



# Concise Annual Report 2017



HBF. Trusted for over 75 years.

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

For people, not for profit.

# Contents

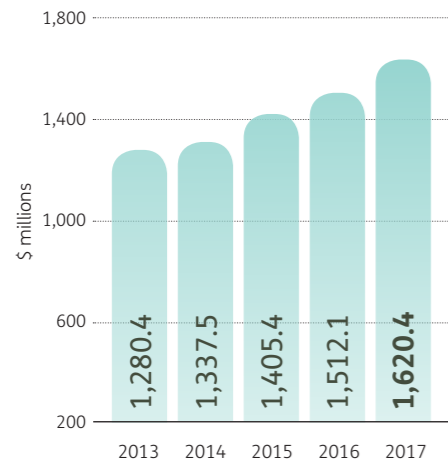
- 4-7 Performance at a glance
- 8 Benefits paid 2016/17
- 10 Chairman's report
- 14 Managing director's report
- 20 Corporate governance
- 26 Directors' report
- 32 Independent auditor's report
- 34 Concise annual financial report
- 36 Consolidated statement of comprehensive income
- 37 Consolidated statement of financial position
- 38 Consolidated statement of changes in equity
- 39 Consolidated statement of cash flows
- 40 Notes to the consolidated financial statements



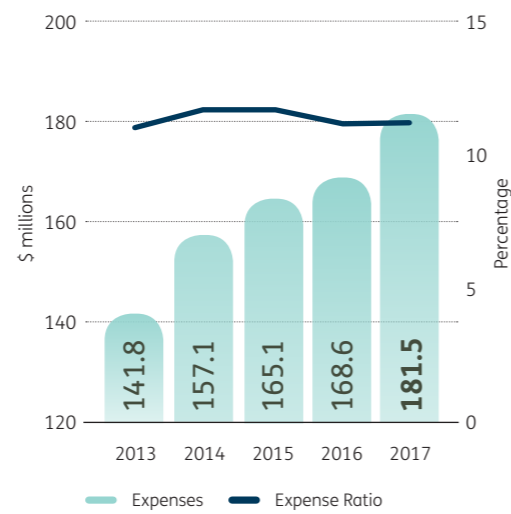
*This document provides a summary of the performance of HBF Health Limited and its subsidiaries ('HBF Group'). The commentary by the Chairman and Managing Director, and the concise financials themselves, relate mainly to the performance of HBF Health Limited, reflecting the relative importance of our main health insurance business within the HBF Group. Further details relating to subsidiary elements of the HBF Group can be found in the Corporate Governance section of this report.*

Income and surplus

Premium contributions

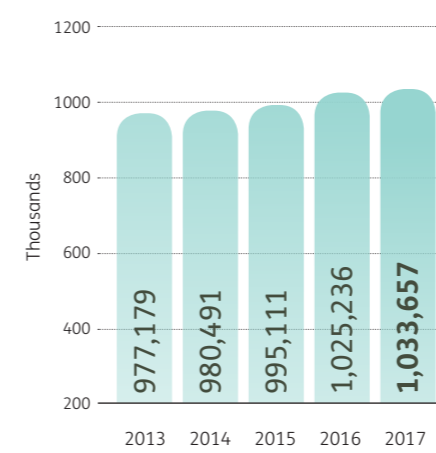


Administration expense

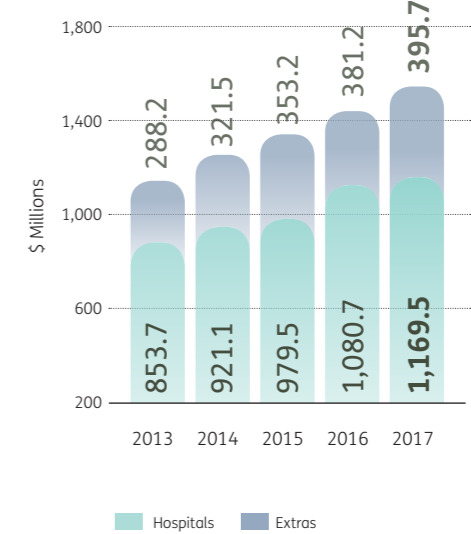


Membership and benefits

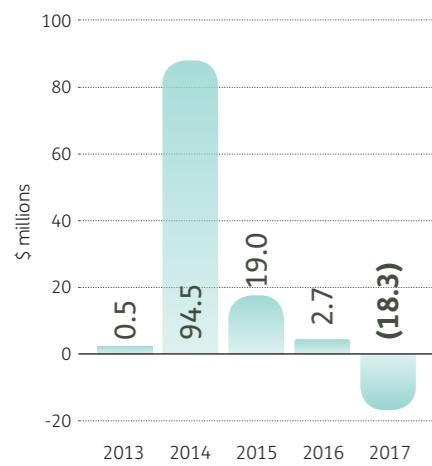
Number of HBF health members



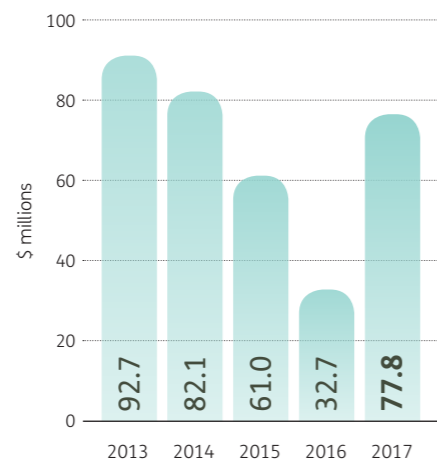
Member benefits 2012-2017



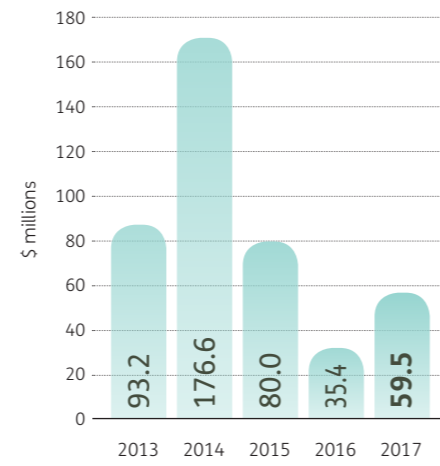
Operating surplus



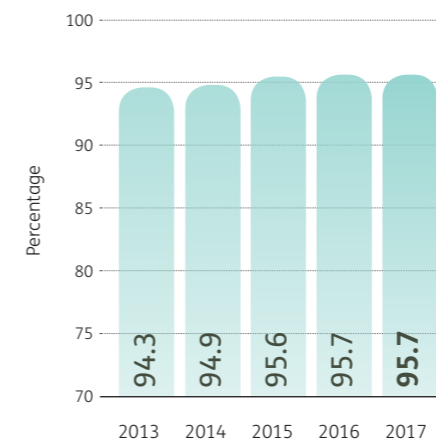
Investment income



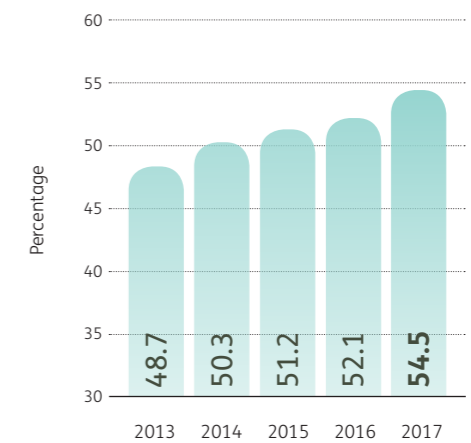
Net surplus



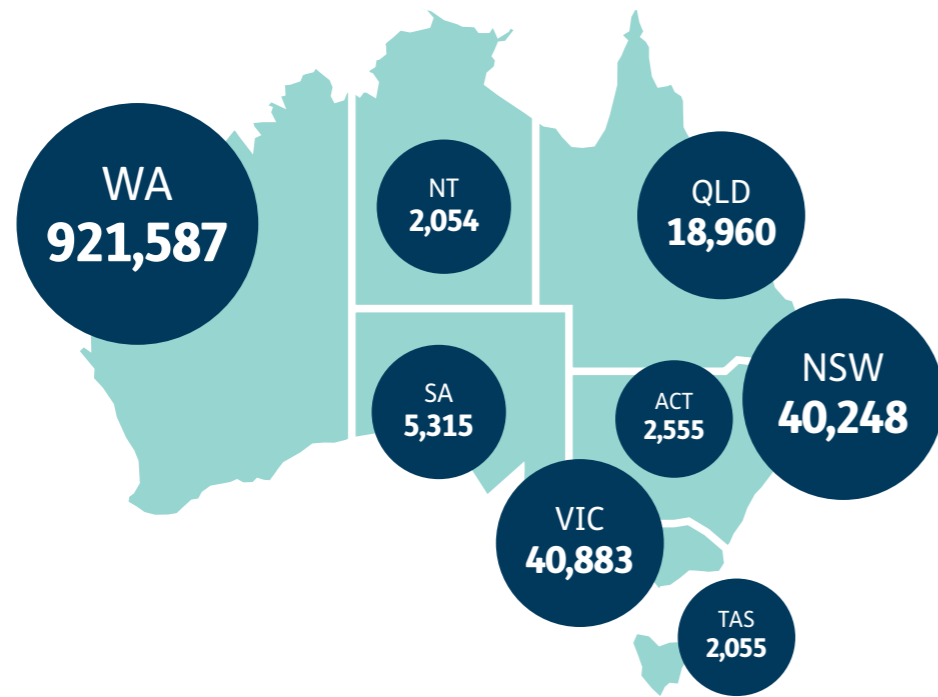
% of hospital related charges covered



% of general treatment charges covered

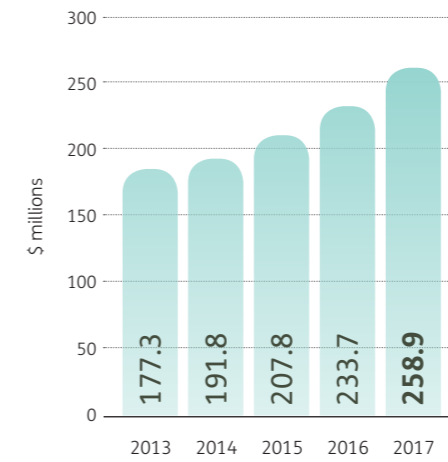


HBF Members - State by State as at June 2017

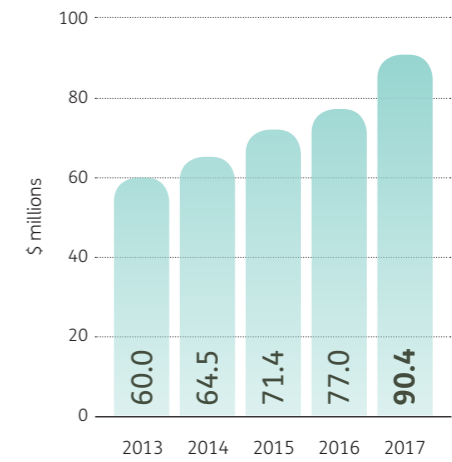


Hospital benefit areas with greatest growth

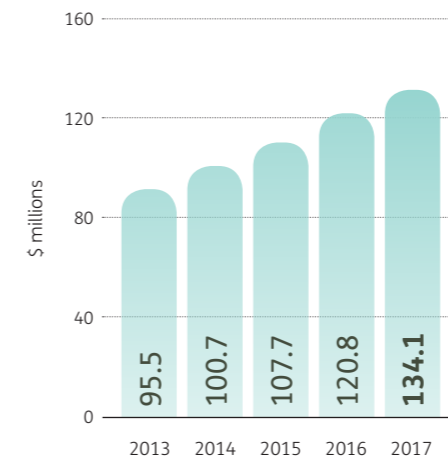
Orthopaedic benefits



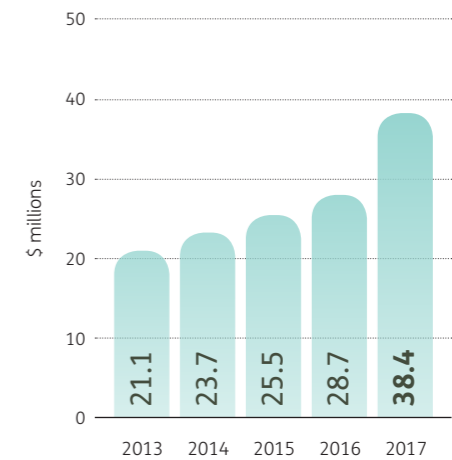
Digestive benefits



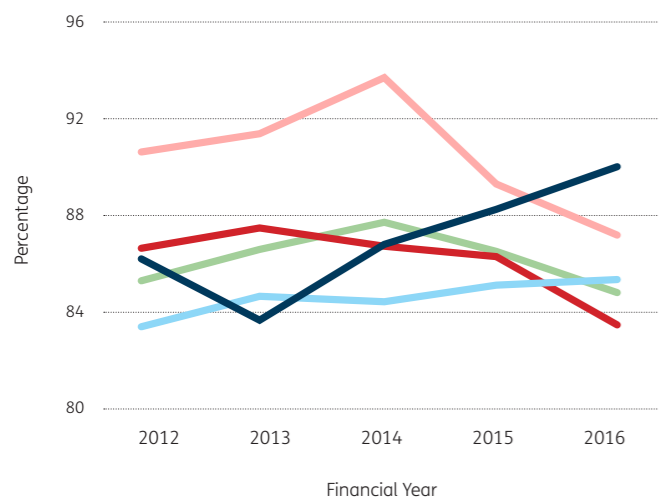
Cardiovascular benefits



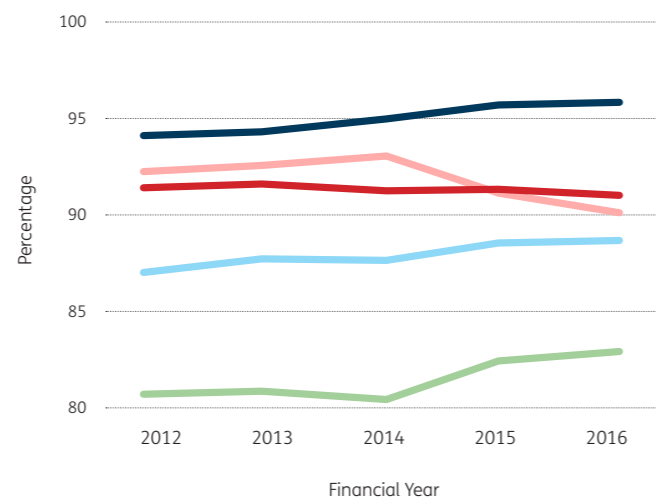
Mental health benefits



% of contributions returned as benefits by major funds in Australia



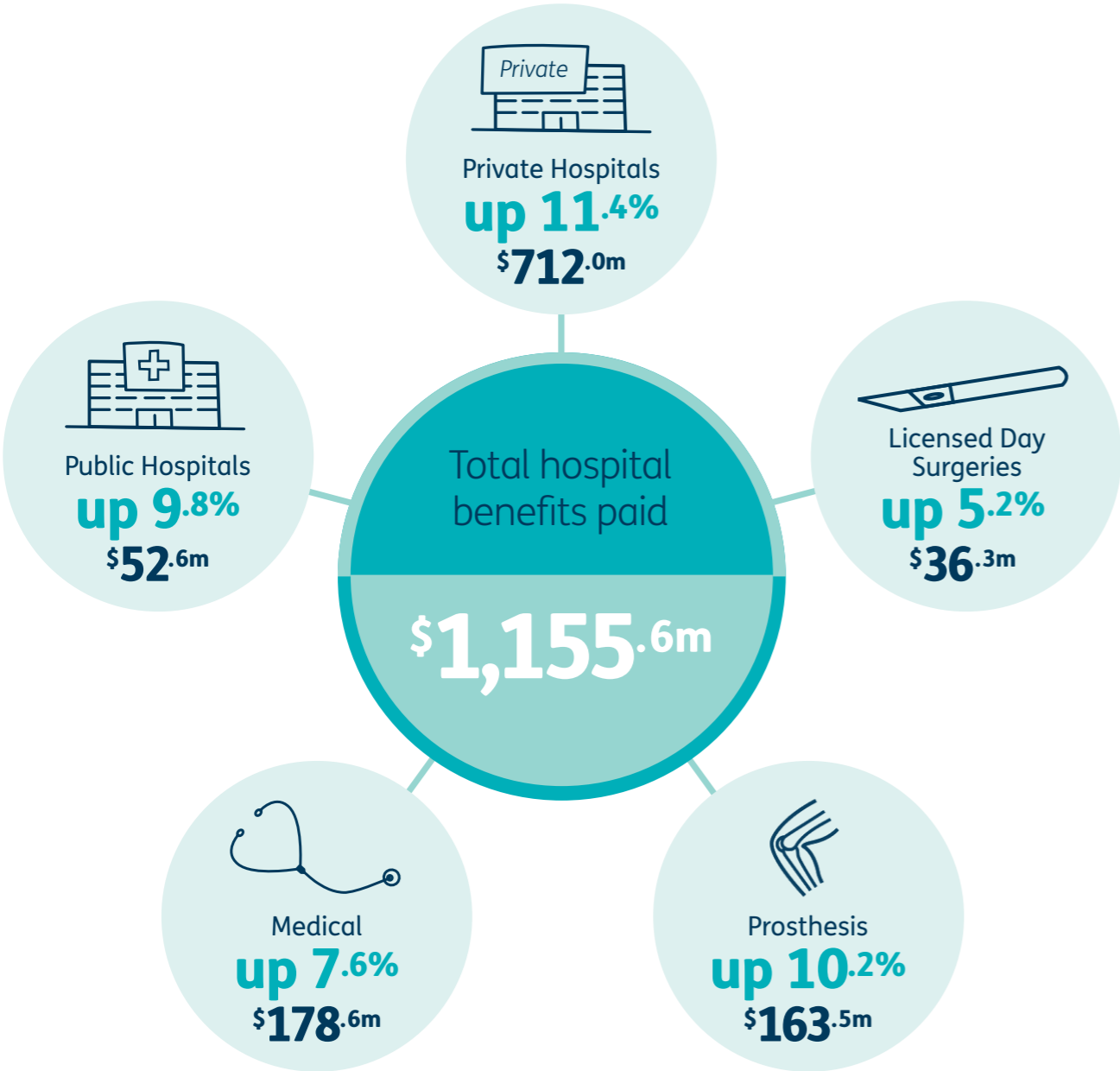
% of hospital related charges covered by major funds in WA



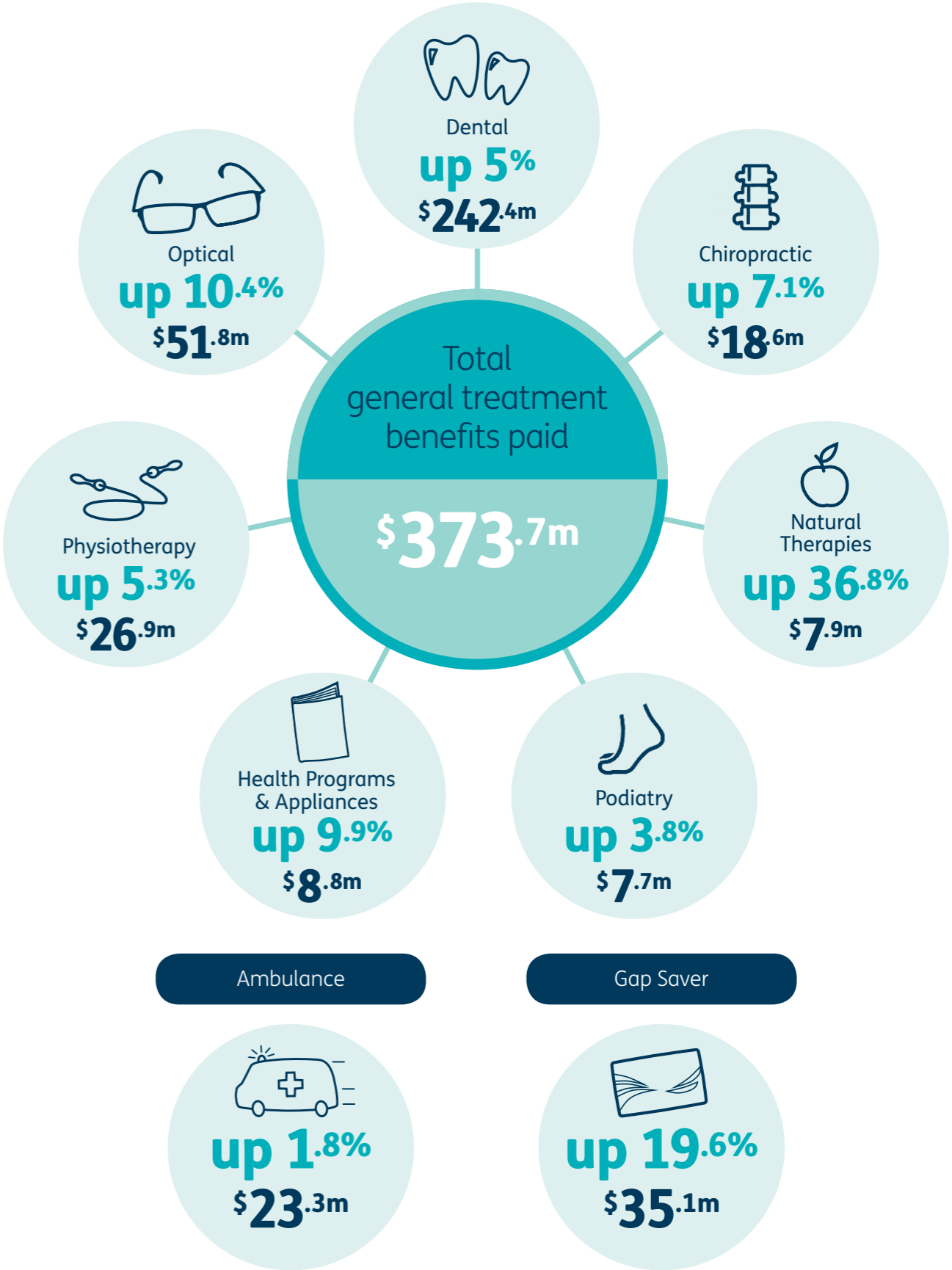
Legend: HBF (dark blue), HCF (pink), NIB (green), Medibank (red), BUPA (light blue)

Source - State of the Health Funds Report, 2015-16. Published March 2017.

Major areas of hospital benefits



Major areas of general treatment (extras) benefits



# Chairman's report

“In 2017, HBF returned 91.4% of premium contributions as benefits to members.”



Tony Crawford  
Chairman

The 2017 year saw significant change in HBF's Board and senior executive following the retirement of Barry Honey as Chair and Rob Bransby as Managing Director. I assume the role of HBF Chairman, conscious of both the privilege and great responsibility that comes with leading one of Australia's most respected health insurers.

As described in the Managing Director's report, 2017 was a challenging year for the health insurance sector and this is reflected in our financial results. While HBF achieved a healthy surplus of \$59.5m, this positive result was due to strong investment returns and income from sources other than our health insurance business.

In 2016, after an extended period of market growth for the health insurance sector, the percentage of the Australian population with health insurance plateaued.

In 2017 there was a further decline in the percentage of Australians with private health insurance and, for some insurers, an actual decline in membership. Issues of affordability, transparency and value for money have become more acute and present a major challenge for both insurers and Government.

HBF's membership grew from 1,025,236 in June 2016 to 1,033,657 in June 2017, and our national share of the health insurance market contracted marginally from 8.02% to 8.01%. We achieved another year of industry leading member retention rates. The proportion

of members choosing to stay with us (90.4%, at June 2017) remains higher than almost all other major funds.

In 2017 HBF recorded an underwriting loss of \$24.6m in our health insurance business. Health insurance contributions increased from \$1,512m to \$1,620m, the result of an increase of 4.94% in average premiums (HBF's average premium increase in April 2017 was 5.96%) and an increase of HBF health insurance policies of 4,851 from June 2016 to June 2017. Member benefits increased by 7% over the previous year, totalling \$1,565m for the year.

While a reflection of a challenging economic and commercial environment, this underwriting result also confirms HBF's determination to maximise returns to our members in accordance with our position as a not for profit insurer. This is evidenced in the fact that in 2017, HBF returned 91.4% of premium contributions as benefits to members.

Income from investments totalled \$77.8m, up from \$32.7m in 2016 reflecting the positive performance of equities during the year. Pleasingly, income from general and life insurance was higher than the previous year (\$14.9m compared with \$14.5m in 2016).

2017 was the fifth year in HBF's five year strategy to become a valued health partner, not simply an insurer, for our members. In that time we have introduced a range of health related services, particularly for the almost 90% of our members who live in Western Australia.

Under our health partner strategy we have invested significantly to encourage HBF members to be physically active and this year saw a record number take part in HBF Run for a Reason and our HBF Fitness program (free to members).



Every day,  
HBF pays out

**\$4.3m**

in hospitals and  
extras benefits to  
our members



Income from investments totalled

**\$77.8m**

up from \$32.7m in 2016

As we look forward I want to recognise the contribution made by HBF's previous leaders. Until his departure in March 2017, Rob Bransby had led HBF for over a decade as both Chief Executive and Managing Director.

Under his leadership, HBF's reputation as one of Western Australia's most respected organisations grew greatly. Rob was also recognised as a leader in the Australian health insurance sector and an advocate for health fund members and he continues to make a valued contribution as Chairman of the industry association, Private Healthcare Australia.

I also want to sincerely thank my predecessor Barry Honey for his considerable service to HBF since joining the HBF Board in 2007. Barry's contribution included chairing HBF's Nomination & Remuneration Committee and the Group Audit & Risk Management Committee before leading HBF as Chair from 2015 to 2016.

Finally, the Board was delighted to appoint Mr John Van Der Wielen as Chief Executive Officer and Managing Director. John brings experience gained from a 30 year global career in insurance and financial services, and is exceptionally well qualified to lead HBF into the future.

In the first few months since his appointment John has shown his ability to effect positive change and to maximise the return to our members. My Board colleagues and I believe that under John's leadership HBF can look forward with great confidence to the next chapter in its history.

**Tony Crawford**  
Chairman

Through the Friendlies Pharmacy group we now provide preventative health services ranging from weight management programs and health checks to flu vaccinations and sleep apnoea services. As the number of Friendlies stores has increased so too has the reach of these services.

Our health partner strategy has undoubtedly helped us to secure our status as WA's leading health insurer in the face of vigorous competition from large eastern states-based funds eager to grow their WA market share. The priorities and expectations of our members have changed in recent years, however, and it is timely to review every part of HBF's business strategy.

In the first quarter of the 2018 year the HBF Board will determine the strategy that will set the future direction for HBF.



Almost  
**\$8m**  
raised for  
WA health  
charities  
in 8 years.



**hbf run**  
FOR A REASON

Over  
**36,000**  
participants in 2017



“The average HBF member received 7.3% more in hospital benefits in 2017 than they did in 2016.”

It is a privilege to return to Perth from London and be asked to lead HBF, one of Australia's most respected health insurers and an organisation that has touched the lives of generations of Western Australians.

While this report reviews the year that ended on 30 June 2017, I also want to look to the future and the next chapter in HBF's history.

**Health insurance performance overview**

HBF's most important achievement in 2017, and the clearest measure of the contribution we make to the lives of our members, was the record amount returned to members in the form of health benefits. In total HBF provided \$1,565m in benefits to HBF members in 2017 – an increase of 7% on the previous year. Of this, \$1,169m was hospital benefits, up 8% on last year, and \$396m in benefits for general services (or 'extras'), an increase of 4% over the previous year. The average HBF member received 7.3% more in hospital benefits in 2017 than they did in 2016.

As the Chairman has said, the environment in which health insurers operate in 2017 is very different from even a few years ago. For more than a decade funds enjoyed steady growth in membership as the proportion of the population with health insurance rose. Today Australia's hospital coverage is falling and a significant proportion of members are downgrading to lower levels of cover or dropping their cover altogether.

While HBF has grown market share in the eastern states, almost 90% of our members reside in Western Australia, the State which for many years has had



John Van Der Wielen  
Managing Director

a higher percentage of its population covered by private health insurance than any other. Western Australia has faced particular economic challenges during the year with the Western Australia Treasury reporting a fall both in employment and average weekly earnings during the 2016 calendar year.

These factors have affected our ability to attract new members and retain existing members. A total of 50,277 new HBF health insurance policies were sold during the year (35,917 hospital and combined policies and 14,360 'extras' only policies), compared with 54,967 the previous year, representing an 8.5% decline.

For many years HBF's member retention has been higher than our

major competitors. This remains the case, but like most major funds we saw a slight decline in member retention in 2017. At June 2017 HBF's member retention was 90.4% compared to an average of 89.1% for all funds.

Income from HBF's general insurance and life insurance business made an important contribution to our net position in 2017. Earnings from home, car and travel insurance underwritten by CGU, and life insurance underwritten by Zurich, totalled \$14.9 million.

We believe there is potential for further growth in these product lines and this will be factored into our future strategic planning.





**Affordability concerns**

Member anxiety about the rising relative cost of private health insurance has become more acute and affordability is now the most pressing issue for the sector. We know HBF members place a high value on their health cover and HBF's consistently high net promoter score shows members are highly likely to promote HBF as a provider.

Independent analysis also confirms that we continue to deliver high quality experience to our members. The 2016 State of the Health Funds Report showed the Commonwealth Ombudsman received fewer complaints from HBF members than from other major funds, as a ratio to market share. The same report showed that on average we covered more hospital-related charges in WA than our major competitors.

However, like other funds, we continue to see high numbers of members downgrading to less comprehensive hospital products and new members choosing cheaper products with lower margins for HBF. During the year, 6.0% of hospital products were downgraded in order to reduce members' premium while just 2.3% were upgraded.

In 2014, 39.1% of HBF hospital policies sold had zero excess but in 2017 this declined to 19.5% and is forecast to decline still further in coming years.

HBF has worked hard to keep premium increases to a minimum and our premium increases have been kept below the sector average for 4 of the past 5 years. However, as for all health insurers, steeply rising input costs have necessitated HBF premium increases well above CPI and in 2017 our average premium increase of 5.96% was slightly higher than the sector average (4.84%).

**Partnerships and Intermediaries**

The influence of intermediaries in the sector has grown significantly in recent years and has been a factor in the increase in members 'switching' between funds and declining rates of member retention. Brokers such as iSelect and Compare the Market are increasingly used by Australians wishing to find the 'best deal' at a time when price has become the overriding factor in selecting a policy. Brokers now represent a serious competitive threat to health insurers even while offering an additional channel through which to acquire members. HBF's growth

in membership outside WA has been mainly through agreements with iSelect and Compare the Market and this year 9,715 HBF policies were secured through these two brokers.

Other funds use these and others brokers to grow their membership in Western Australia and competitive pressures increased in our home state during the year. Australia's largest not for profit fund HCF, noticeably increased its marketing in WA and established a physical presence through a number of kiosks in Perth shopping centres. HCF also partnered with RAC (WA) to offer discounted cover to their members.

While affordability is undoubtedly the most pressing issue for our sector, concerns about transparency and complexity are also important. In July 2016 HBF and Bupa announced that we were joining Nib as investors in Whitecoat, a search and comparison website developed to help Australians choose their health providers as well as book and pay for services. Whitecoat enables consumers to review providers, helping other consumers make an informed choice about which providers to use.

**HBF's Health Partner Strategy**

As the Chairman has stated, 2017 was the fifth year in HBF's five year 'health partner' strategy through which we have offered a growing range of health services to members. We have particularly helped and encouraged members to become more physically active, with discounts at gyms and HBF Stadium and HBF Arena, and through our professionally run fitness training in locations around Perth and regional centres. Our flagship event, HBF Run for a Reason, has grown to be the State's most popular community walking and running event, and this year attracted a record 36,224 participants.

Our network of franchised Friendlies Pharmacies grew to 27 stores in 2017 and we reach a growing number of members through the health services delivered through these outlets. So far in 2017 we provided 22,853 flu vaccinations, 82% of these were given to HBF members.

The added value provided to members through these services is real and has played an important role in supporting the HBF brand in Western Australia and maintaining our place as the State's largest insurer. In WA where our health partner activities are focused, our brand metrics are extraordinarily strong (Awareness, Consideration, Net Engagement Score, Net Promoter Score). By contrast, in other states these same measures are much weaker.

These services support our promise to 'Make healthy happen' and provide an important point of difference from our competitors. But providing these services adds cost to our business and it is not possible to replicate our health partner offering in the eastern states without a major outlay. In setting HBF's future strategy, including our continued growth outside Western Australia it will be important to balance the contribution these services make to our members with the demand for affordable health insurance.

**A focus on efficiency and member value**

As an independent not for profit fund, not obligated to make a financial return to shareholders or a parent company, HBF strives to maximise its return to members. In recent years we have chosen to operate on a low operating margin

(1% or less) although our negative operating result during 2017 shows that it is very difficult to consistently operate on such a small margin.

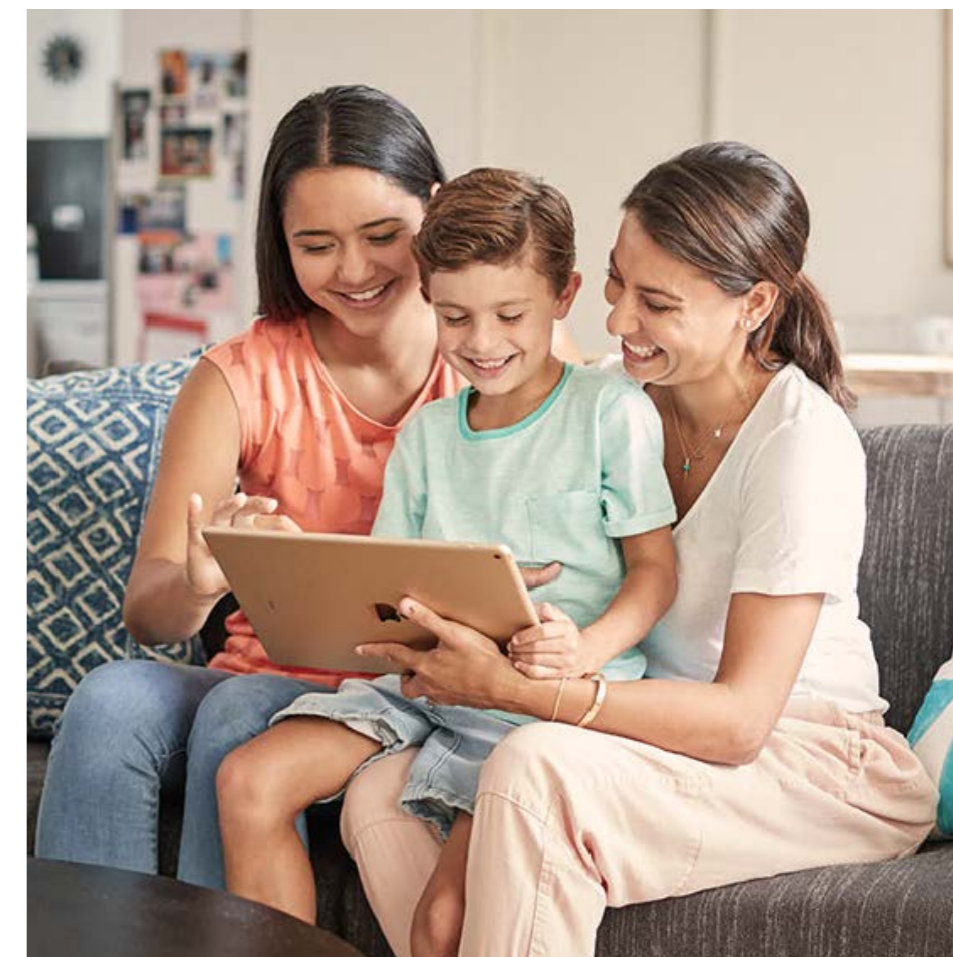
We recognise that we have a responsibility to manage our business as efficiently as possible in order to minimise pressure on premiums. HBF's Management Expense Ratio is relatively high compared to our industry peers, in part because of our investment in services that deliver additional value for members. Where we can make savings without negatively impacting the experience to our members we will do so and already we have significantly reduced our operating costs for 2018. These savings included ending our sponsorship of both the West Coast and Fremantle football clubs after the 2017 AFL season.

We have also reviewed partnerships to ensure that they deliver real value to members and have withdrawn from those that do not. During the year we took the difficult decision to end our association with the Members Own Health Funds, after assessing that the venture was unlikely to justify HBF's significant annual investment.



**\$14.9m**

commission income from general and life insurance business





**The urgent need for reform**

While we will do everything in our power to manage our business efficiently and provide the best value in health insurance products, others must also act to address the decline in the affordability of private health cover. The reforms needed to moderate the steep rise in health costs, are already well known and in some instances long overdue. HBF's recent submission to the Senate Inquiry into the Value and Affordability of Private Health Insurance and Out of Pocket Medical Costs again outlined these.

Reforms to regulations governing the pricing of prostheses must be undertaken as soon as possible. The serious deficiencies in the current arrangements means insurers pay greatly inflated prices for thousands of prostheses used every day in the treatment of our members. The difference between the benchmark market cost for prostheses and the cost HBF is obliged to pay under the Prostheses List arrangement is \$69 million annually. As the utilisation of prostheses has grown this has had an increasingly serious negative impact on our claims and placed additional pressure on premiums. In the last three years, HBF's prostheses benefits have grown 22% faster than total hospital benefits, averaging 9.9% p.a. compared to 8.1% p.a. for overall hospital benefits.

The increase in the number of HBF members treated privately in public hospitals over the last decade has also placed additional pressure on members' premiums. In 2017 HBF paid \$52.6 million for private patients in public hospitals in WA, a figure that has risen by \$12.6m or 31.6% over the past 2 years. Currently, 13% of all private patient episodes in WA relate to public hospital admissions. This reflects increasing efforts on the part of public hospitals to encourage patients to be treated as private patients. While providing a short term financial benefit for public hospitals, this practice contributes to higher health fund premiums and as members drop their cover it will ultimately place a heavier burden on the public health system.

We believe that addressing this cost shifting by public hospitals is essential if pressure on members' premiums is to be reduced and we are encouraged by the attention the Federal Health Minister is giving this issue.



Benefits relating to hospital and medical services for our members represented 73% of HBF's total benefits paid in 2017 and changes to the contracting process between insurers and private hospitals are also needed. While fees are negotiated between HBF and hospitals experience has shown that the ability of funds to resist steep increases in fees charged is severely limited.

The second tier default benefits scheme is a disincentive for hospitals to negotiate a fair price, knowing that there is an advantageous fall-back position which puts health fund members at increased risk of experiencing large out of pocket costs for health funds members. Like our industry peers, HBF believes the 'false bottom' provided through the second tier benefits system should be removed to encourage proper negotiations between funds and hospitals, except for remote and rural hospitals which the scheme was originally created to protect.

As concerns over affordability have risen, attracting and retaining younger

members has become noticeably more challenging. During the year commentators, including the media and consumer advocates such as Choice, have increasingly voiced their opinion that private health insurance is a 'bad deal' for young people, ignoring the dependence of older fund members on the continued premiums paid by younger low claimers.

Like Private Healthcare Australia and others we believe the time has come to incentivise young people to take up health insurance at an early age through a discount to their premium that will apply for an extended period or for their lifetime.

**Future opportunities**

It is already clear that in 2017/18 health insurers will be challenged and held to account by members, commentators and Government. HBF has already taken important steps to ensure that we are efficient and focussed on maximising the return to our members. There will certainly be further changes

in the coming year and I have every confidence that HBF is more than equal to the challenges that lie ahead of us.

Finally I wish to thank my fellow Directors for their leadership, and HBF employees for their consistent dedication and hard work on behalf of our members throughout the past year.

**John Van Der Wielen**  
Managing Director



HBF's member retention was

**90.4%**

Compared to an average of 89.1% for all other funds

Our recent decision to close our Whitfords, Fremantle and Busselton branches and adjust the service hours of two others also delivered significant savings. The optimisation of our branch network reflects the fact that our members increasingly choose digital, rather than physical, channels to interact with us and we have seen a significant decrease in the number of members visiting branches.

**Our product portfolio**

It is essential that our health insurance products meet the changing expectations of members, including their clear desire for simple, lower cost products. One of the most important undertakings in 2018 will be a complete review of our suite of products. HBF currently has a very high number of closed products and maintaining these, many of which are held by a relatively small number of members, adds complexity and cost to our business. Terminating closed products and migrating members to other products will be one of the goals of our product review.

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

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

HBF monitors good practice developments and conducts regular reviews, in order to enhance its corporate governance practices in an ongoing manner.

*A copy of this statement has been posted to the HBF website, [hbf.com.au](http://hbf.com.au)*



**Council**

HBF is a membership based organisation operating under mutual principles, and councillors are appointed as the “formal members” of the company.

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

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

**HBF Board**

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

The Board also oversees compliance with the regulatory requirements set by the Department of Human Services (DHS), the Department of Health (DOH), the Australian Competition and Consumer Commission (ACCC), and the Australian Securities and Investments Commission (ASIC) requirements and general corporate operations, as well as requirements for distribution of general insurance products that are underwritten by CGU and life risk insurance products issued by Zurich Financial Services Australia Ltd.

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

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

The Board seeks appropriate assurance through the Managing Director, and the Committees and other forums and processes of the Company, that members of the management team are appropriately qualified and experienced to carry out their responsibilities.

To align management objectives and activities with HBF Board expectations, the HBF Board has:

- Reviewed the strategic plan to ensure it continues to meet stakeholder needs;
- Approved initiatives and strategies designed to support the development of HBF;
- Established financial and non-financial key performance indicators;
- Adopted business plans, budgets and capital management plans aligned to the strategy;
- Maintained oversight of systems to identify, monitor and manage significant risks;
- Maintained relationships with APRA, DOH, DHS, ACCC, ASIC and other government and regulatory bodies; and
- Considered the social, ethical and environmental impact of HBF activities.

As at the date of the Directors’ report, the HBF Board comprised seven non-executive directors (including the Chairman) and the Managing Director.

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

The skills matrix employed by the HBF Board includes skills assessments around general skills such as commercial acumen, strategy development, corporate governance, financial and risk management, stakeholder management and regulatory compliance – together with assessment of areas of specific skill and expertise, including marketing and communications, health sector (and private health insurance) experience; together with the assessment of relevant accounting, legal and other skills.

The Nomination and Remuneration Committee recommends candidates for the HBF Board, together with non-executives for subsidiary board positions.

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

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

**Committees**

The directors execute their responsibilities directly and via participation in Board committees. Each committee has a charter approved by the HBF Board that details its purpose, focus, powers and authority. These charters are reviewed regularly for relevance. During the bulk of the year, there were two committees appointed by the HBF and subsidiary boards to deal with specific areas of responsibility, these being the Audit and Risk Management Committee, and the Nomination and Remuneration Committee, which are described in detail within this report. Effective September 2017 HBF also formed a Risk Committee, which now has the primary responsibility for oversight of risk and compliance matters, consistent with upcoming APRA regulatory requirements and standards. The implementation of this Risk Committee meant that some of the previous responsibilities for risk management effectively transferred from the Audit and Risk Management Committee, to the new dedicated Risk Committee – effective September 2017.

Membership of committees is determined by the Board on advice from the Nomination and Remuneration Committee.

Chairpersons of the boards, senior managers and external professionals are invited to attend meetings as required to contribute to, and support, the work of committees. Minutes of committee meetings are provided to the HBF Board, and where relevant subsidiary boards,

and the HBF Board is given an oral report from the Chairman of each committee. Performance is reviewed periodically against the committee charter, and strengths and opportunities for improvement are discussed by committee members. The Board reviews committee performance and performance of committee members is evaluated as part of the annual director performance review.

**Audit and Risk Management Committee**

*(terms of reference updated effective September 2017)*

The role of the Audit and Risk Management Committee is to assist the HBF and subsidiary boards in fulfilling their responsibilities relating to financial reporting practices, accounting policies, audit and assurance, compliance with both legal and ethical requirements and the risk management framework. In September 2017, the risk management framework responsibilities effectively transferred to the new Risk Committee.

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

The Committee currently comprises three non-executive directors, and it is expected that a fourth non-executive director will shortly be added to the Committee. At least two committee members are to have practical business experience in financial reporting, application of accounting standards and audit requirements and all members must be financially literate. The Managing Director, senior managers, internal and external auditors as well as appointed actuaries attend meetings upon invitation.

During the past financial year, members of the Committee included, Richard England (Committee Chair), Mary Woodford, Helen Kurincic (appointed November 2016), Rod Moore and Brent Stewart. Each of Brent Stewart and Mary Woodford left the Committee in September 2017, as part of the re-organisation of the Committee structure of the Company. The Committee meets at least four times per year.



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

Fiona Drummond is EY’s lead audit partner for HBF Health Limited.

**Nomination and Remuneration Committee**

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

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

The Nomination and Remuneration Committee currently comprises four

non-executive directors. The Managing Director attends by invitation. During the year, the members of the Nomination and Remuneration Committee have included Tony Crawford (Committee Chair from October 2016), Barry Honey (Committee Chair until retiring from the Committee in October 2016), Valerie Davies, Mary Woodford and Richard England. The Committee meets approximately four times per year, and as required.

**Risk Committee**

*(implemented September 2017)*

The role of the Risk Committee is to assist the HBF and subsidiary boards in fulfilling their responsibilities relating to oversight of the risk management framework of HBF, and to make recommendations regarding settings for the HBF risk appetite statement, and risk management strategy.

The Committee maintains oversight of, and provides constructive challenge regarding, management systems of internal control, risk management and compliance.

The Committee also has oversight of management’s implementation and maintenance of appropriate processes to identify, assess, manage, monitor and report on risks that might prevent HBF from achieving its business objectives. In addition, the Committee oversees the promotion by management of awareness of a risk-based culture throughout HBF, and the establishment by management of a balance between risk, and reward for risks accepted.

The Committee currently comprises three non-executive directors, and it is anticipated that a fourth non-executive director will be added to the Committee in the coming period. The current members of the Committee are Helen Kurincic (Committee Chair), Mary Woodford and Brent Stewart. The Committee is expected to meet at least four times per year.

**Board Policies**

The HBF Board has a Board Governance Policy Framework and Manual, which establishes a robust structure for defining outcome objectives for the organisation, governance of the HBF and subsidiary boards’ own processes, Board

and management relationships and limitations on management decision-making discretion.

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

**Ethical standards and corporate social responsibility**

HBF has a Code of Conduct, which sets out the expected standards of behaviour for all employees, including directors. It outlines the principles of honesty and integrity, equity and fairness, confidentiality, impartiality, respectfulness and courtesy, which are to be demonstrated in all relationships with members, colleagues, suppliers, competitors and the general public.

Open and honest behaviour is one of HBF’s core values. The Code of Conduct is aligned with employment legislation and the obligations this places on HBF and its employees.

The organisation also has policies on whistleblowing, conflicts of interest, fitness and propriety, social media, privacy, health and safety and the prevention of discrimination, harassment and workplace bullying.

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

HBF actively supports the community by donating to selected charitable causes, encouraging employees to volunteer their time and energies through various programs and policies, and most of all, by supporting and staging events which promote healthy lifestyles and behaviours.

**Independent professional advice**

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

**Performance evaluation**

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

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

**Audit and risk management**

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

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

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

The Board of HBF plays a key role in risk management, which is embedded throughout the systems of the Company for strategic and business planning, and monitoring of organisational performance. The internal auditors of HBF review the effectiveness of the risk management process and the internal compliance control system.

The Committees of HBF consider audit scope, areas of significant risk, the effectiveness of risk management and internal controls, the quality of the internal and external audit processes, effectiveness of the annual audit and auditor performance, fees and auditor independence.

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

**Remuneration**

HBF seeks to retain a high-quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to industry standards and benchmarks. Any change to the remuneration pool for non-executive directors is subject to approval by Councillors at the Annual General Meeting.

**Conflict of interest**

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

**Commitment**

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

**Confidentiality**

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

**Board access to information and advice**

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

**Education and induction**

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

In order to achieve continuous improvement in Board performance, all directors are required to undertake continuing professional development in keeping with the minimum membership requirements of the Australian Institute of Company Directors and are provided with resources and training to address skill gaps when identified.

**Diversity**

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

The proportion of females at the different levels as reported in HBF’s EOWA Report at 31 March 2017 was:

|                                   |     |
|-----------------------------------|-----|
| CEO/Head of Business              | 0%  |
| Key Management Personnel          | 80% |
| Other Executives/General Managers | 25% |
| Senior Managers                   | 52% |
| Other Managers                    | 65% |
| Total employees                   | 74% |

At the date of this report, 43% of the non-executive directors on the HBF Board are female.

**Company Secretary**

Verran Fehlberg (appointed April 2017) is the Company Secretary of HBF, and Julie Keene was Company Secretary until April 2017. Responsibilities of the secretarial function include preparation and distribution of Board agendas and papers, taking of Board minutes, providing advice to directors and officers on corporate governance developments and regulatory matters, implementing and maintaining HBF’s Board governance policy and giving practical effect to Board decisions. Directors have access to advice from the Company Secretary.

**Subsidiary and minor operating and non-operating entities**

There are a number of operating and non-operating subsidiary entities within the HBF Group. The Managing Director and/or other relevant senior executives comprise the membership of subsidiary boards, together with non-executive directors as considered relevant and appropriate.



# Directors' report Year ended 30 June 2017

Your directors submit their report for HBF Health Limited (HBF) and its controlled entities (HBF Group) for the year ended 30 June 2017.



### HBF Board of Directors

- 1: Tony Crawford  
*Deputy Chairman and Chairman*
- 2: Brent Stewart
- 3: Mary Woodford
- 4: Helen Kurincic
- 5: John Van Der Wielen  
*Managing Director*
- 6: Richard England
- 7: Valerie Davis
- 8: Dr Rod Moore



### Directors

Details of the directors of the HBF Health Limited during the financial year and until the date of this report are as follows.

Directors were in office for this entire period unless otherwise stated.

### Tony Crawford

*(Deputy Chairman and Chairman from November 2016)*

LLB, BA, GAICD

Mr Crawford was appointed a Director to HBF Health Limited in August 2014 and was a Director of HealthGuard Health Benefits Fund Limited from 2013 until June 2015. He is a member of the HBF Group Audit and Risk Management Committee and the Nomination and Remuneration Committee. Mr Crawford was appointed the Chairman of the HBF Board on 24 October 2016.

Currently Mr Crawford serves as Chair of Grant Thornton Australia Limited and Heart Research Australia and is a non-executive Director of a number of other public and private companies and not for profit organisations.

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

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

### John Van Der Wielen

*(Managing Director from May 2017)*

MBA, FAICD

John commenced his role as Chief Executive Officer and Managing Director of HBF in May 2017 and he is a director of all of HBF's subsidiary companies.

Prior to this John spent over 25 years in insurance, wealth management, private banking and investments including executive positions within several global financial services groups. This involved leading a number of acquisitions, integration and restructuring programs and senior executive board membership of listed ASX, FTSE, European and Asian entities. John is experienced in fronting stock markets, liaising with direct investors and meeting analysts on company strategy and performance in many international markets.

John's most recent executive role was the CEO of Friends Life UK and International in London and prior to this he was the Managing Director Wealth at ANZ Bank in Sydney.

Most recently John has been a Senior Adviser for Blackstone in the financial services arena and an independent non-executive on several boards. He is Chairman of KYCKR, an Irish based technology company specialising in Anti Money Laundering (AML) and fraud detection, which is listed on the ASX.

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

**Valerie Davies**

FAICD

Ms Davies was appointed a Director in October 2005 and was Chair of subsidiary HealthGuard Health Benefits Fund Limited from 2012 until its formal deregistration in May 2016. She is a member of the Nomination and Remuneration Committee and also served on the Board of HBF Financial Services Pty Limited until March 2009.

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

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

**Richard England**

FCA, MAICD

Mr England was appointed a Director in February 2015 and in October 2015 was appointed to Chair of the HBF Group Audit and Risk Management Committee. For the past 20 years, he has served as a non-executive Director and Chair of listed and unlisted companies as well as not for profit organisations. Currently he is Chair of QANTM Intellectual Property Limited. Until September 2016 he was a Director and Chair of Ruralco Holdings Limited and until April 2015 was a Director and Chair of Chandler Macleod Group Limited. He is a non-executive Director of Japara Healthcare Limited, Macquarie Atlas Roads Limited, Nanosonics Limited, Bingo Industries Limited and QANTM Intellectual Property 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 in February 2016. She is currently the Chair of Integral Diagnostics Limited (ASX:IDX), non-executive director of Estia Health Limited (ASX:EHE) and recently Sirtex Medical (ASX:SRX), and is a senior advisor to global and local investment funds and entities on the health care sector. She was formerly the Chief Operating Officer and Director of Genesis Care, from its earliest inception creating and developing the first and largest radiation oncology and cardiology services network across Australia.

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

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

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

**Dr Rod Moore**

MBBS, Grad Dip Sp Med, GAICD

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

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

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

**Brent Stewart**

BPsych, BSc, FAICD

Mr Stewart was appointed a Director of HBF Health Limited in November 2015 and is a member of the HBF Group Audit and Risk Management Committee. He is currently executive Chair of Waveride Capital Limited and non-executive Chair of Surgical Specialties Pty Limited and Etherington Pty Limited. He is also a non-executive Director of Argonaut Limited and has occupied a variety of Board roles in both the public and private sector.

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

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

**Mary Woodford**

LLB, MPH, BA (Hons), FAICD

Ms Woodford was appointed a Director in August 2007 and is a member of the HBF Group Audit and Risk Management Committee and the Nomination and Remuneration Committee. She was a Director of HBF Insurance Pty Limited prior to the sale of the general insurance underwriting business, a Director of HBF Financial Services Pty Limited until 2009 and a member of HBF's Finance and Investment Committee until June 2011. She is General Manager, Advocacy, with the Law Society of Western Australia, having previously held the roles of Senior Legal Counsel at UWA and of Consultant, Corporate & Commercial with Jackson McDonald Lawyers.

Ms Woodford also has experience as a Company Secretary and Chair for not for profit organisations. She is currently Chair of Mercycare Limited and Chair of Central Regional TAFE.

**Barry Honey**

(Chairman until October 2016)

BBus, FCA, MAICD

Mr Honey was appointed a Director in October 2007 and appointed Chair of the Board in November 2015, and served until his retirement from the Board in October 2016.

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

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

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

**Rob Bransby**

(Managing Director until March 2017)

SF Fin, FAIM

Mr Bransby was Managing Director of HBF Health Limited since January 2008 until March 2017, having been appointed Chief Executive Officer in 2007 and Group General Manager in 2005. He was a Director of all of HBF's subsidiary companies and was a Director of HBF Insurance Pty Limited prior to the sale of the general insurance business in 2011.

Mr Bransby's term has coincided with a period of unprecedented competition within the health insurance sector, during which HBF consolidated its position as Western Australia's leading health fund, reaffirmed its focus on member health and embarked on an ambitious strategy to become a valued health partner to HBF members. Mr Bransby is well known as an outspoken advocate for health fund members.

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

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

Mr Bransby is President of Private Healthcare Australia (PHA), a Director of Synergy and Pioneer Credit Limited. He is a Director of CBA Board of Advice Companies, a Commissioner of the Insurance Commission of WA and a Board Member of the Department of Health's Australian Digital Health Agency (ADHA). Until May 2016 he was a member of the International Federation of Health Plans' (iFHP) Council of Management and a Director of Goldfields Money Limited and until June 2016 a Director of Members Own Health

**Principal activities**

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

**Objectives**

As a not-for-profit health insurer our core objective is to deliver value to our members through relevant health insurance products which provide access to the highest quality healthcare at an affordable price.

We look for opportunities to grow our membership nationally, while remaining the leading provider of health insurance in Western Australia.

Under our 2012-2017 business strategy, HBF has worked to become a valued health partner for members as well as a trusted health insurer. We have provided a growing range of preventative health services, many of which have been delivered through the Friendlies Pharmacy group for which HBF holds the franchise.

At time of writing HBF's medium term business strategy is under review by the HBF Board. An update on the strategic review will be presented to the HBF Council at the AGM in October 2017.

**Performance measures**

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

**Operating and financial result**

In the face of challenging operating conditions, HBF Group achieved a surplus for the year after tax of \$59.5m (2016:\$35.4m) as strong investment returns, offset a small operating loss from underwriting activities.

**Health insurance**

Membership growth, helped by above industry average retention of members, has underpinned an increase in contributions of 7.2% (\$108.3m) to over \$1.6 billion. This increase took place during a year when the private health insurance industry witnessed a significant number of policy downgrades and members leaving the industry due

to concerns over the affordability of healthcare.

Across the HBF Group, benefits provided to members increased 7.1% from the prior year to \$1.57 billion (2016: \$1.46 billion). The amount of benefits paid, net of risk equalization, as a percentage of contributions received has increased from 89.8% last year to 91.2% this year.

Expenses increased by \$13.0m reflecting higher acquisition costs, increasing labour costs and continuing investment in infrastructure and process improvements to enhance efficiency and member experience.

**General and life insurance**

During the current financial year the HBF Group earned commission income of \$14.9m (2016: \$14.5m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products underwritten by Zurich Financial Services Australia Limited.

**Investments**

Gains from financial assets at fair value for the HBF Group were \$77.8m (2016: \$32.7m), equivalent to an overall investment return for the year of 5.4% (2016: 2.4%). When compared to last year, the positive performance of equities, partly offset by lower interest rates which reduced the returns available on the cash investments, contributed to this result.

**Dividends**

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

**Share options**

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

**Significant changes in the state of affairs**

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

**Significant events after reporting date**

Subsequent to the reporting date, HBF received and accepted an offer from a third party to purchase the Land and Building owned by HBF at 96 William Street, Perth, Western Australia. The sale and final price is conditional on an engineering and electrical inspection. The transaction is expected to be completed prior to 31 December 2017. HBF intends to relocate the existing branch from these premises to a new branch located at 570 Wellington Street, Perth, Western Australia.

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

**Likely developments and expected results**

In 2017/18 we anticipate modest organic growth in our health insurance membership and related premium revenue.

We expect growth in the health insurance sector as a whole to be modest at best with continuing concerns about the affordability of private health insurance the major barrier to growth. We anticipate that Western Australia's relatively poor economic performance, with low wage growth and high levels of household debt, will impact the take up of new health insurance policies in this State.

We expect the industry wide trend of policy downgrades together with the high levels of 'switching' between funds by members which has been seen during the past three years will continue, driven by affordability concerns and the growing influence of intermediaries and brokers.

We are hopeful that the Federal Government will implement reforms that address issues of transparency, affordability and quality highlighted in various reviews. Addressing the observed decline in Australia's PHI coverage will depend on reforms that significantly reduce steeply rising health costs that, in turn, place upward pressure on premiums.

HBF will work to minimise pressure on members' premiums by reducing costs wherever possible without compromising the quality of our member service. We expect a reduction in our Management Expense Ratio as a result of improved operational efficiencies.

HBF's investment in services that add value for members (beyond core health insurance) will be subject to the five year strategy currently in development and to be adopted during the course of 2017/18.

**Indemnification and insurance of directors and officers**

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

**Indemnification of auditors**

To the extent permitted by law, 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 consolidated annual financial report, by reason of a contract entered into by the entity or a related corporation with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

**Directors' meetings**

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

| Number of Meetings | Directors' meetings |                    | Meetings of Committees        |                    |                                 |                    |
|--------------------|---------------------|--------------------|-------------------------------|--------------------|---------------------------------|--------------------|
|                    | Attended            | Eligible to Attend | Group Audit & Risk Management |                    | Group Nomination & Remuneration |                    |
|                    | 9                   |                    | 4                             |                    | 4                               |                    |
|                    | Attended            | Eligible to Attend | Attended                      | Eligible to Attend | Attended                        | Eligible to Attend |
| Bransby RE         | 7                   | 7                  | 2                             | 2                  | 1                               | 2                  |
| Van der Wielen J   | 2                   | 2                  | 1                             | 1                  | 1                               | 1                  |
| Crawford AF        | 9                   | 9                  | 4                             | 4                  | 4                               | 4                  |
| Davies VA          | 9                   | 9                  |                               |                    | 4                               | 4                  |
| England RAF        | 8                   | 9                  | 4                             | 4                  | 3                               | 3                  |
| Honey BJ           | 3                   | 4                  |                               |                    | 1                               | 1                  |
| Kurincic H         | 9                   | 9                  | 3                             | 3                  |                                 |                    |
| Moore R            | 9                   | 9                  | 3                             | 4                  |                                 |                    |
| Stewart B          | 9                   | 9                  | 4                             | 4                  |                                 |                    |
| Woodford M         | 8                   | 9                  | 4                             | 4                  | 4                               | 4                  |

The Chairman of the Board is a member of the Group Nomination & Remuneration Committee and is generally an ex-officio member of the other relevant committees of the Board. The Chief Executive Officer participates in relevant committee meetings as an attendee, rather than a member. The attendance of other directors who are not members of the particular committee is not reported above.

**Environmental regulation**

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

**Rounding**

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

**Auditor's independence and non-audit services**

The non-audit services provided by HBF's auditor, Ernst & Young, are reported in the consolidated annual financial report. The directors are satisfied that the provision of non-audit services by Ernst & Young is compatible with the general standard of independence for auditors imposed by the Corporations Act, 2001.

The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

Signed in accordance with a resolution of the directors:



**Director, HBF Health Limited**  
Perth, 26th day of September 2017





Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

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

### Report on the concise financial report

#### Opinion

We have audited the concise financial report, which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and related notes, derived from the financial report of HBF Health Limited (the Company) and its subsidiaries (collectively the Group) for the year ended 30 June 2017. The concise financial report also includes discussion and analysis.

In our opinion, the accompanying concise financial report including the discussion and analysis complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

#### 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 Concise Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise 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.

#### Concise financial report

The concise financial report does not contain all the disclosures required by Australian Accounting Standards. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

#### The financial report and our report thereon

We expressed an unmodified audit opinion on the financial report in our report dated 26 September 2017.

#### Responsibility of the directors for the concise financial report

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

A member firm of Ernst & Young Global Limited  
Liability limited by a scheme approved under Professional Standards Legislation

FD-JH:HBF-015



### Auditor's responsibilities for the audit of the concise financial report

Our responsibility is to express an opinion on whether the concise financial report complies, in all material respects, with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with AASB 1039 *Concise Financial Reports* based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

Ernst & Young

F Drummond  
Partner  
Perth  
26 September 2017



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

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

As lead auditor for the audit of HBF Health Limited for the financial year ended 30 June 2017, 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

F Drummond  
Partner  
Perth  
26 September 2017

# Concise annual financial report

## Year ended 30 June 2017

The concise financial report has been derived from the full financial report of HBF Health Limited for the financial year ended 30 June 2017 and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

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



HBF Health Limited  
Consolidated statement of comprehensive income  
At 30 June 2017

|  | 2017<br>\$'000     | 2016<br>\$'000     |
|--|--------------------|--------------------|
| <b>Results from underwriting</b>   |                    |                    |
| Contributions / premiums   | 1,620,406          | 1,512,147          |
| Benefits / claims expenses   | (1,565,126)        | (1,461,959)        |
| Risk equalisation  | 88,035             | 103,473            |
| Claims handling expenses   | (34,035)           | (29,235)           |
| <b>Net benefits / claims</b>   | <b>(1,511,126)</b> | <b>(1,387,721)</b> |
| Acquisition costs  | (35,717)           | (28,172)           |
| Other underwriting costs   | (98,129)           | (97,020)           |
| <b>Underwriting loss</b>   | <b>(24,566)</b>    | <b>(766)</b>       |
| <b>Other activities</b>  |                    |                    |
| Commission income  | 14,910             | 14,478             |
| Other revenue  | 4,993              | 3,112              |
| Net gain from financial assets at fair value through profit or loss  | 77,842             | 32,703             |
| Other operating and administration expenses  | (13,635)           | (14,135)           |
|  | 84,110             | 36,158             |
| <b>Surplus before income tax</b>   | <b>59,543</b>      | <b>35,392</b>      |
| <b>Income tax benefit</b>  | <b>—</b>           | <b>—</b>           |
| <b>Surplus after income tax</b>  | <b>59,543</b>      | <b>35,392</b>      |
| <b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax</b> |                    |                    |
| <b>Other comprehensive income, net of tax</b>  |                    |                    |
| Revaluation of land and buildings  | 3,083              | 16,458             |
| <b>Total comprehensive income for the period</b>   | <b>62,626</b>      | <b>51,850</b>      |
| <b>Total comprehensive income for the period is attributable to:</b>   |                    |                    |
| HBF Health Limited   | 62,626             | 51,850             |
|  | 62,626             | 51,850             |

## Discussion and Analysis

### Trends in underwriting result

Contributions / premiums increased by \$108.3m compared to prior year due to growth in both policies and the number of members covered, together with the annual rate increase. This took place during a year when the private health insurance industry witnessed a significant amount of policy downgrades and concern over the affordability of healthcare.

Benefits / claims increased by \$103.2m reflecting growth in payments to members for both hospital and general treatment.

Monies received from the Risk Equalisation Special Account decreased by \$15.4m over the prior year due to a decrease in eligible benefits relative to the industry partly offset by an increase in total claims paid.

Acquisition costs increased by \$7.5m as a result of an increase in broker commission on Eastern states sales. The \$4.8m increase in claims handling costs and \$1.1m increase in other underwriting costs reflect increased labour costs and expenditure on infrastructure and process improvements to enhance member experience.

### Trends in other activities

Net gains from financial assets at fair value through profit and loss were \$77.8m (2016: \$32.7m). This reflects the positive performance of equity investments partly offset by lower interest rates.

During the current financial year the Group earned Commission income of \$14.9m (2016: \$14.5m) through the distribution of HBF-branded general insurance products underwritten by CGU Insurance Limited and life insurance products underwritten by Zurich Financial Services Australia Limited.

HBF Health Limited  
Consolidated statement of financial position  
At 30 June 2017

HBF – Concise Annual Report 2017

|   | 2017<br>\$'000   | 2016<br>\$'000   |
|---|------------------|------------------|
| <b>Assets</b>   |                  |                  |
| <b>Current assets</b>                                 |                  |                  |
| Cash and cash equivalents                             | 43,675           | 56,243           |
| Receivables   | 94,082           | 104,742          |
| Financial assets at fair value through profit or loss | 1,453,288        | 1,337,665        |
| Current tax assets                                    | 432              | 432              |
| Deferred acquisition costs                            | 5,123            | 2,927            |
| Non-current assets classified as held for sale        | 7,150            | 7,150            |
| <b>Total current assets</b>                           | <b>1,603,750</b> | <b>1,509,159</b> |
| <b>Non-current assets</b>                             |                  |                  |
| Receivables   | 4,259            | 4,043            |
| Investments   | 1,500            | —                |
| Property, plant and equipment                         | 146,378          | 150,745          |
| Intangible assets                                     | 14,605           | 20,329           |
| Deferred acquisition costs                            | 15,703           | 10,282           |
| <b>Total non-current assets</b>                       | <b>182,445</b>   | <b>185,399</b>   |
| <b>Total assets</b>                                   | <b>1,786,195</b> | <b>1,694,558</b> |
| <b>Liabilities</b>                                    |                  |                  |
| <b>Current liabilities</b>                            |                  |                  |
| Trade payables and financial liabilities              | 17,870           | 16,741           |
| Insurance liabilities                                 | 418,622          | 390,814          |
| Employee benefits                                     | 10,525           | 11,228           |
| <b>Total current liabilities</b>                      | <b>447,017</b>   | <b>418,783</b>   |
| <b>Non-current liabilities</b>                        |                  |                  |
| Insurance liabilities                                 | 45,817           | 45,102           |
| Employee benefits                                     | 2,390            | 2,328            |
| <b>Total non-current liabilities</b>                  | <b>48,207</b>    | <b>47,430</b>    |
| <b>Total liabilities</b>                              | <b>495,224</b>   | <b>466,213</b>   |
| <b>Net assets</b>                                     | <b>1,290,971</b> | <b>1,228,345</b> |
| <b>Equity</b>   |                  |                  |
| General reserve                                       | 1 11,513         | 111,513          |
| Retained earnings                                     | 1,159,917        | 1,100,374        |
| Asset revaluation reserve                             | 19,541           | 16,458           |
| <b>Total equity</b>                                   | <b>1,290,971</b> | <b>1,228,345</b> |

## Discussion and Analysis

### Significant movements in assets and liabilities

Net assets have increased from \$1,228.3m as at 30 June 2016 to \$1,291.0m as at 30 June 2017 reflecting the net surplus after tax of \$59.5m and revaluation of land and buildings of \$3.1m.

Growth in total assets of \$91.6m is reflected by the increase in financial assets at fair value (\$115.6m) partially offset by a decrease in cash and cash equivalents (\$12.6m) and receivables (\$10.4m).

Total liabilities by contrast have only increased by \$29.0m due mainly to an increase in insurance liabilities of \$27.8m, as a result of an increase in outstanding claims and unearned premium liabilities.

HBF Health Limited  
Consolidated statement of changes in equity  
At 30 June 2017

|                            | General<br>reserve<br>\$'000 | Retained<br>earnings<br>\$'000 | Asset<br>revaluation<br>reserve<br>\$'000 | Total<br>\$'000 |
|----------------------------|------------------------------|--------------------------------|---|-----------------|
| At 30 June 2015            | 111,513                      | 1,064,982                      | —   | 1,176,495       |
| Surplus after income tax   | —                            | 35,392                         | —   | 35,392          |
| Other comprehensive income | —                            | —                              | 16,458                                    | 16,458          |
| Total comprehensive income | —                            | 35,392                         | 16,458                                    | 51,850          |
| At 30 June 2016            | 111,513                      | 1,100,374                      | 16,458                                    | 1,228,345       |
| Surplus after income tax   | —                            | 59,543                         | —   | 59,543          |
| Other comprehensive income | —                            | —                              | 3,083                                     | 3,083           |
| Total comprehensive income | —                            | 59,543                         | 3,083                                     | 62,626          |
| At 30 June 2017            | 111,513                      | 1,159,917                      | 19,541                                    | 1,290,971       |

HBF Health Limited  
Consolidated statement of cash flows  
At 30 June 2017

HBF – Concise Annual Report 2017

|   | 2017<br>\$'000   | 2016<br>\$'000   |
|---|------------------|------------------|
| <b>Cash flows from operating activities</b>                   |                  |                  |
| Receipt of contributions / premiums                           | 1,636,139        | 1,537,005        |
| Receipt of commission income                                  | 13,359           | 14,290           |
| Receipt of other income                                       | 4,993            | 3,112            |
| Payments of benefits / claims                                 | (1,552,792)      | (1,445,275)      |
| Risk equalisation receipts                                    | 99,352           | 97,302           |
| Payments to suppliers & employees                             | (133,521)        | (137,985)        |
| Acquisition costs paid  | (43,334)         | (41,286)         |
| Distributions received  | 28,081           | 44,224           |
| Interest received   | 30,613           | 36,208           |
| Goods and services tax received (net)                         | 6,665            | 19,097           |
| <b>Net cash flows from operating activities</b>               | <b>89,556</b>    | <b>126,692</b>   |
| <b>Cash flows used in investing activities</b>                |                  |                  |
| Cash paid for acquisition of property, plant and equipment    | (843)            | (123,204)        |
| Cash paid for acquisition of intangible assets                | (4,990)          | (8,436)          |
| Cash proceeds from sales of property, plant and equipment     | 21               | 13               |
| Cash received from escrow                                     | —                | 10,247           |
| Cash proceeds from sales of financial assets                  | 707,225          | 600,328          |
| Cash paid for purchases of financial assets                   | (803,536)        | (604,083)        |
| <b>Net cash flows used in investing activities</b>            | <b>(102,124)</b> | <b>(125,135)</b> |
| <b>Net increase / (decrease) in cash and cash equivalents</b> | <b>(12,568)</b>  | <b>1,557</b>     |
| Cash and cash equivalents at beginning of year                | 56,243           | 54,686           |
| <b>Cash and cash equivalents at end of year</b>               | <b>43,675</b>    | <b>56,243</b>    |

Discussion and Analysis

Changes in cash flows from operations

Net cash inflow from operations was \$89.6m compared with \$126.7m for the previous year, represented by:

- A net increase of \$99.1m in receipts for contributions / premiums as a result of the growth in policies, the annual premium increase and a rise in prepayments in advance of the 1 April 2017 rate increase.
- A \$107.5m net increase in benefits paid for both Hospital and General Treatment as a result of policy growth and provider cost increases.
- A \$16.1m decrease in distributions received through the investment portfolio.
- A \$5.6m decrease in interest received on cash balances.
- A \$12.4m decrease in goods and services tax received as a result of the purchase of the new headquarters building at Kings Square in the prior year.

Changes in cash flows from investing activities

The net cash outflow for the year was \$102.1m, compared with \$125.1m in 2016. This difference is largely due to a reduction in relation to the acquisition of property, plant and equipment partially offset by an increase in the net cash outflow from financial assets.

HBF Health Limited  
Notes to the consolidated financial statements  
At 30 June 2017

**Basis of preparation of the concise financial report**

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

The financial report is presented in Australian Dollars and all values have been rounded to the nearest thousand dollars under the option available under ASIC Corporations (Rounding in Financial/Director’s Report) Instrument 2016/191.

**Significant events after reporting date**

Subsequent to the reporting date, HBF received and accepted an offer from a third party to purchase the Land and Building owned by HBF at 96 William Street, Perth, Western Australia. The sale and final price is conditional on an engineering and electrical inspection. The transaction is expected to be completed prior to 31 December 2017. HBF intends to relocate the existing branch from these premises to a new branch located at 570 Wellington Street, Perth, Western Australia.

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

*hbf*