	13,100	13,100
Buildings	85,701	85,701
Accrued commission income	-	5,767
HBF Pharmacy Pty Ltd	-	920
	98,801	105,488

(a) Land and buildings

The HBF Group is engaged in negotiations for the sale and leaseback of its Head Office building located at 570 Wellington Street, Perth WA 6000. Fair value has been determined with reference to the proposed sale and leaseback agreement. An exclusivity agreement with the purchaser has been agreed to 30 September 2020.

(b) Accrued commission income

During the current financial year Zurich Financial Services Australia Limited bought back the Future Trail Commissions owing to the HBF Group for the purchase price of $5,917,740. The Future Trail Commission was held as an asset held for sale at 30 June 2019.

(c) HBF Pharmacy Pty Ltd

During August 2019 the HBF Group formed an alliance with the pharmacy group Pharmacy 777. Under the alliance, the HBF Group sold HBF Pharmacy Pty Ltd including the Friendlies master franchise to Pharmacy 777. The Pharmacy 777 and Friendlies Pharmacy networks have been combined under the Pharmacy 777 brand to expand the reach of preventative health services provided to HBF members in pharmacies.

Assets held for sale accounting policy

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

13 Intangible assets

	Transformation program $'000	Computer software $'000	Work in progress $'000	Total $'000
30 June 2020				
Cost				
Opening balance	-	61,109	-	61,109
Additions	-	-	40,965	40,965
Transfers from work in progress	4,296	701	(4,997)	-
Closing balance	4,296	61,810	35,968	102,074
Amortisation				
Opening balance	-	57,729	-	57,729
Amortisation	356	2,698	-	3,054
Closing balance	356	60,427	-	60,783
Net book value at end of the year	**3,940**	**1,383**	**35,968**	**41,291**
30 June 2019				
Cost				
Opening balance	-	61,339	-	61,339
Additions	-	-	217	217
Transfers from work in progress	-	217	(217)	-
HBF Pharmacy Pty Ltd assets held for sale	-	(447)	-	(447)
Closing balance	-	61,109	-	61,109
Amortisation				
Opening balance	-	53,456	-	53,456
Amortisation	-	4,642	-	4,642
HBF Pharmacy Pty Ltd assets held for sale	-	(369)	-	(369)
Closing balance	-	57,729	-	57,729
Net book value at end of the year	**-**	**3,380**	**-**	**3,380**

Intangible assets with a cost of $17,144,000 (2019: $33,303,000) have been fully amortised and are still in use.

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

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised. Costs 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.

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

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

14 Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Branch renovations $'000	Work in progress $'000	Total $'000
30 June 2020						
Cost or valuation						
Opening balance	2,125	11,980	13,400	33,832	1,284	62,621
Additions	-	-			3,093	3,093
Right of use assets	-	864	191	-	-	1,055
Revaluations	-	64	-	-	-	64
Transfer out of work in progress	-	-	1,981	279	(2,260)	-
Closing balance	2,125	12,908	15,572	34,111	2,117	66,833
Depreciation						
Opening balance	-	9,315	9,667	17,492	-	36,474
Depreciation expense	-	625	2,022	2,416	-	5,063
Closing balance	-	9,940	11,689	19,908	-	41,537
Net book value at end of year	**2,125**	**2,968**	**3,883**	**14,203**	**2,117**	**25,296**
30 June 2019						
Cost or valuation						
Opening balance	18,125	102,111	11,368	30,832	715	163,151
Additions	-	-	-	-	5,601	5,601
Revaluations	(2,900)	(4,430)	-	-	-	(7,330)
Transfer out of work in progress	-	-	2,032	3,000	(5,032)	-
Assets held for sale	(13,100)	(85,701)	-	-	-	(98,801)
Closing balance	2,125	11,980	13,400	33,832	1,284	62,621
Depreciation						
Opening balance	-	5,947	7,575	14,947	-	28,469
Depreciation expense	-	3,368	2,092	2,545	-	8,005
Closing balance	-	9,315	9,667	17,492	-	36,474
Net book value at end of year	**2,125**	**2,665**	**3,733**	**16,340**	**1,284**	**26,147**

Property, plant and equipment with a cost of $4,704,000 (2019: $4,522,000) have been fully depreciated and are still in use.

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

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

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

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

14 Property, plant and equipment (continued)

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

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

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

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

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

The fair value of land and buildings at 30 June 2020 was determined by the Directors. The Directors have considered whether market conditions caused by COVID-19 would trigger a specific need to undertake a valuation of the properties. Given the nature of the portfolio which are retail locations in regional areas and that a large proportion of the property is occupied by HBF branches, it is considered that current market conditions are not likely to generate a significant reduction in the value of the land and buildings. Therefore, the Directors assessed the fair value as consistent with the prior year due to a lack of material changes in market conditions.

The fair value of the headquarters at 570 Wellington Street, Perth WA 6000 was determined using the proposed sale price of the building. The HBF Group is currently in negotiations for the sale and leaseback of the building. Refer to Note 12 Assets held for sale for further details.

Reconciliation of Level 3 fair value

	2020 $'000	2019 $'000
Opening balance	4,794	114,293
Depreciation for the year	(64)	(3,368)
Level 3 revaluation profit / (loss) on revaluation at year end	64	(7,330)
Assets held for sale	-	(98,801)
Closing balance	4,794	4,794

The revaluation of land and buildings resulted in the recognition of a revaluation reserve of $15,644,000 as at 30 June 2020 (30 June 2019: $15,580,000).

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

	2020 $'000	2019 $'000
Cost	2,672	2,672
Accumulated depreciation and impairment	(377)	(356)
Net carrying amount	2,295	2,316

15 Trade and other payables

	2020 $'000	2019 $'000
Trade creditors and accrued expenses	15,495	30,765
Employee related payables	7,756	6,939
Lease liabilities	444	-
Other payables	6,514	1,312
	30,209	39,016

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 3 months they are not discounted. They represent liabilities for goods and services provided to the HBF Group prior to the end of the financial year that are unpaid and arise when the HBF Group becomes obliged to make future payments in respect of the purchase of these goods and services.

16 Employee benefits

	2020 $'000	2019 $'000
(a) Employee benefits liability		
The aggregate employee benefit liability is comprised of:		
Accrued annual leave	5,816	4,983
Accrued long service leave	8,016	7,650
	13,832	12,633
Current	11,562	10,231
Non-current	2,270	2,402
	13,832	12,633

	2020 $'000	2019 $'000
(b) Employee benefits expense		
Included in HBF's employee benefits expense are the following:		
Employee costs (excluding superannuation plan expenses)	98,822	91,254
Defined contribution superannuation plan expenses	7,502	6,578
	106,324	97,832

16 Employee benefits (continued)

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

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

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

Section 5: Other

17 Auditors' remuneration

	2020 $	2019 $
Amounts received or due and receivable by Ernst & Young for:		
Audit of the financial reports	320,928	279,751
Other assurance services for regulatory reporting	121,347	70,724
Audit & assurance services	442,275	350,475
Consulting advice	159,285	934,931
Taxation advice	8,755	19,175
Other services	168,040	954,106
Total auditors' remuneration	610,315	1,304,581

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. Non-audit services accounted for 27.5 per cent of total auditor remuneration (FY19: 73.1 per cent).

18 Taxation

	2020 $'000	2019 $'000
(a) Reconciliation of tax expense to prima facie tax on accounting profit		
Total surplus before income tax	38,813	93,681
Tax at the Australian tax rate of 30% (2019: 30%)	11,644	28,104
Tax effect of tax exempt entity	(11,644)	(28,104)
Aggregate income tax expense	-	-

(b) There are no deferred tax assets and liabilities as at 30 June 2020 (2019: $nil).

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

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

18 Taxation (continued)
Taxation accounting policy (continued)

Revenue and expenses arising under the tax sharing agreement are disclosed as income tax expense in the statement of comprehensive income.

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

19 Contingencies and commitments

(a) Contingent liabilities

Under the agreement entered into in June 2011 to sell HBF Holdings Pty Limited and its wholly owned subsidiary, HBF Insurance Pty Limited, to CGU Insurance Limited (now Insurance Australia Group Limited (IAG)), HBF has received consideration of $15 million which will be required to be repaid on a pro-rata straight line basis over 10 years in the event that termination of the agreement occurs as a result of specified primary events. The specified primary events relating to HBF include; 1) being subject to a banning, disqualification, suspension or cancellation order under the *Corporations Act 2001, 2)* being charged with or convicted with any offence that is likely to bring IAG into disrepute, 3) authorisation to provide financial services becomes void, 4) insolvency, 5) holding an Australian Financial Service licence, 6) change of 15% or more in ownership, 7) disposal of assets other than in the ordinary course of business, 8) material change in conduct of business and 9) ceasing to be a private health insurer. The specified primary events relating to IAG relate to a change in legal or beneficial ownership by more than 50%.

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

	2020 $'000	2019 $'000
(b) Capital expenditure commitments		
Within one year	21,300	489
After one year but not more than five years	11,012	-
More than five years	-	-
	32,312	489

As at 30 June 2020 HBF had $31.9 million in contractual commitment for the software and transformation development of it's new IT platform. These commitments are not recognised as liabilities as the assets or services have not yet been received.

20 Cash flow statement

(a) Financing facilities available

Group Limit Facility with the Commonwealth Bank:

a) An overdraft facility of $30 million on the operational cheque account. By negotiation, the overdraft must not exceed the balance of other funds held with the Commonwealth Bank. The HBF Group had a debit balance of $11.8 million at 30 June 2020 (2019: $9.8 million).

b) An overdraft facility of $30 million with a cash deposit account set off of $30 million. The balance of this facility that was utilised at 30 June 2020 was $nil (2019: $nil).

20 Cash flow statement (continued)

	2020 $'000	2019 $'000
(b) Reconciliation of cash		
Cash and cash equivalents comprises:		
Cash and bank balances	61,834	57,642
Short-term deposits	500	-
	62,334	57,642

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

	Notes	2020 $'000	2019 $'000
Cash and bank balances		61,834	57,642
Short-term deposits		500	-
Cash at banks and short-term deposits attributable to assets held for sale	12	-	242
		62,334	57,884

	2020 $'000	2019 $'000
(c) Reconciliation of operating surplus after tax to the net cash flows from operations		
Profit for the year	38,813	93,681
Depreciation and amortisation	8,117	12,647
Gain on disposal of assets	(596)	(1,806)
Change in value of investments	1,442	(14,966)
Changes in assets and liabilities		
Government rebate receivable	870	2,190
Risk equalisation receivable	7,253	(2,204)
Premium receivable	1,204	892
Provision for bad debts	(2)	(13)
Commission income accrued	430	227
Sundry debtors and prepayments	627	(1,280)
Investment interest receivable	5,363	1,533
Deferred acquisition costs	6,139	8,890
Trade creditors and accruals	(8,807)	23,027
Unearned premiums	(7,166)	(9,537)
Outstanding claims	(8,029)	(2,775)
Deferred claims	94,296	-
Employee benefits	1,199	88
Net cash flow from operating activities	141,153	110,594

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

21 Related party disclosures

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

Directors;
Mr T Crawford
Mr J Van Der Wielen
Mr R England
Ms H Kurincic
Ms G McGrath
Mr R Moore
Mr B Stewart
Ms D Smith-Gander (from 11 May 2020)

Executives and senior management;
Mr S Walsh
Ms S Torrance (previously Duncalf)
Mr P Arav (until 7 August 2020)
Mr A Simpson
Mr A Stock (from 8 August 2019)
Ms D Carrington (from 16 September 2019)
Ms A Stanley (from 20 April 2020)
Mr P Kasimba (until 15 September 2019)
Mr W Linnell (until 31 October 2019)

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

(b) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the HBF Group during the 2020 financial year. All transactions were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors, executives or senior management during the current or prior financial years.

(c) Key management personnel remuneration

	2020 $	2019 $
Directors		
Short-term benefits	1,000,318	958,012
Superannuation	93,462	88,253
	1,093,780	1,046,265
Other key management personnel		
Short-term employee benefits	5,000,467	5,262,827
Superannuation	157,122	212,298
Long-term employee benefits	31,762	1,484,683
Termination benefits	339,962	829,926
	5,529,313	7,789,734
Total	6,623,093	8,835,999

22 Significant events after reporting date

Subsequent to financial year end HBF entered into a management services agreement (MSA) with Pacific Smiles Group Ltd. Pacific Smiles Group operates dental clinics and provides all of the resources necessary to enable dentists to give optimal clinical services. Under the MSA, HBF will build a minimum of five HBF Dental clinics in Western Australia over a period of 18 months, with the first clinics due to be opened early in 2021.

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

23 Information relating to HBF Health Limited (the Parent)

	2020 $'000	2019 $'000
Current assets	1,856,560	1,781,719
Non-current assets	175,932	143,524
Total assets	2,032,492	1,925,243
Current liabilities	510,188	440,384
Non-current liabilities	51,446	50,581
Total liabilities	561,634	490,965
Net assets	**1,470,858**	**1,434,278**
General reserve	111,513	111,513
Retained earnings	1,349,752	1,313,238
Asset revaluation reserve	9,593	9,527
Total equity	**1,470,858**	**1,434,278**

	2020 $'000	2019 $'000
Surplus of the Parent entity	36,515	92,664
Revaluation of land and buildings	64	67
Total comprehensive income of the Parent entity	**36,579**	**92,731**

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

The Parent entity has contractual obligations to purchase plant, equipment and software for $32,312,000 at balance sheet date (2019: $489,000).

24 New accounting standards and interpretations

(a) Changes in accounting policy and disclosures

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

The HBF Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2019. The adoption of these new standards and amendments has had no material impact on the HBF Group's financial statements:

AASB 16 Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The HBF Group adopted AASB 16 for the first time using the modified retrospective approach, as a result prior period balances were not restated. The impact of adopting AASB 16 is not material to the results of the HBF Group. Right of use assets are included in Note 14 and Lease liabilities are included in Note 15.
AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities	This Standard amends AASB 1, AASB 16, AASB 117, AASB 1049 and AASB 1058 to provide a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions principally to enable the entity to further its objectives. The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	This Standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.
AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: • AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity • AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

24 New accounting standards and interpretations (continued)
(a) Changes in accounting policy and disclosures (continued)

AASB Interpretation 23, and relevant amending standards Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.
AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-For-Profit Entities	AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for not-for- profit entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately. The Standard also expands the circumstances in which not-for-profit entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services), including for example, peppercorn leases.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, other than AASB 9 that is already effective, have not been adopted for the annual reporting period ended 30 June 2020. The nature of each new standard and amendment is described below:

AASB 9, and relevant amending standards Financial Instruments (application date of 1 July 2023)	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs. Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

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

AASB 9, and relevant amending standards Financial Instruments (application date of 1 July 2023) (continued)	The HBF Group has elected to apply the temporary exemption from AASB 9 as per AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts. The Group qualifies to apply the temporary exemption as it has not previously applied any version of AASB 9 and its activities are predominantly connected with insurance. Insurance liabilities within the scope of IFRS 4 comprise more than 90 per cent of the total carrying amount of the Group's liabilities. Note 9 provides information regarding the credit risk exposure of the HBF Group's financial assets according to the entity's categorisation of counterparties by Standard and Poor's credit rating. As at 30 June 2019 and 30 June 2020 all financial assets were considered to have a low credit risk with no significant credit risk concentration. The fair value of financial assets (refer Note 8) would not be materially impacted by the recognition of expected credit losses if AASB 9 were applied.
AASB 17 Insurance Contracts (application date of 1 July 2023)	AASB 17 replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts for for-profit entities. AASB 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The core of AASB 17 is the General (building block) Model, supplemented by: • A specific adaptation for contracts with direct participation features (Variable Fee Approach) • A simplified approach mainly for short-duration contracts (Premium Allocation Approach). The main features of the new accounting model for insurance contracts are: • A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) • A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period) • Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period • The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice. The HBF Group has begun its initial assessment of the impact of the adoption of AASB 17 on its financial statements.
Conceptual Framework AASB 2019-1 Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance

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

Conceptual Framework AASB 2019-1 Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework (continued)	AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	The Standard amends the definition of a business in AASB 3 Business Combinations. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	It is possible that an entity complying with Australian Accounting Standards cannot assert compliance with IFRS Standards if its reporting date falls between the issuance date of a new IFRS Standard and a later release date of an equivalent Australian Accounting Standard. To enable IFRS compliance assertion despite such delays, this standard amends AASB 1054 Australian Additional Disclosures to require disclosure of the possible impact of initial application of forthcoming IFRS Standards not yet adopted by the AASB, as specified in paragraphs 30 and 31 of AASB 108. Entities complying with Australian Accounting Standards can assert compliance with IFRS Standards by making this additional disclosure. The amendments are applied prospectively. Earlier application is permitted.
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (application date of 1 July 2022)	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non- current. Specifically: • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management intention or expectation does not affect classification of liabilities. • In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. These amendments are applied retrospectively. Earlier application is permitted.

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

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (application date of 1 July 2022)	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The above standards and interpretations are applicable for financial years beginning on or after 1 July 2020 unless otherwise stated. The HBF Group has not elected to early adopt any new standards or amendments that are issued but not yet effective. New standards or amendments will be adopted when they become effective.

The HBF Group is yet to assess the impact of the adoption of the remaining standards and amendments, except as indicated above.

HBF Health Limited
Directors' Declaration
Year ended 30 June 2020

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

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of their performance for the year ended on that date; and

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

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

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

On behalf of the Board

Tony Crawford
Chairman

22 September 2020
Perth

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 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

F Drummond
Partner

22 September 2020

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FD:LC:HBF:067

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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 2020, 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 2020 and of its consolidated financial performance for the year ended on that date; and

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

Basis for opinion

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

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

Deferred claims liability - basis of accounting

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

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

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

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

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

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

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

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

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth

22 September 2020

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