FINANCIAL REPORT FINANCIAL YEAR 2021–22

CELEBRATING
90 YEARS OF
UNCOMMON CARE

HCF

90 YEARS

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DIRECTORS' REPORT

The Board of Directors of The Hospitals Contribution Fund of Australia Ltd ('HCF' or 'the Company') has pleasure in submitting its report for the year ended 30 June 2022.

DIRECTORS

Unless otherwise stated, the following persons were Directors of HCF during the whole of the financial year and up to the date of this report:

- Mark G. Johnson (Chair)
- Terry T. Agnew
- John M. Barrington
- Michael J. Bassingthwaighte
- Catherine M. Hallinan
- Sheena G. Jack
- Claire L. Jackson
- Lisa M. McIntyre
- Christopher E. Wright

PRINCIPAL ACTIVITIES

The principal activities of HCF and its subsidiaries (referred to as 'the Group') within Australia during the financial year were:

- The provision of private health insurance;
- The provision of accident and illness insurance; and
- The operation of dental and eyecare centres for policyholders and their dependents.

REVIEW OF OPERATIONS

About HCF

As Australia's largest not-for-profit health fund, HCF has continued to put its members'[1] health first.

HCF's purpose is to "Bring our human touch to healthcare. This is about bringing our humanity to every part of the health care system that we touch, in big ways and small. It shows up every day in the way we come together as a team and work alongside our partners and communities to deliver the best possible experience for our members".

To achieve this, HCF remains focused on protecting the health and wellbeing of over 1.8 million Australians with health, life, travel and pet insurance, in a not-for-profit framework that delivers outstanding value and access to the highest standard of healthcare for its members.

This year, HCF celebrates 90 years of pioneering spirit and Uncommon Care for its members, people and communities. Remaining constant to its not-for-profit charter, HCF continues to lead the way with countless industry 'firsts' and an imperative to find new and better ways to support members in their journeys towards better health and wellbeing.

In November 2021, HCF finalised its merger with rt health, playing a proud role in preserving its 130-year legacy while enabling the fund to grow and better support its members. Recognising the significant value provided by not-for-profit mutuals, HCF and rt health believe this union will help protect and future proof the industry.

HCF has continued to support members during the COVID-19 pandemic, with over $167 million support and benefits provided to date. This included the deferral of the scheduled April 2020 premium increase for all members for six months, deferral of the April 2022 premium increase for all members for seven months, involuntary unemployment assistance and premium waivers for members experiencing financial hardship. In addition, based upon further claims savings due to COVID-19 restrictions, another $132.7 million will be given back to members, in line with HCF's promise to return any permanent COVID-19 claims savings.

1 Reference to members throughout this section refers to HCF policyholders.

Financial review

HCF's overall 2022[2] financial performance was significantly impacted by the investment market performance. The operating performance of all HCF businesses has continued to be strong despite ongoing COVID-19 disruptions.

The Group Income Statement is summarised below.

	2022	2021	MOVEMENT
	$M	$M	$M
Net premium revenue	**3,523.0**	3,182.3	340.7
Net claims expense[3]	**(3,028.8)**	(2,827.0)	(201.8)
Underwriting result before expenses	**494.2**	**355.3**	138.9
Movement in policyholders liabilities	**(5.0)**	1.5	(6.5)
Expenses	**(388.6)**	(328.6)	(60.0)
Underwriting result	**100.6**	**28.2**	72.4
Finance and investment income	**(116.2)**	128.4	(244.6)
Revenue from contracts with customers, other income & other expenses	**(4.9)**	(3.7)	(1.2)
Income tax benefit/(expense)	**3.1**	(3.1)	6.2
NET(LOSS)/PROFIT AFTER INCOME TAX	**(17.4)**	**149.8**	**(167.2)**

Net (loss)/profit after income tax reduced by $167.2 million to a loss of $17.4 million in 2022 from a net profit after income tax of $149.8 million in 2021. This is largely due to a $244.6 million reduction in finance and investment income, partly offset by $72.4 million increase in underwriting results. The underwriting result was underpinned by HCF's above industry membership growth which is an outcome of its commitment to providing outstanding value and member experience.

Net premium revenue

	2022	2021	MOVEMENT	
Health insurance policies[4] – opening	**772,845**	734,262	38,636	5.3%
Net growth	**38,804**	38,583	168	0.4%
Health insurance policies – closing (excluding rt health group)	**811,649**	**772,845**	**38,804**	**5.0%**
rt health group insurance policies	**26,738**	–	26,738	–
Health insurance policies – closing	**838,387**	**772,845**	**65,542**	**8.5%**
	$M	**$M**	**$M**	**%**
Premium revenue excluding financial relief	**3,550.5**	3,235.1	315.4	9.7%
Financial relief provided to members	**(27.5)**	(52.8)	25.3	(47.9%)
NET PREMIUM REVENUE	**3,523.0**	**3,182.3**	**340.7**	**10.7%**

2 References to 2020, 2021, 2022 and 2023 are for the financial years ended on 30 June 2020, 30 June 2021, 30 June 2022 and 30 June 2023 respectively unless otherwise noted.

3 Includes member giveback provision.

4 Health insurance policies refer to all domestic health insurance policies excluding Ambulance Only cover and Overseas Visitor Health Cover.

Domestic 2022 closing health insurance policies increased by 8.5% (5.0% excluding rt health group) with HCF's market share increasing by 58 basis points to 12.21% as at 30 June 2022. Strong membership growth was achieved across all states and territories as HCF grows its national presence. Within our sales distribution channels year on year growth was achieved in branches, call centre and digital, with digital achieving a greater than 10% increase on prior year. Our better than industry member retention rate improved on prior year driven by our competitive value proposition and the stronger consumer sentiment for private health insurance during the pandemic.

Premium revenue increased by $340.7 million to $3,523.0 million in 2022 which represents a reported 10.7% growth on prior year. The impact of the financial hardship support to members reduced 2022 premium revenue by $27.5 million ($52.8 million in 2021). Adjusting for the impact of financial hardship support, the adjusted 2022 premium revenue growth is 9.7% on prior year (7.0% excluding rt health group). Financial relief provided to members included the 2022 premium rate increase deferral for all members for three months (1 April 2020 to 30 June 2022), the involuntary unemployment assistance and premium waivers as financial hardship support. 2022 premium rate increase deferral for four months (1 July to 31 October 2022) will be reported in the 2023 results.

Net claims expense

Net claims expense increased by 7.1% from $2,827.0 million in 2021 to $3,028.8 million in 2022. This year's claims experience was also impacted by the COVID-19 pandemic, with lockdowns and restrictions limiting the number of services offered by health providers, particularly in NSW. As a result, claims grew at a slower pace compared to pre-pandemic levels and allowing for membership growth observed during the year.

Deferred claims liabilities

In 2022, the deferred claims liabilities ('DCL') provision increased by $11.0 million to $224.4 million. A detailed analysis was undertaken to assess actual claims in each month compared to typical claims levels (assessed on pre COVID-19 claims experience) by clinical category for hospital and ancillary claims. This was evaluated for the likelihood of missing claims returning which is provided for in the deferred claims liabilities. This was evaluated with an appropriate level of prudence and meets all regulatory requirements.

There remains considerable uncertainty as to the level of deferred claims catchup and the timing, which are subject to health system capacity constraints and any future service disruptions due to COVID-19. Where future deferred claims do not occur and are deemed a permanent saving, HCF is committed to returning these savings to members.

Member giveback

HCF has estimated further permanent claims savings of $132.7 million as at 30 June 2022. This will be returned to eligible members that have an active private health insurance policy (excluding Ambulance Only and Overseas Visitor Health Cover) at 30 June 2022 and have been a member for at least 6 months prior to this date, in the form of a cash giveback (gift card or similar). The mechanism for the eligible member giveback and quantum per member is in the process of being finalised.

Unexpired risk liabilities

In 2022 there was a liability adequacy test ('LAT') deficiency, where insufficient unearned premium liabilities exist to cover all expected future cash flows relating to future claims against current health insurance contracts and resulted in unexpired risk liabilities ('URL') of $31.2 million and write-down of deferred acquisition costs of $14.2 million. The liability adequacy test deficiency was as a result of the 1 April 2022 premium rate deferral of $81.4 million of which $56.8 million will be earned during 1 July 2022 and 31 October 2022. 2021 contained the reversal of the 2020 unexpired risk liabilities attributed to forecast additional member financial hardship support which did not fully materialise.

Risk equalisation

Risk equalisation was a $52.8 million receipt, $26.9 million higher than 2021 reflecting HCF's membership growth compared to the industry.

Risk equalisation results were impacted by COVID-19 restrictions that included lockdowns across the country in the first half of 2022 and the suspension of elective surgery on the second half of the financial year. As a result, HCF's proportion of claims going into the risk equalisation pool increased only by 1.2% compared to the previous year, while the industry observed a decrease of 2.0% in the same period.

HCF's faster growth in claims eligible for risk equalisation compared to the industry offsets the impact of the market share growth in 2022 resulting in a positive net transfer for the fund.

Expenses

	2022	2021	MOVEMENT	
	$M	$M	$M	%
Expenses	**(388.6)**	(328.6)	(60.0)	18.3%
Deferred acquisition costs write-down	**14.2**	(9.1)	23.3	
Adjusted expenses	**(374.4)**	**(337.7)**	**(36.7)**	**10.9%**
rt health group expenses	**11.6**		11.6	
Adjusted expenses (excluding rt health group)	**(362.8)**	**(337.7)**	**(25.1)**	**7.4%**
Expense ratio				
Reported expense ratio	**11.0%**	10.3%	0.7%	
Adjusted expense ratio	**10.6%**	10.6%	0.0%	

Total 2022 expenses of $388.6 million increased by $60.0 million on prior year and reported expense ratio increased from 10.3% in 2021 to 11.0% in 2022. A liability adequacy test deficiency in 2022 resulted in a $14.2 million write-down of deferred acquisition costs. In 2021, commission expenses were impacted favourably by a $9.1 million write down of deferred acquisition costs in 2020.

The adjusted expense ratio remained flat at 10.6%. Adjusted expenses increased by 7.4% driven by member growth and retention activities, commissions and higher amortisation costs following an asset useful life review of capitalised software assets.

Adjusted underwriting result

The reported 2022 underwriting margin of 2.9% was significantly affected by COVID-19 impacts as was the previous financial years 2021 and 2020 with reported underwriting margins of 0.9% and –3.3% respectively.

	2022	2021	2020
	$M	$M	$M
Underwriting result	**100.6**	28.2	(98.3)
Underwriting margin	**2.9%**	0.9%	(3.3%)

An adjusted underwriting margin for 2020, 2021 and 2022 combined (as all financial years impacted materially by COVID-19) is detailed below. This includes a total permanent COVID-19 claims savings of $300.4 million which is matched by COVID-19 member support and a member cash giveback totalling $300.4 million. Other underwriting result adjustments include the 2022 movement in Unexpired Risk Liabilities and Deferred Acquisition Costs write-down, both resulting from a Liability Adequacy Test failure caused by the member premium rate deferral of $56.8 million for the period 1 July 2022 to 31 October 2022. Systems transformation investments of $42.6 million also impacted the underlying performance during the period. The adjusted underwriting margin for 2020, 2021 and 2022 combined was 0.6%, which falls within our normal target range for underwriting margin.

	3 YEARS
	$M
Total underwriting result 2020-2022	**30.4**
Underwriting margin	0.3%
Adjustments	
Permanent claim savings over COVID-19 impacted years	(300.4)
Financial member support recognised to date	110.9
Member cash giveback	132.7
Movement in unexpired risk liabilities	31.2
Deferred acquisition costs write-down	14.2
Strategic investments and software useful life changes	42.6
Adjusted underwriting result 2020-2022	**61.6**
Adjusted underwriting margin	0.6%
Member support reconciliation	
Financial member support recognised to date	110.9
Deferred premium rate increase earned during 1 July 2022–31 October 2022	56.8
Financial member support advised to date	167.7
Member cash giveback	132.7
TOTAL COVID-19 MEMBER SUPPORT AND CASH GIVEBACK	**300.4**

Finance and investment income

The finance and investment income reduced from $128.4 million in 2021 to loss of $116.2 million in 2022. The fall in investment income represents a volatile year in investment markets with most asset classes delivering negative returns for the year and fixed interest delivering one of the worst annual returns in decades.

The financial year began positively, buoyed by the reopening of global economies and rising vaccination rates, notwithstanding the underlying risks associated with ongoing supply chain disruptions and inflationary pressures as consequences of the COVID-19 lockdowns in 2020. Russia's invasion of Ukraine and China's zero-COVID policy further escalated global inflation pressures whilst central banks accelerated plans for rate hikes. Most asset classes were impacted by persistent inflation, rising interest rate levels and growing recession concerns. Asset class returns ranged from international bonds which delivered –9.3% (hedged) to international equities at –12.1% (hedged).

Revenue from contracts with customers, other income & other expense

Revenue from contracts with customers, other income & other expense reduced by $1.2 million mainly due to public health orders restricting services to emergency only and limiting member access to HCF Dental and Eyecare centres during July to October 2021 COVID-19 lockdown, partly offset by higher travel commission received from Allianz Global Assistance following Australian Government border restriction on travel being lifted.

Financial position

	2022	2021	MOVEMENT
	$M	$M	$M
Total assets	**3,162.9**	3,016.1	146.8
Total liabilities	**(1,179.3)**	(1,076.7)	(102.6)
Net assets	**1,983.6**	**1,939.4**	**44.2**
Net assets as a % of net premium revenue	**56%**	61%	

In 2022, the net asset position increased by $44.2 million or 2.3% to $1,983.6 million. Some of the key changes in financial position are:

- Assets: A net increase in investment and cash assets of $145.3 million predominately driven by lower claims, the addition of rt health group's investment and cash assets, partly offset by lower advance payments due to premium rate deferral to 1 November 2022 and investment losses
- Liabilities: Provision of $132.7 million established for return to eligible members
- Liabilities: Lower unearned premiums of $62.0 million driven by lower advance payments
- Liabilities: $50.8 million minority interest removal following the change in HCF Research Foundation's investment strategy. This resulted in transferring the Foundation's investment assets from the HCF Tailored Trust No.3 to JANA Investment Trusts. A holding in the former trust resulted in a minority interest held by the Foundation.
- Liabilities: Unexpired risk liabilities of $31.1 million
- Liabilities: Increase in trade creditors and other payables of $26.6 million predominantly due to the timing of hospital claims payments
- Liabilities: Increase in deferred claims liabilities of $20.6 million.

HCF's financial position remains strong and is well placed to adopt APRA's proposed new capital standards framework for the private health insurance industry.

PERFORMANCE INDICATORS

Management and the Board monitor the Company's overall performance, from its implementation of the purpose and vision statements and strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with Management, have identified key performance indicators ('KPIs') that are used to monitor performance. These performance indicators include measures of financial performance and the quality of service provided to members.

Senior Management monitor KPIs on a regular basis. Directors receive the KPIs and other reports for review prior to each Board and Committee meeting allowing all Directors sufficient time to actively monitor the Group's performance.

LIKELY DEVELOPMENTS

There are no likely developments in the Group entities known at the date of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 10 September 2021, HCF entered into a Merger Implementation Deed with Railway and Transport Health Fund Limited (referred to as the consolidated entity ('rt health group'), consisting of Railway and Transport Health Fund Limited ('rt health') and the entities it controlled) for the two not-for-profit organisations to merge. rt health group had a total of 28,000 health insurance policyholders, primarily supporting employees of the transport and energy sectors. The merger was approved by APRA on 15 October 2021 and was completed on 1 November 2021.

Upon implementation of the merger:

- all rt health policies that were referable to rt's health benefits fund became referable to HCF's health benefits fund (but will otherwise continue to operate, including with respect to contributions and benefits, in the normal course and remain branded rt health policies);
- rt health became a wholly owned subsidiary of HCF;
- Transport Health Pty Limited ('Transport Health') which was previously a wholly owned subsidiary of rt health, was acquired as a distribution of non-cash assets from rt health as a subsidiary of HCF and became a wholly owned subsidiary of HCF;
- all of rt health group's assets was transferred to HCF, and HCF assumed all of rt health group's liabilities.

There have been no other significant changes in the state of affairs of the Group during the period.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters have occurred, other than those disclosed, after balance sheet date which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

OTHER CORPORATE INFORMATION

HCF is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the Company is wound up, the constitution states that each Councillor is required to contribute a maximum of $2 each towards meeting any outstanding obligations of the entity. At 30 June 2022, the collective liability of Councillors is $48 (2021: $48).

ENVIRONMENTAL

The Group has observed all environmental regulations governing its presence in the local government area where its branches and worksites are situated. This includes all HCF's dental and eyecare centres meeting their obligations under environmental protection and radiation control legislation covering disposal of clinical waste and x-ray radiation standards. The Group was active in energy conservation, material recycling and waste reduction practices throughout the year. The Group's activities do not adversely impact on biodiversity of flora and wildlife habitats.

PARENT ENTITY FINANCIAL STATEMENTS

The Company has adopted ASIC 2021/195, issued by the Australian Securities and Investments Commission, permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation 2M.3.01 of the *Corporations Regulations 2001*.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($000) under the option available to the Company under Australian Securities and Investment Commission ('ASIC') Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the class order applies.

INDEMNIFICATION OF DIRECTORS

During or since the financial year, the Company has paid premiums in respect of contracts insuring any past, present or future Directors, Secretaries and other officers of the Company against certain liabilities. In accordance with common commercial practices, the insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

INDEMNIFICATION OF AUDITOR

To the extent permitted by law, the Company has agreed to indemnify its auditor, 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 ended 30 June 2022.

DIRECTOR TENURE AND MEETING ATTENDANCE

The tenure of each Director, number of scheduled Board and Committee meetings held in the year ended 30 June 2022 and number of meetings attended by the Director including in their capacity as a member of the Committee (where relevant) is shown below.

DIRECTORS	TENURE	BOARD	AUDIT & FINANCE COMMITTEE MEETINGS	RISK & COMPLIANCE COMMITTEE MEETINGS	NOMINATION COMMITTEE MEETINGS	PEOPLE, CULTURE AND REMUNERATION COMMITTEE MEETINGS
	YEARS[1]	ATTENDED (HELD)				
Total numbers of meetings held		12	4	4	5	6
INDEPENDENT NON-EXECUTIVE DIRECTOR						
M.G. Johnson (Chair)	**8**	12	–	–	5	–
T.T. Agnew	**2**	12	–	–	5	6
J.M. Barrington	**7**	12	4	4	5	–
M.J. Bassingthwaighte	**2**	12	–	–	5	–
C.M. Hallinan	**3**	12	4	4	5	–
C.L. Jackson	**9**	11	–	–	4	5
L.M. McIntyre	**10**	12	4	4	5	–
C.E. Wright	**9**	12	–	–	5	6
EXECUTIVE DIRECTOR						
S.G. Jack	**4**	12	–	–	5	–

1 Completed years of service as at date of this report.

HCF BOARD OF DIRECTORS

Terry T. Agnew

MBA, Msc, BE (Hons), FAICD, FAIM, SF Fin

Non-Executive Director

Mr Agnew was appointed to the Board of HCF in October 2019. He is a member of the Nomination Committee and was appointed as a member of the People, Culture & Remuneration Committee in December 2020. He became Chair of the Board of Flip Insurance Pty Ltd (a wholly owned subsidiary of HCF Life Insurance Company Pty Ltd) in April 2021. He was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

He is an experienced Director, Chair and CEO with a strong track record and involvement with successful and growing organisations. The strategic differentiation and sustainable success of these organisations is built on a foundation of brand, culture, safety and innovation. He has worked across a range of industries including insurance, financial services, travel and tourism, education, disability and care and membership organisations.

Mr Agnew is the current Chair of the Business Council of Cooperatives and Mutuals and Chair of Edge Employment Solutions (a disability employment service). He is also a Director of RAA Insurance, MDA National Insurance and Infrastructure WA, and was a Founding Member of CEOs for Gender Equity. He is member of the Curtin University Council and also the Chair of the Kalgoorlie Campus Council which includes the Western Australian School of Mines. Additionally, he Chairs the Expert Advisory Panel of the AAA Road Safety Research Program and is on the Advisory Board of Future Green Solutions.

Mr Agnew is a Fellow of the Australian Institute of Company Directors, Fellow of the Australian Institute of Management, Senior Fellow of the Financial Services Institute of Australia (Finsia) and Member of the Australian Institute of Engineers.

Mr Agnew was educated in Adelaide, Perth and Boston and his qualifications include MBA, M.Sc., B.E. (Hons) and the Harvard AMP. He is an Honorary Doctor of Curtin University.

John M. Barrington

BComm, LLB, GDAFI, FAICD

Non-Executive Director

Mr Barrington was appointed to the Board of HCF and Manchester Unity in November 2014 and as a Director of the Corporate Trustee of the HCF Research Foundation in April 2017. Mr Barrington is Chair of the HCF Risk & Compliance Committee and a member of the Audit & Finance Committee and the Nomination Committee. He was Acting Managing Director of HCF between March and July 2017. He was appointed to the Board of HCF Life Insurance Company Pty Limited in February 2019, is Chair of the HCF Life Risk & Compliance Committee and a member of the HCF Life Audit & Finance Committee. He was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Mr Barrington was the Principal of Barrington Legal, a law firm located in Sydney, with more than 40 years in practice specialising in insurance law, superannuation, banking and finance. He was formerly General Counsel for the National Mutual Life Association, Chief Executive of CUNA Mutual Limited and Mutual Community Limited. Mr Barrington served as Chair of Intrinsic Value Investment Limited and Albert Court Aged Care Edgecliff. Until January 2017, he was Chair of Meridian Lawyers and a Director of Guild Group Holdings.

Mr Barrington has extensive experience (both strategically and operationally) in financial services and private health insurance, in particular relating to financial oversight, regulatory requirements, policy frameworks and governance. He has previously served as a Council Member of the Private Health Insurance Administration Council (PHIAC).

Mr Barrington brings a unique perspective given his background of advising clients, working in organisations subject to complex regulatory requirements and providing regulatory oversight in a senior governance role within a regulatory body.

Michael J. Bassingthwaighte AM

FAICD

Non-Executive Director

Mr Bassingthwaighte was appointed to the Board of HCF in October 2019 and is a member of the Nomination Committee. He was appointed as a Trustee of the HCF Research Foundation and a Director of the Corporate Trustee in December 2020. He was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Mr Bassingthwaighte spent his entire executive career in private health insurance, having retired in mid 2018 after 36 years as CEO of Peoplecare Health Limited.

Mr Bassingthwaighte co-founded the IT company HAMB Systems Limited (HAMBS) and developed it as a collaborative company to provide technology services for 24 health insurers. He was Chair of HAMBS from inception, for 25 years until 2018.

Mr Bassingthwaighte also co-founded the Australian Health Service Alliance (AHSA) that provides hospital and medical service contracting, data management, and clinical advisory services for 28 health insurers and was also a significant contributor to health policy development through senior voluntary roles with the industry body Members Health Funds Alliance (MHFA).

Mr Bassingthwaighte is currently a Director of the Illawarra Retirement Trust (IRT), a large not for profit retirement village, aged care and home care service provider with centres in Sydney, Canberra, the Sunshine Coast Qld and the Illawarra and South Coast of NSW.

Previous Director appointments include Coordinare; the Primary Health Network for South Eastern NSW, Defence Health, Members Own Health Funds, The Illawarra Business Chamber, Illawarra Health & Medical Research Institute (IHMRI), Australian Health Services Research Institute (AHSRI), NSW Health Funds Association, and was an industry advisor to PHIAC (the PHI regulator prior to the transfer to APRA).

Mr Bassingthwaighte is a Fellow of the Australian Institute of Company Directors, an Honorary Fellow of the University of Wollongong and was awarded the Member of the Order of Australia (AM) in 2013 for his 'significant service to the private health insurance industry and the community of the Illawarra Region'.

Catherine M. Hallinan

BA (Hons), MBA, SF Fin, FAIM, FAICD

Non-Executive Director

Ms Hallinan joined the Board of HCF Life in June 2011, was appointed Chair in October 2019 and is also a member of the Audit & Finance Committee and the Risk & Compliance Committee. She was appointed to the Board of HCF in February 2019 and is a member of the Audit & Finance Committee, Risk & Compliance Committee and the Nomination Committee. She also joined the Board of Flip Insurance Pty Ltd (a wholly owned subsidiary of HCF Life Insurance Company Pty Ltd) in April 2021. She was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Ms Hallinan has extensive expertise across the financial services industry, spanning insurance, investments, banking, strategy and planning and mergers and acquisitions.

Ms Hallinan's former executive roles include General Manager, Wealth Strategy at St George Bank and General Manager, Investment Management and Life, at Zurich Australia, where she was also an executive of the holding company and a member of the Global Life Executive Committee. She is a former director and Chair of Gateway Bank Limited and is currently a Non-Executive Director of St. Catherine's Aged Care Services, Lawcover Insurance Pty Limited and SCOR Global Life Australia.

Sheena G. Jack

BA (Acc), CA, GAICD

Chief Executive Officer and Managing Director

Ms Jack was appointed as Managing Director of HCF in September 2017, having held the position of Chief Executive Officer since August 2017. She was appointed as a Director of HCF Life in August 2017, a Director of the Corporate Trustee of the HCF Research Foundation in September 2017 and appointed to the Board of Manchester Unity in November 2017. Ms Jack also joined the Board of Flip Insurance Pty Ltd (a wholly owned subsidiary of HCF Life Insurance Company Pty Ltd) in April 2021. She was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Ms Jack is also a Director of Private Healthcare Australia and the Business Council of Co-operatives and Mutuals, and is a member of Chief Executive Women.

Claire L. Jackson AM

MBBS, MD, MPH, CertHEcon, GradCert Mgt, FRACGP, FAICD

Non-Executive Director

Professor Jackson was appointed to the Board of HCF in November 2012 and is a member of the HCF Nomination Committee and the People, Culture & Remuneration Committee. She was appointed as a Trustee of the HCF Research Foundation in 2013 and has been a Director of the Corporate Trustee since its registration in 2015 and appointed as Chair in December 2020. She has been active in general practice undergraduate and postgraduate education and research for many years, and has been extensively involved in health services research and reform since the early 1990s. She was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Professor Jackson is Director, UQ-MRI Centre for Health System Reform and Integration and Professor in Primary Care Research at the University of Queensland School of Medicine. She was appointed member of the Primary Health Reform Steering Group in September 2019. She was previously a Director of the National Health Performance Authority and was national President of the Royal Australian College of General Practitioners between 2010 and 2012.

Professor Jackson previously served as a Member of the Federal Government's Primary Health Care Advisory Group in 2015 and the National Primary Care Strategy Expert Reference Group in 2008. She provided a commissioned paper for the National Health and Hospital Reform Commission on new models in primary care and is a national authority on the Health Care Home. In 2014, she conducted a Review of After Hours Services for Minister Dutton.

Mark G. Johnson

BComm, FCA, CPA, FAICD

Non-Executive Director and Chair

Mr Johnson was elected Chair of the Board of HCF and Manchester Unity in July 2019, having been a Non-Executive Director of both companies since November 2013. Mr Johnson is also Chair of the HCF Nomination Committee. He was appointed to the Board (as Chair) of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

He has previously served as CEO and Asian Deputy Chair for PwC from June 2008 until July 2012. Prior to becoming CEO, he held a number of leadership positions in PwC Australia including National Managing Partner - Businesses, Managing Partner of the Assurance line of service, Managing Partner Assurance and Business Advisory Services and leader Consumer and Industrial Products. In these roles he served on a number of global firm committees.

Mr Johnson is currently a Director of Goodman Limited, Goodman Funds Management Limited, Boral Limited, Aurecon Limited and Metcash Limited. In the community he serves on the Board of The Smith Family and is a member of the Council of UNSW Sydney.

He was on the Board of Partners of Corrs Chambers Westgarth until March 2022, Chairman of G8 Education Limited until November 2021, a Director of Coca-Cola Amatil Limited until May 2021, Westfield Corporation Limited until June 2018, Chair of the Advisory Board to Willis Towers Watson in Australasia until December 2016 and a Director of HSBC Bank Australia until April 2017.

Mr Johnson was a member of the Australian Auditing and Assurance Standards Board, the Business Council of Australia (and of its Healthy Australia Taskforce) and was Deputy Chair of the Finance and Reporting Committee of the Australian Institute of Company Directors.

Lisa M. McIntyre

B.Sc (Hons), PhD, GAICD

Non-Executive Director

Ms McIntyre was elected to the Board of HCF in October 2011. She is Chair of the HCF Audit & Finance Committee and a member of the Risk & Compliance and Nomination Committees. Ms McIntyre was appointed as a Trustee of the HCF Research Foundation in 2013, and was Chair from March 2014 to December 2020 and has been a Director of the Corporate Trustee since its registration in 2015. Ms McIntyre was appointed to the Board of HCF Life in February 2019, is Chair of the HCF Life Audit & Finance Committee and a member of the HCF Life Risk & Compliance Committee. She was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

Since 2002 Ms McIntyre has held a number of directorships and is currently a Director of Studiosity Pty Ltd (previously Tutoring Australia Pty Ltd), Nanosonics Ltd, Fisher and Paykel Healthcare Pty Limited and a Senate Fellow of the University of Sydney. She was previously a Director of Insurance and Care NSW, Genesis Care Pty Ltd, I-MED Pty Ltd, the Garvan Institute for Medical Research and Cover More Limited.

Ms McIntyre was formerly a senior partner in global strategic firm L.E.K. Consulting for 20 years and is currently Chair of its ANZ Advisory Board. While at L.E.K, she led the Asia Pacific Healthcare practice in Sydney where she advised health care companies and organisations on strategy and performance and served on L.E.K.'s Asia Pacific Governance Committee. Prior to 2002 she led L.E.K.'s US Biotechnology practice in Boston with a particular focus on commercialising innovation in biotechnology and health care.

Christopher E. Wright

FAICD, FAIM

Non-Executive Director

Mr Wright was appointed to the Board of HCF in November 2012. He is Chair of the HCF People, Culture & Remuneration Committee and a member of the Nomination Committee. Mr Wright was appointed to the Board of HCF Life Insurance Company Pty Limited in February 2019. He was appointed to the Board of Railway & Transport Health Fund Ltd and Transport Health Pty Ltd on 1 November 2021.

He has been involved with the not-for-profit mutual financial services sector for over 40 years and has extensive experience in senior executive roles and as a company director. He was Chief Executive Officer and Managing Director of the Lifeplan Funds Management Group from 1992 to 2009.

Mr Wright has been a Director of the not-for-profit retail community pharmacy group, National Pharmacies, Director of Customer Owned Banking Association (previously Abacus-Australian Mutuals) and Chair of the Australian Friendly Societies Association. He was also Chair of the Australian Institute of Management (SA) and a Director of its national board and was Chair of the St. Andrew's Hospital Foundation Inc. (SA).

COMPANY SECRETARY

Nathan Francis

BBus, CA, FGIA, FCIS, GAICD

Mr Francis joined HCF as Company Secretary in February 2019. He is a Chartered Accountant and Chartered Secretary with over 20 years' experience spanning health insurance, financial services and funds management. Prior to joining HCF, Mr Francis held senior executive governance and finance roles with ANZ, rt Health Fund and Charter Hall Group, having commenced his career in assurance advisory roles at PwC.

DIRECTORS' REPORT (CONTINUED)

We have obtained an independence declaration from our auditors, Ernst & Young, which is set out below and forms part of the Directors' Report for the year ended 30 June 2022.

Signed in accordance with a resolution of the Directors.

Mark Johnson

M.G. Johnson

Chair
Sydney
1 September 2022

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF THE HOSPITALS CONTRIBUTION FUND OF AUSTRALIA LTD

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of The Hospitals Contribution Fund of Australia Ltd

As lead auditor for the audit of the financial report of The Hospitals Contribution Fund of Australia Ltd for the financial year ended 30 June 2022, 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;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

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

This declaration is in respect of The Hospitals Contribution Fund of Australia Ltd and the entities it controlled during the financial year.

Ernst & Young

Louise Burns
Partner
1 September 2022

STATEMENT OF COMPREHENSIVE INCOME	NOTE	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000	PARENT 2022 $000	PARENT 2021 $000
Net premium revenue		**3,522,960**	3,182,276	**3,469,507**	3,143,279
Claims expense	2	**(2,851,117)**	(2,830,365)	**(2,828,321)**	(2,816,264)
Movement in unexpired risk liabilities	2	**(31,151)**	48,274	**(31,151)**	48,274
Movement in deferred claims liabilities	2	**(11,035)**	(18,862)	**(10,704)**	(18,862)
Movement in member giveback provision	2	**(132,700)**	–	**(130,000)**	–
Health benefits risk equalisation special account levies & Life recoveries	2	**52,882**	25,990	**51,156**	25,433
State ambulance levies	2	**(55,652)**	(51,993)	**(55,626)**	(51,993)
Net claims expense		**(3,028,773)**	(2,826,956)	**(3,004,646)**	(2,813,412)
Underwriting result before expenses		**494,187**	355,320	**464,861**	329,867
Movement in policyholders' liabilities	2	**(4,963)**	1,520	**-**	–
Acquisition costs	2	**(192,805)**	(139,873)	**(187,552)**	(135,441)
Other underwriting expenses	2	**(195,857)**	(188,807)	**(174,415)**	(171,689)
Underwriting result	**3**	**100,562**	28,160	**102,894**	22,737
Finance and investment income	1	**(116,175)**	128,388	**(111,826)**	129,303
Revenue from contracts with customers	1	**15,839**	17,502	**17,159**	25,928
Other income	1	**9,690**	8,333	**9,592**	8,336
Finance, investment and other income		**(90,646)**	154,223	**(85,075)**	163,567
Other expenses	2	**(30,398)**	(29,463)	**(30,101)**	(29,171)
(Loss) /profit before income tax		**(20,482)**	152,920	**(12,282)**	157,133
Income tax benefit/(expense)	4(a)	**3,098**	(3,113)	**-**	–
NET (LOSS)/PROFIT AFTER INCOME TAX		**(17,384)**	149,807	**(12,282)**	157,133
TOTAL NET (LOSS)/PROFIT AFTER INCOME TAX		**(17,384)**	149,807	**(12,282)**	157,133
Other comprehensive income and expense, net of tax. Will not be reclassified subsequently to profit or loss:					
Fair value revaluation of land and buildings		**8,390**	507	**8,390**	507
Other comprehensive income, net of tax		**8,390**	507	**8,390**	507
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		**(8,994)**	150,314	**(3,892)**	157,640

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2022

STATEMENT OF FINANCIAL POSITION	NOTE	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000	PARENT 2022 $000	PARENT 2021 $000
Assets					
Cash and cash equivalents	5(b)	**105,333**	156,421	**90,048**	149,075
Financial assets at fair value through profit or loss	7	**2,296,643**	2,100,272	**2,275,791**	2,049,472
Investments relating to life insurance business	17	**65,531**	67,806	–	–
Trade receivables and other assets	6	**152,932**	131,338	**151,434**	130,932
Current tax assets	4(d)	**55**	1,404	**-**	–
Deferred tax assets	4(c)	**4,374**	612	**-**	–
Inventories		**321**	298	**321**	298
Property, plant and equipment	8	**273,359**	277,204	**273,335**	277,204
Right-of-use assets	9	**36,430**	38,578	**36,430**	38,578
Investment property	10	**70,565**	64,784	**59,625**	54,044
Investments in controlled entities	18	**-**	–	**50,867**	37,594
Intangible assets	11	**145,412**	157,061	**145,412**	157,061
Life insurance & other investment contract assets		**11,923**	16,886	**-**	–
Assets held for sale	19	**-**	3,414	**-**	3,414
Total Assets		**3,162,878**	3,016,078	**3,083,263**	2,897,672
Liabilities					
Trade creditors and other payables	12	**181,969**	155,382	**175,060**	156,775
Unearned premium liabilities	13	**301,453**	363,487	**298,328**	363,487
Unexpired risk liabilities	13	**31,151**	–	**31,151**	–
Claims liabilities	16	**229,984**	227,244	**228,496**	227,244
Deferred claims liabilities	16	**224,389**	203,740	**222,524**	203,740
Member giveback provision	16	**132,700**	–	**130,000**	–
Provisions	14	**32,362**	27,683	**31,708**	27,273
Lease liabilities	9	**43,167**	45,598	**43,167**	45,598
Deferred tax liabilities	4(c)	**2,095**	2,708	**-**	–
Minority interest	18	**-**	50,800	**-**	–
Total Liabilities		**1,179,270**	1,076,642	**1,160,434**	1,024,117
NET ASSETS		**1,983,608**	1,939,436	**1,922,829**	1,873,555
Equity					
Reserves		**254,324**	192,768	**248,185**	186,629
Retained earnings and unallocated funds		**1,729,284**	1,746,668	**1,674,644**	1,686,928
TOTAL EQUITY		**1,983,608**	1,939,436	**1,922,829**	1,873,557

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY	NOTE	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000	PARENT 2022 $000	PARENT 2021 $000
Retained earnings					
Balance at start of period		**1,746,668**	1,626,975	**1,686,926**	1,559,305
Restatement on adoption of IFRIC IAS 38, net of tax[1]		**-**	(30,114)	**-**	(29,512)
Net (loss)/profit after income tax		**(17,384)**	149,807	**(12,282)**	157,133
BALANCE AT END OF PERIOD		**1,729,284**	1,746,668	**1,674,644**	1,686,926
Asset revaluation reserve[2]					
Balance at start of period		**192,768**	192,261	**186,629**	186,122
Fair value revaluation of land and buildings - will not be reclassified subsequently to profit or loss		**8,390**	507	**8,390**	507
BALANCE AT END OF PERIOD		**201,158**	192,768	**195,019**	186,629
General reserve					
Balance at start of period		**-**	–	–	–
Recognition of merger with rt health group[3]		**53,166**	–	**53,166**	–
BALANCE AT END OF PERIOD		**53,166**	–	**53,166**	–
Total equity					
Balance at start of period		**1,939,436**	1,819,236	**1,873,555**	1,745,427
Restatement on adoption of IFRIC IAS 38, net of tax		**-**	(30,114)	**-**	(29,512)
Recognition of merger with rt health group		**53,166**	–	**53,166**	–
Total comprehensive income		**(8,994)**	150,314	**(3,892)**	157,640
BALANCE AT END OF PERIOD		**1,983,608**	1,939,436	**1,922,829**	1,873,555

1 In 2021 the Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing software-as-a-service (SaaS) arrangements with cloud providers. The changes relating to 2020 financial statements was applied against retained earnings. Refer to Note 11 Intangible Assets.

2 The asset revaluation reserve is used to record changes in the fair value of land and buildings.

3 The Group entered into a merger with rt health group, and its assets and liabilities were transferred to the Group on 1 November 2021.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2022

STATEMENT OF CASH FLOWS	NOTE	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000	PARENT 2022 $000	PARENT 2021 $000
Cash flows from operating activities					
Receipts from policyholders		**3,455,766**	3,207,957	**3,399,726**	3,166,961
Benefits and levies paid		**(2,898,634)**	(2,833,675)	**(2,877,485)**	(2,819,423)
Risk equalisation receipts		**32,317**	28,976	**32,317**	28,976
Payments to suppliers and employees		**(308,407)**	(342,644)	**(284,012)**	(308,461)
Interest received		**2,921**	2,781	**261**	264
Income tax paid		**(153)**	(1,330)	–	–
Rental received		**8,408**	8,487	**8,408**	8,328
Receipts from contracts with customers		**18,346**	26,033	**18,344**	25,937
Interest repayments of lease liabilities		**(1,356)**	(1,433)	**(1,356)**	(1,433)
Net cash flows from operating activities	5(a)	**309,208**	95,152	**296,203**	101,149
Cash flows from investing activities					
Proceeds of sale on property, plant, equipment, investment property and assets held for sale		**7,620**	22	**7,620**	22
Capital contribution		**-**	–	**-**	(16,000)
Proceeds from sale of investments		**129,866**	162,874	**111,480**	144,074
Purchases of investments		**(471,607)**	(387,398)	**(448,189)**	(358,407)
Purchases of property, plant and equipment, software		**(15,098)**	(16,877)	**(15,064)**	(16,876)
Dividend received		**-**	–	**-**	8,552
Net cash flows used for investing activities		**(349,219)**	(241,379)	**(344,153)**	(238,635)
Cash flows from financing activities					
Principal repayments of lease liabilities		**(11,077)**	(9,816)	**(11,077)**	(9,816)
Net cash flows used for financing activities		**(11,077)**	(9,816)	**(11,077)**	(9,816)
Net decrease in cash and cash equivalents		**(51,088)**	(156,043)	**(59,027)**	(147,302)
Cash and cash equivalents at start of period		**156,421**	312,464	**149,075**	296,377
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5(b)	**105,333**	156,421	**90,048**	149,075

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

ABOUT THIS REPORT

The Hospitals Contribution Fund of Australia Ltd (referred to as the 'Company', 'Parent Entity' or 'HCF') is a company limited by guarantee. It operates on a not-for-profit basis and is incorporated in Australia in the state of New South Wales. The registered address of the Company is 403 George Street, Sydney, NSW, 2000.

The table below summarises the group structure of The Hospitals Contribution Fund of Australia Ltd and the entities it controls.

The Company	Refers to The Hospitals Contribution Fund of Australia Ltd as the parent entity and the ultimate parent entity. It provides private health insurance and operates dental and eyecare centres. Also referred to throughout this report as the 'Parent Entity' or 'HCF'.
The Group	Refers to the consolidated entity, consisting of The Hospitals Contribution Fund of Australia Ltd and its subsidiaries. HCF has wholly-owned investments in HCF Life Insurance Company Pty Ltd ('HCF Life'), including its subsidiary Flip Insurance Pty Ltd ('Flip Insurance'), Manchester Unity Australia Ltd ('Manchester Unity'), Railway and Transport Health Fund Limited ('rt health') and Transport Health Pty Limited ('Transport Health').

On 10 September 2021, HCF entered into a Merger Implementation Deed with Railway and Transport Health Fund Limited. Upon implementation of the merger:

- rt health became a wholly owned subsidiary of HCF;
- Transport Health which was previously a wholly owned subsidiary of rt health, was acquired as a distribution of non-cash assets from rt health as a subsidiary of HCF and became a wholly owned subsidiary of HCF;
- all of rt health group's assets were transferred to HCF, and HCF assumed all of rt health group's liabilities.

The consolidated general purpose financial report of the Group for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 1 September 2022. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), including having incorporated the published views from 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 2020, in response to the unique circumstances arising from the COVID-19 pandemic. ASIC published a Frequently Asked Questions regarding the 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 for the backlog of medical procedures that were expected to occur, but did not due to COVID-19. 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. APRA's aforementioned publication was supplemented with a "frequently asked questions" update in March 2021 in which APRA reaffirmed its recognition requirements but allowed health funds to measure the provision using internal valuation models subject to prescribed minimums in relation to insurer's Capital Adequacy Requirement;
- has been prepared on a historical cost basis, except for financial instruments, certain classes of property, plant and equipment, investment properties and insurance assets backing policy liabilities which have been measured at fair value;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars ($000) unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2021. Refer to Note 27 for further details; and
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective unless otherwise stated. Refer to Note 27 for further details.

BASIS OF CONSOLIDATION

The Hospitals Contribution Fund of Australia Ltd and its subsidiaries together are referred to in this financial report as the 'Group' or the 'consolidated entity'. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group except where these may be required by accounting standards.

HCF LIFE INSURANCE

The Group's life insurance operations are conducted within separate statutory funds of HCF Life Insurance Company Pty Ltd as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the life funds are included within the consolidated financial statements. Transactions and outstanding balances between HCF Life and other entities within the Group are eliminated.

PARENT ENTITY FINANCIAL STATEMENTS

The Company has adopted ASIC 2021/195, issued by the Australian Securities and Investments Commission, permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation *2M.3.01 of the Corporations Regulations 2001.*

ASSETS HELD FOR SALE

The Group classifies assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such assets and disposal groups classified as held for sale or as held for distribution 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 distribution is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the proposed sale will be made or that the proposed sale will be withdrawn. Management must be committed to the sale within one year from the date of the classification.

The HCF Hurstville property in NSW was sold and the sale was finalised on 16 August 2021.

FOREIGN CURRENCY

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the Statement of Financial Position date. Exchange differences arising from the application of these procedures are taken to the Statement of Comprehensive Income.

OTHER ACCOUNTING POLICIES

Significant and other accounting policies that summarise the measurement basis used are relevant to an understanding of the financial statements and are provided throughout the notes to the financial statements.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

- Note 3. Health Insurance Underwriting Result
- Note 8. Property, Plant and Equipment
- Note 9. Right-of-Use Assets and Lease Liabilities
- Note 10. Investment Property
- Note 11. Intangible Assets
- Note 13. Unearned Premium Liabilities and Unexpired Risk Liabilities
- Note 15. Employee Entitlements and Superannuation Commitments
- Note 16. Claims Liabilities, Deferred Claims Liabilities and Member Giveback Provision
- Note 19. Assets Held for Sale

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business - for example, acquisitions and impairment, write-downs; or
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

- **Key numbers** provides a breakdown of individual line items in the financial statements that the Directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items.
- **Risk** discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks.
- **Group structure** explains aspects of the Group structure and how changes have affected the financial position and performance of the Group.
- **Unrecognised items** provides information about items that are not recognised in the financial statements but could potentially have an impact on the Group's financial position and performance; and relates to an aspect of the Group's operations that is important to its future performance.
- **Other** provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however, are not considered critical in understanding the financial performance or position of the Group.

1. INCOME

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(a) Health insurance:					
Net premium revenue	3	**3,481,937**	3,143,279	**3,469,507**	3,143,279
Finance, investment, revenue from contracts with customers, and other income:					
Distribution income		**87,977**	57,410	**87,209**	57,410
Movements in properties and assets at fair value through profit or loss		**11,127**	22,388	**9,595**	21,482
Changes in the fair value of investment in unit trust		**(211,707)**	40,795	**(209,691)**	40,795
Interest income		**1,070**	1,064	**1,061**	1,064
Dividend income		**-**	-	**-**	8,552
Total finance and investment income		**(111,533)**	121,657	**(111,826)**	129,303
Revenue from contracts with customers		**15,729**	17,407	**17,159**	25,928
Rent income		**8,159**	8,079	**8,408**	8,328
Gain on disposal of property, plant, equipment, intangible assets, investment property and assets held for sale		**1,075**	6	**1,075**	4
Other		**109**	4	**109**	4
Total revenue from contracts with customers and other income		**25,072**	25,496	**26,751**	34,264
Total finance, investment, revenue from contracts with customers and other income		**(86,461)**	147,153	**(85,075)**	163,567
TOTAL HEALTH INSURANCE INCOME		**3,395,476**	3,290,432	**3,384,432**	3,306,846
(b) Manchester Unity:					
Changes in value of property through profit or loss		**200**	(100)	**-**	-
Interest income		**3**	1	**-**	-
Total finance and investment income		**203**	(99)	**-**	-
Rent income		**232**	159	**-**	-
Revenue from contracts with customers		**110**	95	**-**	-
Total other income		**342**	254	**-**	-
TOTAL MANCHESTER UNITY INCOME		**545**	155	**-**	-
(c) HCF Life Insurance:					
Life insurance net premium revenue		**41,023**	38,997	**-**	-
Finance, investment and other income:					
Distribution income		**3,787**	1,740	**-**	-
Movements in financial assets at fair value through profit or loss		**(8,766)**	3,757	**-**	-
Interest income		**134**	1,333	**-**	-
Total finance and investment income		**(4,845)**	6,830	**-**	-
Other income		**115**	85	**-**	-
Total other income		**115**	85	**-**	-
TOTAL HCF LIFE INCOME		**36,293**	45,912	**-**	**-**
TOTAL INCOME		**3,432,314**	3,336,499	**3,384,432**	3,306,846

1. INCOME (CONTINUED)

Recognition and measurement

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(i) Health insurance net premium revenue

Premium revenue comprises contributions received from policyholders, inclusive of the government rebate. It represents premiums earned during the financial year and it is recognised in accordance with the pattern of incidence of risk expected over the term of the insurance cover.

The proportion of premium received or receivable but not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an unearned premium liability.

When a policyholder has been made involuntarily unemployed, the Group may pay the premium on behalf of the policyholder for up to 6 months, and claim the private health insurance rebate from the Australian government.

(ii) Revenue from contracts with customers

Revenue from contracts with customers are generated predominantly from the provision of services in dental and eyecare centres, and insurance commissions earned for promoting to purchase travel, pet and life insurance to policyholders. Dental and eyecare centre revenue is recognised as the services are provided to the customers. Insurance commission income is recognised at the point in time where the contracted performance obligation with the insurer has been completed and it is probable that HCF will receive the revenue in relation to the underlying consumer. This point in time is where a policyholder is signed up to purchase the insurance policy.

(iii) Life insurance net premium revenue

Life insurance contracts

Premium amounts earned by providing services and bearing insurance risks are recognised as revenue.

These premium amounts received, which are akin to deposits, are recognised as an increase in policy liabilities. Premiums due after but received before the end of the financial year are shown as unearned premium liabilities in the Statement of Financial Position. Net premium revenue consists of gross premium revenue less reinsurance premiums.

Investment contracts

The nature of the wealth management business is that HCF Life receives deposits from policyholders and these funds are invested on behalf of the policyholders. There is no premium revenue recognised in respect of the life investment contracts.
These premium amounts received, which are akin to deposits, are recognised as an increase in policy liabilities.

Income

(i) Distribution income

Distribution income is recognised when the Group's right to receive the income is established.

(ii) Movement in investment properties and assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets designated as fair value through profit and loss at initial recognition. This includes assets backing insurance liabilities.
Fair value gains/losses on investment properties are recognised when they are remeasured.

(iii) Changes in the fair value of investment in unit trust

Changes in the fair value of investment in unit trust are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point and are recognised in the Statement of Comprehensive Income. The investment in the unit trust is recorded at the redemption value per unit as reported by the investment managers of the trust. The unit trust investment backs insurance liabilities.

(iv) Dividend income

Dividend income is recognised in the Statement of Comprehensive Income when the Group's right to receive payments is established.

(v) Interest income

Interest income is recognised using the effective interest rate method, which applies the interest rate that discounts exactly the estimated future cash receipts over the expected life of the financial instrument, or a shorter period, where appropriate, to the net carrying amount of the financial instrument.

(vi) Rent income

Rent income consists of rent from investment properties.
Rent received under operating leases and initial direct costs are recognised on a straight-line basis over the term of the lease.

2. EXPENSES

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Expenses as presented in the Statement of Comprehensive Income					
Claims expense		**2,851,117**	2,830,365	**2,828,321**	2,816,264
Movement in unexpired risk liabilities	3	**31,151**	(48,274)	**31,151**	(48,274)
Movement in deferred claims liabilities	3	**11,035**	18,862	**10,704**	18,862
Movement in member giveback provision	3	**132,700**	–	**130,000**	–
Health benefits risk equalisation special account levies and Life recoveries		**(52,882)**	(25,990)	**(51,156)**	(25,433)
State ambulance levies	3	**55,652**	51,993	**55,626**	51,993
Movement in policyholders' liabilities – HCF Life		**4,963**	(1,520)	**-**	–
Acquisition costs		**192,805**	139,873	**187,552**	135,441
Other underwriting expenses		**195,857**	188,807	**174,415**	171,689
Other expenses		**30,398**	29,463	**30,101**	29,171
TOTAL EXPENSES		**3,452,796**	3,183,579	**3,396,714**	3,149,713
The key items include the following:					
Movement in deferred acquisition costs		**9,828**	(9,828)	**9,828**	(9,828)
Movement in claims liabilities		**(8,305)**	29,365	**(8,155)**	29,365
Movement in unexpired risk liabilities		**31,151**	(48,274)	**31,151**	(48,274)
Movement in deferred claims liabilities		**11,035**	18,862	**10,704**	18,862
Movement in member giveback provision		**132,700**	-	**130,000**	-
Salaries and employee benefits		**195,896**	186,031	**188,728**	182,226
Rental lease expenses		**2,237**	2,781	**2,237**	2,781
Depreciation and amortisation of:					
• Property, plant and equipment	8	**17,836**	16,562	**17,826**	16,562
• Right-of-use assets	9	**10,746**	9,763	**10,746**	9,763
• Intangible assets	11	**11,525**	5,060	**11,525**	5,060
Life insurance expenses:					
Net claims expense		**12,726**	13,544	**-**	–
Policy acquisition expenses		**4,862**	4,432	**-**	–
Policy maintenance expenses		**21,546**	25,901	**-**	–

2. EXPENSES (CONTINUED)

Recognition and measurement

Expenses

Expenses are consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the Group.

An expense is recognised to the extent that is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred and can be measured reliably.

Claims expense – health insurance

The claims expense represents current period claims payments during the year adjusted by the movement in the outstanding claims liability.

Refer to Note 16 for details on the outstanding claims liability.

Movement in unexpired risk liabilities

Movement in unexpired risk liabilities represents the recognition of deficiency in the Liability Adequacy Test, after related intangible assets and deferred acquisition costs were written down and included in acquisition costs expenses in the Statement of Comprehensive Income.

Refer to Note 13 for details on the unexpired risk liabilities.

Movement in deferred claims liabilities

Movement in deferred claims liabilities represents the recognition and release of deferred claims liabilities relating to the portion of medical services that did not occur during the current financial year due to COVID-19 restrictions.

Refer to Note 16 for details on the deferred claims liabilities.

Movement in member giveback provision

Movement in member giveback provision relates to permanent claims savings due to the COVID-19 restrictions that HCF has committed to return to its members. The provision is expected to be utilised via a one-time cash (or similar) payment payable within the next 12 months to eligible policyholders that have an active private health insurance policy (excluding Ambulance Only and Overseas Visitor Health Cover) at 30 June 2022 and have been a member for at least 6 months prior to this date.

Refer to Note 16 for details on the member giveback provision.

Claims expense – HCF Life

Life insurance contracts

Claims are recognised when the liability to the policyholder under the policy has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components. Claims incurred that relate to the provision of services or bearing of risks are treated as expenses and these are recognised on an accruals basis once the liability to the policy owner has been established under the terms of the contract. Net claims expense consists of gross claims expense less reinsurance recoveries.

Investment contracts

There are no claims expenses in respect of investment contracts. Claims incurred in respect of investment contracts represent investment withdrawals and are recognised as a reduction in policy liabilities.

Acquisition costs

Acquisition costs incurred in obtaining life and health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

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

In 2022, as a result of a deficit in the Liability Adequacy Test, the Group recognised the deficiency in the Statement of Comprehensive Income by writing down $14.2 million of related deferred acquisition costs to nil (2021: nil). Refer to Notes 6 and 13.

Health benefits risk equalisation special account levies and life recoveries

Under the provisions of the *Private Health Insurance Act 2007*, all health insurers must participate in the Risk Equalisation Special Account ('RESA').

RESA represents expenses incurred under Risk Equalisation Trust Fund arrangements based upon an industry survey of eligible claims based upon both age and size of the claim.

The final amounts receivable/payable from the RESA are determined by APRA after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are provided for periods where determinations have not been made and are recognised on an accrual basis.

State ambulance levies

State ambulance levies are amounts payable to the New South Wales and Australian Capital Territory governments in respect of levies on policy holders of insurers with hospital treatment cover, for ambulance cover.

Salaries and employee benefits

Salaries and employee benefits include salaries and wages, annual leave and long service leave, parental leave, incentives, and termination payments to employees.

Depreciation and amortisation

Refer to Notes 8, 9 and 11 for details on depreciation and amortisation.

Rental lease expenses

Rental lease expenses include leases on holdover period, low-value leases, and other variable lease expenses recognised under AASB 16. Holdover periods relate to periods when, for a variety of reasons, the Group continues to occupy the property beyond the legally agreed lease term, and generally the lessee and the lessor each have an option to terminate the lease by giving a notice without permission from the other party, or both parties must agree to extend. Holdover periods are cancellable periods until a new lease contract is signed, and would not be enforceable, and as such, these periods are excluded from the lease term.

3. HEALTH INSURANCE UNDERWRITING RESULT

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Net premium revenue		**3,481,937**	3,143,279	**3,469,507**	3,143,279
Direct claims expenses		**(2,845,364)**	(2,786,899)	**(2,836,476)**	(2,786,899)
Movement in outstanding claims provision		**8,305**	(29,365)	**8,155**	(29,365)
Movement in unexpired risk liabilities		**(31,151)**	48,274	**(31,151)**	48,274
Movement in deferred claims liabilities		**(11,035)**	(18,862)	**(10,704)**	(18,862)
State ambulance levies		**(55,652)**	(51,993)	**(55,626)**	(51,993)
Movement in member giveback provision		**(132,700)**	–	**(130,000)**	–
Gross claims expense		**(3,067,597)**	(2,838,845)	**(3,055,802)**	(2,838,845)
Health benefits risk equalisation special account refunds		**51,550**	25,433	**51,156**	25,433
Net claims expense	16	**(3,016,047)**	(2,813,412)	**(3,004,646)**	(2,813,412)
Acquisition costs		**(187,943)**	(135,441)	**(187,552)**	(135,441)
Other underwriting expenses		**(177,711)**	(174,176)	**(174,415)**	(171,689)
UNDERWRITING RESULT		**100,236**	20,250	**102,894**	22,737

The net claims are not discounted as the majority of claims in health insurance are resolved within one year.

Health insurance contracts

Insurance contracts for accounting purposes are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. The Group has determined that all current health insurance contracts issued to policyholders are insurance contracts.

4. INCOME TAX

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(a) Income tax (benefit)/expense					
The composition of the total income tax expense is as follows:					
Total current income tax expense		**592**	19	**-**	–
Under provision for the previous year[1]		**711**	2,012	**-**	–
Deferred income tax attributable to future years:					
• Deferred income tax		**(3,194)**	873	**-**	–
• Relating to origination and reversal of temporary differences		**(1,207)**	(8)	**-**	–
Under provision for the previous year – charged to profit or loss		**-**	217	**-**	–
Income tax (benefit)/expense reported in the Statement of Comprehensive Income		**(3,098)**	3,113	**-**	–
(b) A reconciliation between tax (benefit)/expense and the product of accounting (loss)/profit before income tax multiplied by the company's applicable income tax rate is as follows:					
Accounting (loss)/profit before income tax		**(20,482)**	152,920	**(12,282)**	157,133
At the company statutory income tax rate of 30% (2021: 30%)		**(6,145)**	45,876	**(3,685)**	47,140
Non-assessable income/(non-deductible expenses)		**3,223**	(44,845)	**3,685**	(47,140)
Tax offsets and credits		**(177)**	(94)	**-**	–
Permanent differences due to movement in investment contract liabilities		**-**	(63)	**-**	–
Non-deductible items		**1**	2	**-**	–
Other items		**-**	8	**-**	–
Under provision for the previous years after excluding amounts attributable to policyholders		**-**	2,229	**-**	–
Income tax (benefit)/expense reported in the Statement of Comprehensive Income		**(3,098)**	3,113	**-**	–
(c) Movements in deferred tax assets and liabilities					
Balance at start of period		**(2,096)**	(1,013)	**-**	–
Additions from merger with rt health group		**(26)**	–	**-**	–
Charged to profit or loss		**4,401**	(880)	**-**	–
Under provided in previous years - charged to profit or loss		**-**	(203)	**-**	–
Balance at end of period		**2,279**	(2,096)	**-**	–
Amounts recognised in the Statement of Financial Position:					
Deferred tax assets		**4,374**	612	**-**	–
Deferred tax liabilities		**(2,095)**	(2,708)	**-**	–
BALANCE AT END OF PERIOD		**2,279**	(2,096)	**-**	–

1 In 2022 this was due to HCF Life expenses that were deducted outright in the previous year but should have been claimed as deductions over five years. In 2021 this was due to the formation of a tax consolidated group for Manchester Unity being exacted in 2021, however effective as of 1 July 2019.

4. INCOME TAX (CONTINUED)

	NOTE	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000	PARENT 2022 $000	PARENT 2021 $000
Deferred income tax at 30 June relates to the following:					
(i) Deferred tax liabilities					
Revaluations of financial assets held at fair value through profit or loss		**2,089**	2,708	**-**	–
Provisions and accruals		**6**	–	**-**	–
Gross deferred tax liabilities		**2,095**	2,708	**-**	–
(ii) Deferred tax assets					
Revaluations of financial assets held at fair value through profit or loss		**2,526**	(216)	**-**	–
Temporary timing differences		**1,339**	23	**-**	–
Provisions and accruals		**17**	718	**-**	–
Tax losses carried forward		**471**	49	**-**	–
Other		**21**	38	**-**	–
Gross deferred tax assets		**4,374**	612	**-**	–
NET DEFERRED TAX		**2,279**	(2,096)	**-**	–
(d) Movements in income tax (receivable)/payable					
Balance at start of period		**(1,404)**	167	**-**	–
Additions from merger with rt health group		**199**	–	**-**	–
Restatement on adoption of IFRIC IAS 38		**-**	259		
Charged to profit or loss		**1,303**	(500)	**-**	–
Payments		**(153)**	(1,330)	**-**	–
Balance at end of period		**(55)**	(1,404)	**-**	–
Amounts recognised in the Statement of Financial Position:				**-**	–
Income tax benefit		**(55)**	(1,404)	**-**	–
INCOME TAX RECEIVABLE		**(55)**	(1,404)	**-**	–

The Hospitals Contribution Fund of Australia Ltd and Railway and Transport Health Pty Limited are exempt from income tax.

HCF Life Insurance Company Pty Ltd, Flip Insurance Pty Ltd, Manchester Unity Australia Ltd, and Transport Health Pty Limited are subject to income tax.

4. INCOME TAX (CONTINUED)

Recognition and measurement

Current and deferred tax is reported under four taxable stand-alone entities:

- HCF Life;
- Flip Insurance Pty Ltd;
- Manchester Unity; and
- Transport Health Pty Limited.

Current and deferred tax has been determined in each of the Group's subsidiaries on a stand-alone basis.

Current taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted by the Statement of Financial Position date.

Deferred taxes

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date.

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

- where they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- where taxable temporary differences relate to investments in subsidiaries, associates and interests in joint ventures:

  i) Deferred tax liabilities are not recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

  ii) Deferred tax assets are not recognised if it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will not be available to utilise the temporary differences.

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

Australian Tax consolidation legislation

The head entity in the tax consolidated group, Manchester Unity, continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the tax consolidated group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Offsetting deferred tax balances

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

5. CASH AND CASH EQUIVALENTS

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(a) Reconciliation of net (loss)/profit after tax to the net cash flows from operations					
Net (loss)/profit after tax		**(17,384)**	149,807	**(12,282)**	157,133
Adjustments for:					
Depreciation and amortisation		**40,107**	31,385	**40,097**	31,385
Gains on disposal of property, plant, equipment, intangibles and assets held for sale		**(1,075)**	(4)	**(1,075)**	(4)
Restatement of software to retained earnings (adoption of IFRIC IAS 38)		**-**	30,373	**-**	26,067
Movements in investment properties and assets at fair value through profit or loss		**(7,527)**	(26,466)	**(9,594)**	(21,482)
Changes in the fair value of investment in unit trust		**211,707**	(40,795)	**209,691**	(40,795)
Dividend income		**-**	–	**-**	(8,552)
Distribution income		**(91,764)**	(59,150)	**(87,209)**	(57,410)
Changes in assets and liabilities					
(Increase)/decrease in trade receivables and other assets		**(28,278)**	677	**(27,195)**	477
Decrease/(increase) in deferred acquisition costs		**9,828**	(9,828)	**9,828**	(9,828)
Increase in prepayments		**(3,144)**	(1,450)	**(3,135)**	(1,446)
Increase in investment in controlled entities		**(14,814)**	–	**(14,814)**	–
Decrease/(increase) in current tax assets		**1,349**	(1,571)	**-**	–
Increase in inventories		**(23)**	(30)	**(23)**	(30)
(Increase)/decrease in deferred tax assets		**(3,762)**	379	**-**	–
Decrease/(increase) in Life insurance & other investment contract assets		**4,963**	(2,228)	**-**	–
Increase in trade and other payables		**26,587**	22,662	**18,285**	25,943
Decrease in unearned premium liabilities and unexpired risk liabilities		**(30,883)**	(21,268)	**(34,008)**	(21,268)
Increase in claims liabilities		**2,740**	29,366	**1,252**	29,366
Increase in deferred claims liabilities		**20,649**	18,862	**18,784**	18,862
Increase in member giveback provision		**132,700**	-	**130,000**	–
Increase in provisions		**4,679**	2,316	**4,435**	2,243
(Decrease)/increase in deferred tax liabilities		**(613)**	704	**-**	–
Increase in minority interest		**-**	1,525	**-**	–
Decrease in retained earnings on adoption of IFRIC IAS 38		**-**	(30,114)	**-**	(29,512)
Increase in general reserve on merger with rt health group		**53,166**	-	**53,166**	-
Net cash flows from operating activities		**309,208**	95,152	**296,203**	101,149
(b) Reconciliation of cash and cash equivalents					
Cash balance comprises:					
• Cash on hand		**19,664**	52,456	**4,379**	45,110
• Short-term deposits		**85,669**	103,965	**85,669**	103,965
TOTAL CASH AND CASH EQUIVALENTS		**105,333**	156,421	**90,048**	149,075

5. CASH AND CASH EQUIVALENTS (CONTINUED)

Recognition and measurement

Cash at bank and on deposit

For Statement of Cash Flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily converted to known amounts of cash and which are subject to insignificant risk of change in value.

6. TRADE RECEIVABLES AND OTHER ASSETS

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Private Health Insurance rebate receivables		**81,828**	75,878	**81,490**	75,878
Other receivables		**50,734**	27,546	**49,755**	27,178
Premiums in arrears		**7,678**	8,538	**7,544**	8,538
Deferred acquisition costs	13	**-**	9,828	**-**	9,828
Prepayments		**12,692**	9,548	**12,645**	9,510
TOTAL TRADE RECEIVABLES AND OTHER ASSETS		**152,932**	131,338	**151,434**	130,932

Recognition and measurement

Trade receivables generally have terms of up to 30 days. They are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less allowance for impairment. The carrying value of trade and other receivables are expected to settle within 12 months from reporting date.

Impairment of receivables

The Group recognises an allowance for expected credit losses (ECLs) for trade receivables. The Group applies a simplified approach in calculating ECLs, therefore does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Debts that are known to be uncollectable are written off when identified. If an amount is subsequently recovered, it is credited against Statement of Comprehensive Income.

Private health insurance rebates

If a policyholder elects to claim the private health insurance rebate as a reduction in the amount of premium they pay, a receivable for the rebate is recognised in the month in which the premium is received from the policyholder. This is generally received from the Australian Government within approximately two weeks of the receipt of the policyholder premium.

Other receivables

All other receivables amounts generally arise from transactions within the ordinary operating activities of the Group, such as lease receivables and medical claim payments that are recoverable from the Australian Government.

Premium in arrears

The Group recognises premiums in arrears up to two months after the last financial date paid to. Premiums in arrears are adjusted to take into account the probability of receiving the revenue. The probability factors are the Group's best estimate of the probability of receiving the funds, based upon past experience. The premium in arrears considered to be impaired or non-collectable at 30 June 2022 is $0.1 million (2021: $0.1 million). Unless otherwise stated above, all other receivables are expected to be settled within 30–60 days.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Short-term deposits	**9,377**	8,049	**9,377**	8,049
Holdings in unlisted unit trusts[1]				
• JANA Tailored Trust No.3	**2,216,490**	1,943,967	**2,195,638**	1,893,167
• JANA Cash Trust[2]	**-**	80,168	**-**	80,168
Holdings in unlisted foreign trust	**58,445**	55,372	**58,445**	55,372
Holdings in other direct investments	**12,331**	12,716	**12,331**	12,716
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**2,296,643**	2,100,272	**2,275,791**	2,049,472
Maturity analysis of financial assets at fair value through profit or loss				
• No longer than three months	**9,377**	8,049	**9,377**	8,049
• No maturity specified	**2,287,266**	2,092,223	**2,266,414**	2,041,423
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**2,296,643**	2,100,272	**2,275,791**	2,049,472

1 JANA Tailored Trust No.3 - Liquidity overview:
• Units in the trusts are realisable for cash within 10 business days; and
• In a typical year between 4% and 21% of the holdings may be redeemed and reinvested.

2 JANA Cash Trust balance was transferred into JANA Tailored Trust No.3 in January 2022.

Recognition and measurement

Financial assets at fair value through profit or loss include financial assets backing insurance liabilities (JANA Tailored Trust No.3 and JANA Cash Trust) that are designated as fair value through profit or loss at initial recognition. All other financial assets in the table above are mandatorily at fair value through profit or loss.

Purchases and sales of investments are recognised on trade date. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been transferred following a transfer of ownership.

The fair value of investments traded in financial markets are determined by reference to quoted market bid prices at the close of business on the Statement of Financial Position date. The unlisted unit trusts are recorded at fund managers' valuation.

Other valuation techniques are used to determine the fair value for all other unlisted securities.

Refer Note 18 for more detail on the investment in JANA Tailored Trust No.3 and JANA Cash Trust.

8. PROPERTY, PLANT AND EQUIPMENT

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(a) Carrying amounts of property, plant and equipment at the end of the financial year:					
Freehold land:					
At fair value	8(b)	**74,000**	74,010	**74,000**	74,010
Buildings on freehold land:					
At fair value	8(b)	**145,020**	147,563	**145,020**	147,563
Total freehold land and buildings		**219,020**	221,573	**219,020**	221,573
Leasehold improvements:					
At cost		**5,137**	4,191	**5,137**	4,191
Accumulated depreciation		**(3,345)**	(2,844)	**(3,345)**	(2,844)
Total leasehold improvements	8(b)	**1,792**	1,347	**1,792**	1,347
Plant, equipment, furniture and fittings, motor vehicles:					
At cost		**109,780**	102,378	**109,746**	102,378
Accumulated depreciation		**(57,233)**	(48,094)	**(57,223)**	(48,094)
Total plant, equipment, furniture and fittings, motor vehicles[1]	8(b)	**52,547**	54,284	**52,523**	54,284
Total property, plant and equipment, furniture and fittings and motor vehicles:					
At fair value		**219,020**	221,573	**219,020**	221,573
At cost		**114,917**	106,569	**114,883**	106,569
		333,937	328,142	**333,903**	328,142
Accumulated depreciation		**(60,578)**	(50,938)	**(60,568)**	(50,938)
NET PROPERTY, PLANT AND EQUIPMENT, FURNITURE AND FITTINGS AND MOTOR VEHICLES	8(b)	**273,359**	277,204	**273,335**	277,204

1 During the year, plant, equipment, furniture and fittings, motor vehicles to the value of $4.0 million (2021: $16.5 million) were fully depreciated and disposed by the Group.

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(b) Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year:					
Freehold land:					
Balance at start of period		**74,010**	76,760	**74,010**	76,760
Net amount of revaluation decrements		**(10)**	–	**(10)**	–
Transfer to investment property[2]		**-**	(2,750)	**-**	(2,750)
Balance at end of period	8(a)	**74,000**	74,010	**74,000**	74,010
Buildings on freehold land:					
Balance at start of period		**147,563**	163,850	**147,563**	163,850
Additions		**339**	–	**339**	–
Transfer to investment property[2]		**(6,816)**	(12,041)	**(6,816)**	(12,041)
Depreciation expense		**(4,466)**	(4,753)	**(4,466)**	(4,753)
Net amount of revaluation increments/(decrements)		**8,400**	507	**8,400**	507
Disposals		**-**	–	**-**	–
Balance at end of period	8(a)	**145,020**	147,563	**145,020**	147,563
Leasehold improvements:					
Balance at start of period		**1,347**	1,686	**1,347**	1,686
Additions		**1,027**	164	**1,027**	164
Disposals		**(2)**	(3)	**(2)**	(3)
Depreciation expense		**(580)**	(500)	**(580)**	(500)
Balance at end of period	8(a)	**1,792**	1,347	**1,792**	1,347
Plant and equipment:					
Balance at start of period		**54,284**	56,746	**54,284**	56,746
Additions		**11,176**	9,089	**11,142**	9,089
Additions from merger with rt health group		**376**	–	**376**	–
Disposals		**(499)**	(242)	**(499)**	(242)
Depreciation expense		**(12,790)**	(11,309)	**(12,780)**	(11,309)
Balance at end of period	8(a)	**52,547**	54,284	**52,523**	54,284
Total balance at end of period					
Balance at start of period		**277,204**	299,042	**277,204**	299,042
Additions		**12,542**	9,253	**12,508**	9,253
Additions from merger with rt health group		**376**	-	**376**	-
Transfers		**(6,816)**	(14,791)	**(6,816)**	(14,791)
Disposals		**(501)**	(245)	**(501)**	(245)
Depreciation expense	2	**(17,836)**	(16,562)	**(17,826)**	(16,562)
Net amount of revaluation increments		**8,390**	507	**8,390**	507
BALANCE AT END OF PERIOD	8(a)	**273,359**	277,204	**273,335**	277,204

2 Transferred to investment property - refer to Note 10.

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Recognition and measurement

Freehold land and buildings

Cost and valuation

Freehold land and buildings are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Refer to Note 17 for the fair value measurement hierarchy of the Group's freehold land and buildings.

Where necessary, the asset is revalued to reflect its fair value. Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve in guarantors' equity. To the extent that the increase reverses a decrease previously recognised in the Statement of Comprehensive Income, the increase is first recognised in the Statement of Comprehensive Income.

Decreases that reverse previous increases of the same asset are first charged against revaluation reserve directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the Statement of Comprehensive Income. All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and buildings were revalued by the Directors at 30 June 2022 using advice received from independent valuations carried out by Colliers International Valuation and Advisory Services Pty Limited. The inspections and valuations of properties were done using appropriate assumptions determined as at the date of valuation, assuming the properties are in the same condition on the valuation date as the inspection date, and taking into consideration the economic impacts of the COVID-19 pandemic.

In determining the fair value of freehold land and buildings, Colliers model three valuation approaches; passing capital, capitalisation of income and discounted cash flow, that provide a range of values that would be appropriate in the current market. The valuation approach adopted for each asset may vary due to inherent property characteristics, cashflows and market dynamics.

The discounted cash flow approach has been adopted for the 30 June 2022 valuation as the valuation methodology for freehold land and buildings, which is consistent with the 30 June 2021 valuation methodology.

Revaluations are performed on the basis of sale and leaseback under their existing usage method. The change required to the overall carrying value on revaluation is charged directly to the asset revaluation reserve as the buildings are owner occupied.

Leasehold improvements

The cost of improvements to leasehold property are capitalised, recorded as leasehold improvements and amortised over the unexpired portion of the lease or estimated useful life of the improvements, whichever is shorter.

Depreciation

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Group. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives for the property, plant and equipment of The Hospitals Contribution Fund of Australia Ltd are as follows:

CATEGORY	USEFUL LIFE
Freehold buildings	40–50 years
Plant and equipment	2.5–15 years
Leasehold improvements	5–14 years
Computer equipment	2–5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, which are included in the Statement of Comprehensive Income. Leasehold improvements are amortised over the term of the lease.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(a) Carrying amounts of right-of-use assets at the end of the financial year:					
At cost		**59,590**	53,391	**59,590**	53,391
Accumulated depreciation		**(23,160)**	(14,813)	**(23,160)**	(14,813)
Total right-of-use assets	9(b)	**36,430**	38,578	**36,430**	38,578
(b) Reconciliations of the carrying amounts of right-of-use assets at the beginning and end of the financial year:					
Balance at start of period		**38,578**	34,422	**38,578**	34,422
Additions		**7,881**	14,293	**7,881**	14,293
Additions from merger with rt health group		**717**	–	**717**	–
Depreciation expense		**(10,746)**	(9,763)	**(10,746)**	(9,763)
Derecognition of right-of-use assets [1]		**-**	(374)	**-**	(374)
Balance at end of period	9(a)	**36,430**	38,578	**36,430**	38,578
(c) Lease liabilities:					
Balance at start of period		**45,598**	41,656	**45,598**	41,656
Additions from merger with rt health group		**769**	-	**769**	-
Additions		**7,882**	13,751	**7,882**	13,751
Interest on lease liabilities		**1,351**	1,437	**1,351**	1,437
Repayments		**(12,433)**	(11,246)	**(12,433)**	(11,246)
Balance at end of period [2]		**43,167**	45,598	**43,167**	45,598
Maturity analysis					
No later than one year		**11,398**	10,814	**11,398**	10,814
Later than one year and not later than five years		**29,199**	30,605	**29,199**	30,605
Later than five years		**5,767**	8,096	**5,767**	8,096
Less: future finance charges		**(3,197)**	(3,917)	**(3,197)**	(3,917)
Balance at end of period		**43,167**	45,598	**43,167**	45,598
Current		**10,316**	9,590	**10,316**	9,590
Non-current		**32,851**	36,008	**32,851**	36,008
BALANCE AT END OF PERIOD		**43,167**	45,598	**43,167**	45,598

1 Derecognition is due to the Group no longer having the enforceable right-of-use asset covered by the lease term.

2 The Group has granted a number of lessor bank guarantees to support these obligations, totalling $0.8 million (2021: $0.9 million), none of which has been utilised.

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Additional information about leases for which the Group is a lessee is presented below.

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
(d) Amounts recognised in the Statement of Comprehensive Income:					
Depreciation on right-of-use assets		**10,746**	9,763	**10,746**	9,763
Interest expenses on lease liabilities		**1,351**	1,437	**1,351**	1,437
COVID-19 rent relief granted by lessors		**-**	39	**-**	39
Expenses relating to leases of low-value assets		**152**	175	**152**	175
(Losses)/gains from lease modifications		**(455)**	170	**(455)**	170
Income from sub-leasing right-of-use assets		**24**	48	**24**	48

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Recognition and measurement

Definition of a lease

The Group assesses whether a contract is or contains a lease based on the definition of a lease under AASB 16. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied the practical expedient available on transition to AASB 16 and, for those contracts entered prior to the date of initial application, did not reassess whether a contract is or contains a lease.

Cost and valuation - as a lessee

The Group's lease portfolio is made up of the lease of office and retail spaces for dental centres and branches, IT and other office equipment. At commencement or on modification of a contract that contains a lease component, where practicable, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, and any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use asset is periodically assessed for impairment testing, and if any, adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. As the exemption for short term leases must be done by class of underlying assets, the Group has elected not to apply the exemption for the purpose of consistency and ease of use of financial reporting for users of its financials.

Variable lease payments

In 2020, the AASB issued AASB 2020-4, *Amendments to Australian Accounting Standards - Covid-19 Related Rent Concessions* and in 2021, issued AASB 2021-3 to extend the practical expedient originally provided by AASB 2020-4 to simplify how lessees account for COVID-19 related rent concessions. The amendments introduced a practical expedient for lessees which can be applied to rent concessions for which any reduction in lease payments affects only payment originally due on or before 30 June 2022.

In 2020, the Group elected for early application of the practical expedient available from AASB 2020-4 and accounted for any change in lease payments resulting from the COVID-19 related rent concession as variable lease payments, the same way it would account for the change under AASB 16, if the change were not a lease modification.

Other leases that include variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liabilities and are expensed as incurred in 'other expenses' in the Statement of Comprehensive Income.

10. INVESTMENT PROPERTY

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
(a) Carrying amounts of investment property at the end of the current year:				
Freehold land and buildings:				
At fair value	**70,565**	64,784	**59,625**	54,044
TOTAL FREEHOLD LAND AND BUILDINGS[1]	**70,565**	64,784	**59,625**	54,044
(b) Reconciliations of the carrying amounts of investment property at the beginning and end of the current year:				
Freehold land and buildings:				
Balance at start of period	**64,784**	49,299	**54,044**	38,459
Net amount of revaluation increments	**1,715**	694	**1,515**	794
Disposal	**(2,750)**	–	**(2,750)**	–
Transfer from property, plant and equipment[2]	**6,816**	14,791	**6,816**	14,791
Balance at end of period	**70,565**	64,784	**59,625**	54,044
Rental income derived from investment properties	**2,527**	2,180	**2,218**	1,973
Direct operating expenses (including repairs & maintenance) generating rental income	**(2,252)**	(1,895)	**(2,035)**	(1,712)
NET PROFIT ARISING FROM INVESTMENT PROPERTIES CARRIED AT FAIR VALUE	**275**	285	**183**	261

1 There were no restrictions held against investment property for both years presented.

2 In accordance with AASB 140 Investment Property, during the financial year $6.8 million transfer (2021: $14.8 million) was made from property, plant and equipment to investment property for properties that were no longer owner-occupied.

10. INVESTMENT PROPERTY (CONTINUED)

Recognition and measurement

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of Comprehensive Income in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the Statement of Comprehensive Income in the year of derecognition.

Transfers are made to investment property when and only when there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Commercial property

The properties were revalued by the Directors at 30 June 2022 at fair value using advice received from independent valuations carried out by Colliers International Valuation and Advisory Services Pty Limited. The inspection and valuation of the properties were done using appropriate assumptions determined as at the date of valuation, assuming the properties are in the same condition on the valuation date as the inspection date, and taking into consideration the economic impacts of the COVID-19 pandemic.

The change required to the overall carrying value on revaluation is brought to account through the Statement of Comprehensive Income.

(i) Key judgements, estimates and assumptions

In determining the fair value, the capitalisation of net market income method and discounting of future cash flows to their present value have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties. If such prices are not available then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

The capitalisation of income approach has been adopted for the 30 June 2022 valuation and in 30 June 2021 the discounted cash flows was used. With markets appearing to be more stable, with more readily available evidence upon which to base their assumptions, Colliers considered this approach more relevant and reliable.

Refer to Note 17 for details on sensitivities and valuation information.

11. INTANGIBLE ASSETS

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Software:					
At cost		**56,269**	63,805	**56,269**	63,805
Accumulated amortisation		**(12,142)**	(8,029)	**(12,142)**	(8,029)
TOTAL SOFTWARE[1]		**44,127**	55,776	**44,127**	55,776
Software:					
Balance at start of period		**55,776**	83,588	**55,776**	79,282
Restatement on adoption of IFRIC IAS 38[2]		**-**	(30,373)	**-**	(26,067)
Additions		**2,556**	7,623	**2,556**	7,623
Additions from merger with rt health group		**116**	–	**116**	–
Disposals		**(2,796)**	(2)	**(2,796)**	(2)
Amortisation expense		**(11,525)**	(5,060)	**(11,525)**	(5,060)
Balance at end of period		**44,127**	55,776	**44,127**	55,776
Goodwill:					
Balance at start of period		**101,285**	101,285	**101,285**	101,285
TOTAL GOODWILL		**101,285**	101,285	**101,285**	101,285
Total intangible assets					
Balance at start of period		**157,061**	184,873	**157,061**	180,567
Restatement on adoption of IFRIC IAS 38		**-**	(30,373)	**-**	(26,067)
Additions		**2,556**	7,623	**2,556**	7,623
Additions from merger with rt health group		**116**	–	**116**	–
Disposals		**(2,796)**	(2)	**(2,796)**	(2)
Amortisation expense	2	**(11,525)**	(5,060)	**(11,525)**	(5,060)
TOTAL BALANCE AT END OF PERIOD		**145,412**	157,061	**145,412**	157,061

1 During the year, software to the value of $10.2 million (2021: $5.6 million) was fully depreciated and disposed by the Group.

2 During 2021 the Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing software-as-a-service (SaaS) arrangements with cloud providers.

11. INTANGIBLE ASSETS (CONTINUED)

Recognition and measurement

Impairment testing for goodwill

Goodwill represents the excess cost of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ('CGUs') or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. The Group has two CGUs being Health Insurance and Life Insurance.

The goodwill of $101.3 million has been predominantly allocated to a single CGU being the Health Insurance business.

Impairment losses recognised for goodwill are not subsequently reversed.

The recoverable amount of goodwill is determined based on a value in use calculation using pre-tax cash flow projections. These calculations use cash flow projections based on financial budgets approved by the Board covering a four-year period. Cash flows beyond the five-year period are extrapolated using a terminal growth rate of 5.51% (2021: 4.14%). The growth rate does not exceed the historic long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value in use calculations

The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Cash flow forecast: forecast profits for the first four years based on current and prior years' actuals are used to derive a medium-term cash flow proxy;
- Discount rate of 5.92% (2021: 6.50%): calculated on the weighted average cost of capital; and
- Terminal growth rate at year 2026 and beyond is based on management's expectation for future performance in the Health Insurance CGU.

These assumptions have been used for the analysis of each CGU as applicable within the business segment.

Impact of possible changes in key assumptions

The carrying value of identified intangible assets, as well as net tangible assets are deducted from the values generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

It has been assessed that the recoverability of goodwill is in excess of its carrying amount. Therefore, all goodwill is expected to be recoverable.

With regard to the assessment of the recoverable amount of the CGU, management believes that no reasonable sensitivity movements in any of the above key assumptions would cause impairment.

Impairment charge

Based upon the impairment testing performed, there is no impairment charge as no impairment was indicated for the year ended 30 June 2022 (2021: nil).

Accounting policy

Other intangibles are initially recognised at cost and amortised over the period of expected benefit, less any adjustments for impairment losses.

Software-as-a-service ('SaaS') arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement. Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract.

The adoption of the International Financial Reporting Standards Interpretations Committee (IFRIC) agenda decisions resulted in reclassification of deployment costs associated with SaaS arrangement from intangible assets in 2021.

A summary of the useful lives of intangible assets is as follows:

INTANGIBLE ASSET	USEFUL LIFE
Software	Finite (2–10 years)

Impairment

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

12. TRADE CREDITORS AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Trade creditors and benefits payable	**161,676**	141,346	**154,072**	139,005
Other creditors and accruals	**20,293**	14,036	**20,351**	14,023
Intercompany payables	**-**	–	**637**	3,747
Trade creditors and other payables	**181,969**	155,382	**175,060**	156,775
EXPECTED TO BE PAID IN THE NEXT 12 MONTHS	**181,969**	155,382	**175,060**	156,775

Recognition and measurement

Trade creditors and other payables

Trade creditors and other payables, which are generally settled within 30-day terms and are unsecured, are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

13. UNEARNED PREMIUM LIABILITIES AND UNEXPIRED RISK LIABILITIES

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
(a) Unearned premium liabilities				
Balance at start of period	**363,487**	336,481	**363,487**	336,481
Deferral of premiums on contracts written during the year	**295,069**	357,027	**291,944**	357,027
Earning of premiums written in previous periods	**(357,103)**	(330,021)	**(357,103)**	(330,021)
Balance at end of period	**301,453**	363,487	**298,328**	363,487
(b) Maturity analysis of unearned premium liabilities				
No longer than 12 months	**299,945**	357,103	**296,821**	357,103
Longer than 12 months and not longer than 2 years	**1,508**	6,384	**1,507**	6,384
Unearned premium liabilities as at 30 June	**301,453**	363,487	**298,328**	363,487
(c) Unexpired risk liabilities				
Balance at start of period	**-**	48,274	–	48,274
Movement in unexpired risk liabilities during the year	**31,151**	(48,274)	**31,151**	(48,274)
BALANCE AT END OF PERIOD	**31,151**	–	**31,151**	–

Recognition and measurement

Unearned Premium Liabilities

The proportion of written premiums, attributable to subsequent periods (gross of commission payable to intermediaries) is reported as unearned premium. The change in the provision for unearned premium is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

Liability Adequacy Test and Unexpired Risk Liabilities

At reporting date, the Group assesses the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against current health insurance contracts. This assessment is referred to as the Liability Adequacy Test ('LAT').

The LAT is performed to ensure that unearned premiums (unearned premium liabilities) and premiums expected to be received based on a current policyholders' option to renew their existing contract (constructive obligation) are adequate to cover the expected liabilities arising from the policyholders' existing rights and obligations. The expected liabilities include benefits, policyholder servicing costs and a margin for risk. The period of the projections is up until the next price review or change in contractual benefits.

If the present value of the expected future claims cash flows plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient.

The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability. The adopted risk margin is 3.5% (2021: 3.5%) to equate to a probability of adequacy of 75% (2021: 75%).

If applicable, the deficiency is recognised in the Statement of Comprehensive Income, by writing down any related intangible assets and then related deferred acquisition costs. Any excess is recorded in the Statement of Financial Position as unexpired risk liabilities.

The LAT resulted in $45.4 million unexpired risk liabilities at 30 June 2022 (2021: nil). In recognising the deficiency in the Statement of Comprehensive Income, the Group wrote off $14.2 million in deferred acquisition costs ('DAC'), and recognised $31.2 million in the Statement of Financial Position as unexpired risk liabilities.

The LAT deficit was driven by the negative cash flows due to the deferral of the 1 April 2022 rate increase to 1 November 2022.

14. PROVISIONS

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Employee entitlements	15	**26,020**	22,143	**25,366**	21,733
Customer loyalty bonus		**1,485**	1,664	**1,485**	1,664
Makegood on leased premises		**4,857**	3,876	**4,857**	3,876
Total provisions		**32,362**	27,683	**31,708**	27,273
EXPECTED TO BE PAID IN THE NEXT 12 MONTHS		**16,228**	14,378	**15,949**	14,180
Reconciliation of provisions:					
Employee entitlements					
Balance at start of period		**22,143**	19,180	**21,733**	18,843
Provision increase		**13,049**	10,131	**12,584**	9,946
Payments		**(9,172)**	(7,168)	**(8,951)**	(7,056)
Balance at end of period		**26,020**	22,143	**25,366**	21,733
Customer loyalty bonus					
Balance at start of period		**1,664**	1,898	**1,664**	1,898
Provision decrease		**(179)**	(234)	**(179)**	(234)
Balance at end of period		**1,485**	1,664	**1,485**	1,664
Makegood on leased premises					
Balance at start of period		**3,876**	4,289	**3,876**	4,289
Provision increase/(decrease)		**1,005**	(44)	**1,005**	(44)
Payments		**(24)**	(369)	**(24)**	(369)
Balance at end of period		**4,857**	3,876	**4,857**	3,876
TOTAL BALANCE AT END OF PERIOD		**32,362**	27,683	**31,708**	27,273

Recognition and measurement

Provisions are recognised when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that resources will be expended to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Employee entitlements

Provisions for employee entitlements includes annual leave and long service leave which are not expected to be settled wholly within 12 months after the end of the period. The provisions are measured at the present value of expected future payments, taking into account expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Customer loyalty bonus

The expected future payments are not discounted due to the short tail nature of the products written by the Company where loyalty bonuses are generally settled within 12 months.

Makegood on leased premises

In accordance with certain lease agreements, the Group is obligated to restore leased premises to their original condition at the end of the lease term. Due to the long-term nature of the liability, there is uncertainty in estimating the ultimate amount of these costs. The provision has been discounted to take into account the time value of money throughout the remaining term of the lease.

15. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

		CONSOLIDATED		PARENT	
	NOTE	2022 $000	2021 $000	2022 $000	2021 $000
Aggregate employee entitlements are comprised of accrued wages, salaries and oncosts and provisions:					
Annual leave		**14,075**	12,094	**13,671**	11,846
Long service leave		**11,945**	10,049	**11,695**	9,887
Total employee entitlements	14	**26,020**	22,143	**25,366**	21,733
EMPLOYEE ENTITLEMENTS EXPECTED TO BE PAID IN THE NEXT 12 MONTHS		**14,115**	12,375	**13,835**	12,177

Recognition and measurement

Annual leave and long service leave

The liability for annual leave and long service leave is recognised in the provision for employee benefits. It is measured as the present value of expected future payments for the services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Key estimate:

Management judgement is required in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in salaries and wages;
- future on-cost rates; and
- experience of employee departures and period of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

The Group expects the liability for annual leave to be settled within 12 months of each reporting date.

Superannuation commitments

Contributions by companies in the Group are made at a rate sufficient to meet the entity's superannuation guarantee obligations (10.0% of salary during 2022 and increased to 10.5% from 1 July 2022) or at such higher rate as agreed between the employee, Directors and the Group.

The Group makes contributions to complying superannuation funds as requested by employees and Directors, to meet the requirements of the superannuation guarantee legislation. The Group has no further obligations relating to superannuation commitments.

16. CLAIMS LIABILITIES, DEFERRED CLAIMS LIABILITIES AND MEMBER GIVEBACK PROVISION

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
(a) Claims liabilities				
Central estimate of expected present value of future payments for claims incurred	**217,284**	218,163	**215,981**	218,163
Risk margin	**9,967**	6,628	**9,851**	6,628
Claims handling costs	**2,733**	2,453	**2,664**	2,453
TOTAL CLAIMS LIABILITIES	**229,984**	227,244	**228,496**	227,244
(b) Changes in the claims liabilities can be analysed as follows:				
Balance at start of period	**227,244**	197,878	**227,244**	197,878
Additions from merger with rt health group	**11,471**	–	**9,833**	–
Claims incurred during the year	**3,016,047**	2,813,412	**3,004,646**	2,813,412
Claims paid during the year	**(3,024,778)**	(2,784,046)	**(3,013,227)**	(2,784,046)
BALANCE AT THE END OF THE PERIOD	**229,984**	227,244	**228,496**	227,244
(c) Deferred claims liabilities				
Balance at start of period	**203,740**	184,878	**203,740**	184,878
Additions from merger with rt health group	**9,614**	–	**8,080**	–
Increase in deferred claims liabilities	**159,648**	86,775	**158,941**	86,775
Amount released in the period	**(148,613)**	(67,913)	**(148,237)**	(67,913)
TOTAL DEFERRED CLAIMS LIABILITIES	**224,389**	203,740	**222,524**	203,740
(d) Member giveback provision				
Balance at start of period	**-**	–	**-**	–
Increase in member giveback provision	**132,700**	–	**130,000**	–
TOTAL MEMBER GIVEBACK PROVISION	**132,700**	-	**130,000**	-

Recognition and measurement

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period.

Key estimate: expected future payments

The expected future payments are not discounted due to the short tail nature of the products written by the Company where claims are generally settled within 12 months.

For the year ending 30 June 2022, 52% of outstanding claims were settled within one month of balance date (2021: 51%).

Key estimate: risk margin

AASB 1023 *General Insurance Contracts* requires a risk margin to be applied to the outstanding claims liability, net of risk equalisation and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. The past volatility has been assumed to be indicative of the future volatility. The margin for risk has been set at 4.5% for the Company (2021: 3.0%) and 8.5% for Transport Health, estimated to equate to a probability of adequacy of 75% (2021: 75%).

Key estimate: claims handling cost

The liability also allows for an estimate of claims handling costs which include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Key estimate: deferred claims liabilities

The deferred claims liabilities ('DCL') reflects liabilities relating to services that were expected to occur but did not proceed due to COVID-19 related community lockdowns, restrictions on elective surgery and allied service providers.

The latest guidance from APRA allows funds to determine their own methodology for valuing the DCL with no minimum requirement of prescribed deferral percentages for hospital and ancillary claims. HCF continues to monitor the impact of COVID-19 on claims costs and has determined its own methodology and deferred assumptions for its regulatory and statutory accounts at 30 June 2022, as described below.

To assure that the provision remains prudent, HCF has undertaken a detailed analysis to assess actual claims in each month compared to typical claim levels by clinical category for hospital and ancillary claims, state and age. This was assessed for the likelihood of missing claims to derive an estimate of the claims to return and claim savings. The central estimate is then used to assess the Probability of Sufficiency ('PoS') of the adopted DCL provision. HCF has estimated that the adopted DCL provision has a PoS of 75% (2021: 75%).

16. CLAIMS LIABILITIES AND DEFERRED CLAIMS LIABILITIES (CONTINUED)

Key estimate: member giveback provision

A member giveback provision of $132.7 million has been recognised for the Group at 30 June 2022 (2021: nil). This provision relates to permanent claims savings due to the COVID-19 restrictions that HCF has committed to return to its members.

The Group's estimated permanent savings not yet returned to members has been estimated on two methods:

- actuarial estimates of missing claims less expected claims catch up and financial support and benefits already provided to members; and
- difference between actual/forecast gross margin between 2020 and 2022 and a normalised pre-COVID-19 gross margin from 2019 used for 2020 to 2022, less member givebacks not yet returned.

The provision has been recognised within the Statement of Comprehensive Income and is expected to be utilised via a cash giveback (gift card or similar) payable within the next 12 months to eligible policyholders that have an active private health insurance policy (excluding Ambulance Only and Overseas Visitor Health Cover) at 30 June 2022 and have been a member for at least 6 months prior to this date.

This was also communicated to APRA as at 30 June 2022, creating a constructive obligation as at this reporting date.

17. FINANCIAL RISK MANAGEMENT

The consolidated entity's financial condition and operating activities are affected by a number of material financial risks including interest rate risk, currency risk, credit risk, market risk, liquidity risk, and other material risks including strategic risk, insurance risk, compliance risk, operational risk and technology risk. The consolidated entity has implemented a group wide risk management framework, risk appetite statement and risk management strategy to manage and mitigate the material risks.

The consolidated entity's risk management framework is applied across the Group's operations and management continue to monitor the impact of COVID-19 on the Group's risk profile. Non-financial risks emerging from global and domestic movement restrictions as well as remote working by our staff, counterparties, clients and suppliers, are also being managed and governed through timely application of the Group's risk management framework.

The Chief Financial Officer is assisted by the following functions and activities:

Investment Policies and Management - which establishes and reviews policies and controls and processes in connection with financial risk, including investment risk, credit risk, currency risk, foreign exchange risk and capital management.

Actuarial - a separate dedicated technical department in the private health insurance business who analyse claims to monitor the appropriateness of the premium rates. Advice is further sought from the external Appointed Actuary.

Internal Audit - provides independent assurance to the Board Audit and Finance Committee over the design and operational effectiveness of the risk management framework (RMF), compliance and governance processes and key controls over HCF's material risks.

1. Board and Chief Risk Officer Risk Management Responsibilities

HCF's Board of Directors determines the Group's overall risk appetite and approves the risk management framework, strategies and policies that ensure risks are identified and managed within the context of the Board approved risk appetite.

The Board has established the following Committees which are an integral part of HCF's overall risk governance and support the Board's oversight of the RMF:

- Audit & Finance Committee;
- Risk & Compliance Committees; and
- People, Culture and Remuneration Committee.

These Board Committees comprise only Non-Executive Directors.

The Group has a Chief Risk Officer (CRO) who reports directly to the Chief Executive Officer (CEO) and is part of the Executive Team as well as having unfettered access to the Board. The Risk, Legal & Compliance team reports to the CRO and oversees embedded risk processes that identify, measure, evaluate, monitor and report material risks across the Group and provides appropriate enterprise level reporting to the Board and relevant Committees.

The CRO is also responsible for assisting the Board, Board Committees and the Senior Leadership in developing and maintaining all aspects of the risk management and compliance frameworks. This includes responsibility for overseeing the performance of compliance activities and risk mitigation strategies. This enables the business to meet their regulatory and legal compliance obligations in accordance with HCF Group compliance policies.

2. Insurance risk - health insurance activities

The Group's health insurance activities primarily include prudent pricing, together with claims management and investment management. Because of the specific requirements of health insurance community rating, risks must be accepted at a standard premium rate that is not individually risk rated. The premium rates that are proposed are subject to review by the Minister for Health and must ensure the financial viability of the health fund.

While the Group has the ability to determine rates and benefits payable within certain guidelines, there is limited ability to price risk. This includes the impact of the Risk Equalisation Scheme which is a government mandated policy which allocates a percentage of all payments to policyholders based upon age cohorts, to be paid or received by all health funds in proportion to their overall membership. The aim of the Scheme is to reduce the insurance risk associated with having older policyholders with potentially increasing health issues.

The key policies in place to mitigate risks in health insurance include:

- operation of the Risk Equalisation Special Account;
- the use of Actuarial models based on historical data to calculate premiums;
- monitoring of fund rules and changes as appropriate;
- industry policies and APRA requirements; and
- oversight of insurance risk by a Product & Pricing Management Committee.

Concentration of insurance risk

There is concentration of risks into the areas where the business has a higher than average membership, when comparing to the private health insurance industry. Due to the Community Rating Principle, the business is unable to set different prices based on an individual's age or to reflect their previous claims history. As such the business is unable to directly mitigate these concentrations of insurance risks.

3. Capital risk

The Group and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so they continue to provide benefits for stakeholders, and to maintain an optimal capital structure.

4. Solvency and capital standards

Each health benefits fund needs to satisfy APRA Prudential Standards HPS 100 (Solvency) and APRA Prudential Standards HPS 110 (Capital Adequacy) under the *Private Health Insurance (Prudential Supervision) Act 2015*.

In brief, the intention of these capital standards is to ensure that each health benefits fund of a private health insurer has sufficient, appropriate assets available to be able to demonstrate that it will be able to meet future policyholder and creditor obligations under a range of adverse experience outcomes.

As part of its liquidity management policy, HCF plans to hold at least 1.2 times the cash management amount in cash or on-demand deposits.

The Fund fully met both its capital and solvency requirements at all times over the past 12 months.

For HCF Life, the capital requirement in each statutory fund is calculated in accordance with the capital standard LPS 110 Capital Adequacy, issued by the Australian Prudential Regulation Authority.

LPS 100 Solvency Standard requires HCF Life to satisfy the requirements of this Prudential Standard if the capital base of the fund exceeds 90 per cent of the fund's prescribed capital amount. Investments held in the life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met.

5. Financial risk

The Group's financial instruments consist mainly of investments in unit trusts, deposits with banks, short term investments, accounts receivable and payable. The investment in the unit trusts include exposure to both international and domestic equity (both hedged and unhedged) markets.

Senior executives and the Board meet on a regular basis and evaluate management strategies in the context of the most recent economic conditions.

The objective is to assist the Group in meeting its financial target while protecting future financial security. The Group is exposed to a number of forms of financial risk, the most significant being credit risk and liquidity risk.

This section provides an explanation of where the Group is affected by financial risks.

a) Liquidity risk

The Group is exposed to daily calls on its available cash resources for claims and maturing policies. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. Investments are managed to ensure that sufficient funds are available to meet liabilities as and when they fall due.

The table overleaf summarises the maturity profile of financial liabilities of the Group based on the remaining undiscounted contractual obligations, except for insurance contract liabilities when maturity profiles are determined on the discounted estimated timing of net cash outflows.

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

CONSOLIDATED	1 YEAR OR LESS	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
	$000	$000	$000	$000
As at 30 June 2022				
Trade creditors and other payables	**181,969**	**-**	**-**	**181,969**
Lease liabilities	**11,398**	**29,200**	**5,767**	**46,365**
TOTAL UNDISCOUNTED LIABILITIES	**193,367**	**29,200**	**5,767**	**228,334**
As at 30 June 2021				
Trade creditors and other payables	155,382	–	–	155,382
Lease liabilities	10,814	30,605	8,096	49,515
Minority interest - JANA Tailored Trust No.3	50,800	–	–	50,800
TOTAL UNDISCOUNTED LIABILITIES	216,996	30,605	8,096	255,697

PARENT	1 YEAR OR LESS	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
	$000	$000	$000	$000
As at 30 June 2022				
Trade creditors and other payables	**175,060**	**-**	**-**	**175,060**
Lease liabilities	**11,398**	**29,200**	**5,767**	**46,365**
TOTAL UNDISCOUNTED LIABILITIES	**186,458**	**29,200**	**5,767**	**221,425**
As at 30 June 2021				
Trade creditors and other payables	156,775	–	–	156,775
Lease liabilities	10,814	30,605	8,096	49,515
TOTAL UNDISCOUNTED LIABILITIES	167,589	30,605	8,096	206,290

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and investments backing insurance liabilities. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty. This combined with the nature of the credit exposures to highly liquid assets (cash and cash equivalents) and investment grade instruments, the Group does not require collateral or other security to support credit risk exposure.

Credit risk exposure

With regard to the Group's investment in the unlisted unit trusts, the controls imposed in managing the underlying credit risk exposures contained therein are set and controlled by our investment manager JANA Investment Advisers Pty Limited under its multi manager platform. These controls include setting and monitoring minimum and average credit ratings and maximum exposures to individual counterparties and fund managers. There is no significant concentration of credit risk within the Group and financial instruments are spread amongst a number of financial institutions and fund managers to minimise the risk of default by counterparties.

With regard to credit risk exposures by counterparties to underlying derivative contracts, the controls imposed are contained within the Risk Management Strategy.

For the remaining investments there are no significant concentrations of risk within the Group with the investments amongst a number of banks and financial institutions with independent ratings between AAA - BBB. Maximum holdings of investments within the ratings are stipulated in the investment strategy and are reviewed before renewing or placing additional investments.

(i) CREDIT EXPOSURE BY TYPE	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Investments held at fair value through profit or loss	**1,582,688**	1,499,391	**1,568,000**	1,462,847
Due from government	**81,828**	75,878	**81,490**	75,878
Due from individuals	**7,678**	8,538	**7,544**	8,538
	1,672,194	1,583,807	**1,657,034**	1,547,263

This does not include equity investments as they do not have credit exposure.

There are no material amounts of collateral held as security for both years presented.

There are no amounts past due but not impaired.

(ii) CREDIT EXPOSURE BY CREDIT RATING	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Cash and cash equivalents				
A series rating	**105,333**	156,421	**90,048**	149,075
	105,333	156,421	**90,048**	149,075
Financial assets at fair value through profit or loss				
A series rating	**1,219,380**	1,121,454	**1,207,997**	1,093,936
B series rating	**327,872**	354,870	**324,787**	346,100
Unrated	**35,436**	23,067	**35,216**	22,811
	1,582,688	1,499,391	**1,568,000**	1,462,847
Trade receivables and other assets				
A series rating	**81,828**	75,878	**81,490**	75,878
Unrated	**71,104**	55,460	**69,944**	55,054
	152,932	131,338	**151,434**	130,932

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

6. Market risk

The Group takes on exposure to market risks including currency risk, fair value interest risk and price risk. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments.

With respect to insurance and investment contracts where the Group incurs market risk primarily in the form of interest rate risk, the risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities.

The overall objective in these strategies is to limit the net change in the value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest sensitivity of insurance liabilities than that of the related assets, to the extent that it is possible to measure such sensitivities, the Group believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying insurance and investment contracts.

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group holds the majority of its equities indirectly through its investment in unlisted unit trusts.

The investment policy stipulates the limit of any individual stock in the equity portfolio while asset concentration risks are managed according to the investment objective. For all the assets backing insurance contracts that are not sensitive to interest rate or market risk, the Group has developed investment guidelines to manage the Group's exposure to equity risk primarily by seeking to match the risk profile of equity investments against risk-adjusted equity market benchmarks.

The Group measures benchmark risk levels in terms of price volatility in relation to the market in general. For the assets backing insurance liabilities, the key objective is to ensure that the returns are adequate and the returns are delivered maintaining a sufficient level of liquid assets to fund unexpected cash outflows arising from insurance claims payments. The liquidity risk section following deals with this aspect of the Group risk management in greater detail. Investment activity for the Group is undertaken in accordance with an investment mandate established by the Board of Directors. The mandate stipulates the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

a) Interest rate risk

The Group strikes a balance mitigating the most significant exposure to interest rate risk while maximising the return to participating policyholders by allowing some flexibility to those who manage the investment of the assets. A number of derivatives may be held to enable the matching of assets and liabilities to further mitigate exposure to interest rate movements.

Although this natural hedging is not reflected in the accounting policies adopted or in the presentation of the results and Statement of Financial Position included in these financial statements, it does mitigate the Group's exposure to such risk. These matching procedures are not 100% effective.

At the balance date, the Group had the following financial assets exposed to interest rate risk:

	CONSOLIDATED	
	2022 $000	**2021 $000**
Cash and cash equivalents	**105,333**	156,421
Financial assets at fair value through profit or loss – fixed income	**1,596,967**	1,477,731
	1,702,300	1,634,152

Interest rate sensitivity analysis

The following table demonstrates the impact of a change in Australian and International interest rates, with all other variables held constant, on HCF Group's profit and equity. Management has estimated that a reasonable range this year is a 100 basis point change (2021: 100 basis points) that occurs at the reporting date (30 June 2022 and 2021) and there are concurrent movements in interest rates and parallel shifts in yield curves.

	30 JUNE 2022 IMPACT ON POST TAX PROFIT	**30 JUNE 2021 IMPACT ON POST TAX PROFIT**
	$000	**$000**
Change in variable		
+100 basis points (2021: +100 basis points)	**17,357**	16,942
-100 basis points (2021: +100 basis points)	**(17,357)**	(16,942)

There is no impact of change in interest rates on the Group's equity.

b) Equity movement sensitivity analysis

At the balance date, the Group had the following financial assets exposed to equity risk:

	CONSOLIDATED	
	2022 $000	**2021 $000**
Financial assets at fair value through profit or loss – Australian equities	**240,696**	181,063
Financial assets at fair value through profit or loss – International equities	**444,673**	382,347
	685,369	563,410

The analysis below demonstrates the impact of a 10% movement in Australian and International equities. A 10% movement (2021: 10% movement) in Australian and International equities that occurs at the reporting date (30 June 2022 and 2021) has continued to have been applied as it still reflects a reasonable measurement given the current level of volatility observed. This analysis was performed to assess the risk of holding investments linked to equity instruments. It is assumed any change occurs as at the reporting date.

	30 JUNE 2022 IMPACT ON POST TAX PROFIT	30 JUNE 2021 IMPACT ON POST TAX PROFIT
	$000	$000
Change in variable		
10% increase in Australian equities	**23,650**	17,671
10% increase in International equities	**43,991**	37,705
10% decrease in Australian equities	**(23,650)**	(17,671)
10% decrease in International equities	**(43,991)**	(37,705)

c) Currency risk

The Company has direct exposure to foreign currencies via its investment in an unlisted foreign trust.

The Company also has indirect exposure to foreign currencies via its investment in unlisted unit trusts as a result of the unit trusts's holding international equities. The currency movement in underlying international equities is dealt with in price risk.

In certain instances, the unit trusts choose to hedge these exposures using spot foreign exchange contracts to hedge the value of the underlying assets. The objective is to eliminate currency movements on the underlying assets from the performance of the fund. The associated costs and marked to market effect of the spot foreign exchange contracts are reflected in the unit price adopted valuation of assets and measurement of profit or loss.

The investment is carried at fair value with gains and losses through profit or loss.

At the balance date, the Group had the following financial assets exposed to currency risk:

	CONSOLIDATED	
	2022 $000	2021 $000
Holdings in unlisted foreign trust	**58,445**	55,372
Short-term deposits	**9,377**	8,049
	67,822	63,421

A 10% movement in foreign currencies (2021: 10% movement) that occurs at the reporting date (30 June 2022 and 2021) has continued to have been applied as it still reflects a reasonable measurement given the current level of volatility observed. At 30 June 2022, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	30 JUNE 2022 IMPACT ON POST TAX PROFIT	30 JUNE 2021 IMPACT ON POST TAX PROFIT
	$000	$000
AUD to US Dollar +10%	**(6,166)**	(5,766)
AUD to US Dollar -10%	**7,536**	7,047

7. Derivatives and hedging activities

The Group via its investment in the unit trusts, can have exposure to derivatives if authorised by the constitution governing the trusts. Conditions of use are set out in the relevant product disclosure statement and risk management statement.

There are rigid guidelines regarding the use of derivatives which are set and monitored by the Group's investment advisor JANA. These guidelines cover among other things, liquidity requirements, limits on investment managers' gross exposure and counterparty risk. The unit trusts can invest in derivatives to:

- reduce risk;
- reduce transaction costs;
- take advantage of opportunities to increase returns; and
- create leverage or to create short exposures.

Whilst the use of derivatives is allowed, it is the Group's policy that, unless indicated otherwise, derivatives will not be used to:

- increase the level of market risk beyond that required to meet the unit trusts' objective;
- create economic leverage. Economic leverage is where the unit trusts's exposure to the return on a market is greater than that which could be achieved by investing in that market without using derivatives or borrowed funds; and
- create an uncovered short exposure to an asset or market, that is, a short exposure without an offsetting long exposure considered a reasonable hedge for that asset or market.

Derivatives will not be used in a way that is contrary to regulatory requirements.

Fair values

a) Fair value hierarchy

The table below separates financial assets, financial liabilities and property on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

Level 1 – quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

Level 2 – other observable inputs

Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

Level 3 – unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs are used).

There were no transfers between the levels during the reporting period.

Fair value measurement

Level 3 investments mainly consist of non-listed investments in the health and medical industry both in Australia and overseas.

The following table provides the fair value measurement hierarchy of the Group's financial assets, financial liabilities and property, other than those with carrying amounts that are reasonable approximations of fair values:

	2022			2021		
CONSOLIDATED	**LEVEL 1 $000**	**LEVEL 2 $000**	**LEVEL 3 $000**	**LEVEL 1 $000**	**LEVEL 2 $000**	**LEVEL 3 $000**
Financial assets at fair value through profit or loss						
• Short-term deposits	**9,377**	**-**	**-**	8,049	–	–
• Holdings in unlisted unit trusts						
– JANA Tailored Trust No.3	**-**	**2,216,490**	**-**	–	1,943,967	–
– JANA Cash Management Trust	**-**	**-**	**-**	–	80,168	–
• Holdings in unlisted foreign trust	**-**	**-**	**58,445**	–	–	55,372
• Holdings in other direct investments	**-**	**315**	**12,016**	–	–	12,716
Total financial assets at fair value through profit or loss	**9,377**	**2,216,805**	**70,461**	8,049	2,024,135	68,088
Investments relating to life insurance business						
Holdings in unlisted unit trust — at fair value	**-**	**65,531**	**-**	–	67,806	–
Total investments relating to life insurance business	**-**	**65,531**	**-**	–	67,806	–
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**9,377**	**2,282,336**	**70,461**	8,049	2,091,941	68,088
Owner-occupied properties						
• Commercial properties	**-**	**-**	**219,020**	–	–	221,573
Total owner-occupied properties	**-**	**-**	**219,020**	–	–	221,573
Investment properties						
• Commercial property	**-**	**-**	**70,565**	–	–	64,784
Total investment properties	**-**	**-**	**70,565**	–	–	64,784
TOTAL ASSETS AT FAIR VALUE	**9,377**	**2,282,336**	**360,046**	8,049	2,091,941	354,445
Liabilities						
Minority interest - JANA Tailored Trust No.3	**-**	**-**	**-**	–	–	50,800
TOTAL LIABILITIES AT FAIR VALUE	**-**	**-**	**-**	–	–	50,800

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2022			2021		
PARENT	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000
Assets						
Financial assets at fair value through profit or loss						
• Short-term deposits	**9,377**	**-**	**-**	8,049	–	–
• Holdings in unlisted unit trust						
– JANA Tailored Trust No.3	**-**	**2,195,638**	**-**	–	1,893,167	–
– JANA Cash Management Trust	**-**	**-**	**-**	–	80,168	–
• Holdings in unlisted foreign trust	**-**	**-**	**58,445**	–	–	55,372
• Holdings in other direct investments	**-**	**315**	**12,016**	–	–	12,716
Total financial assets at fair value through profit or loss	**9,377**	**2,195,953**	**70,461**	8,049	1,973,335	68,088
Owner-occupied properties						
• Commercial properties	**-**	**-**	**219,020**	–	–	221,573
Investment property						
• Commercial property	**-**	**-**	**59,625**	–	–	54,044
Total owner-occupied property and investment property	**-**	**-**	**278,645**	–	–	275,617
TOTAL ASSETS AT FAIR VALUE	**9,377**	**2,195,953**	**349,106**	8,049	1,973,335	343,705

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Reconciliation of Level 3 fair value movements				
Financial assets				
Balance at beginning of period	**68,088**	55,992	**68,088**	55,992
Purchases	**3,325**	2,293	**3,325**	2,293
Redemptions	**(9,160)**	(15,226)	**(9,160)**	(15,226)
Net amount of revaluation increments	**8,523**	25,029	**8,523**	25,029
Balance at end of period	**70,776**	68,088	**70,776**	68,088
Financial liabilities				
Balance at beginning of period	**50,800**	49,275	–	–
Redemptions	**(50,800)**	(1,262)	–	–
Net amount of revaluation increments	**-**	2,787	–	–
Balance at end of period	**-**	**50,800**	–	–
Revalued property and investment property				
Balance at beginning of period	**286,357**	289,909	**275,617**	279,069
Additions	**339**	–	**339**	–
Depreciation expense	**(4,466)**	(4,753)	**(4,466)**	(4,753)
Disposals	**(2,750)**	–	**(2,750)**	–
Net amount of revaluation increments	**10,105**	1,201	**9,905**	1,301
BALANCE AT END OF PERIOD	**289,585**	286,357	**278,645**	275,617

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below provides the observable and unobservable inputs in determining fair value for property:

CLASS OF PROPERTY	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	2022 RANGE (WEIGHTED AVERAGE) $000 OR %	2021 RANGE (WEIGHTED AVERAGE) $000 OR %	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT – THE ESTIMATED FAIR VALUE WOULD INCREASE/(DECREASE) IF:	OTHER KEY INFORMATION
COMMERCIAL BUILDINGS (BRANCHES)	Income capitalisation	Estimated rental value (per sqm)	$0.7 – $4.5 ($2.6)	$0.3 – $4.5 ($1.7)	• the price per square metre was higher/(lower)	
		Capitalisation rate	3.75% - 7.00% (5.38%)	3.25% – 6.75% (4.44%)	• the estimated fair value would increase if the capitalisation rate was lower/(higher).	
COMMERCIAL (HCF HOUSE)	DCF	Discount rate	6.00%	6.25%	• the discount rate was lower/(higher)	Lettable area 11,711.00 sqm
		Expected market rental growth	Office: 3.65% Retail: 2.48%	Office: 3.50% Retail: 2.48%	• expected market rental growth was higher/(lower)	Occupancy 65.82% Lease duration 8.89 years
		Terminal yield	5.38%	5.50%	• terminal yield was lower/(higher)	Term of cash flow 10.0 years
COMMERCIAL STRATA	DCF	Discount rate	6.25%	6.38%	• the discount rate was lower/(higher)	Lettable Area 7,633.1 sqm
		Expected market rental growth	Office: 3.69% Retail: 3.48%	Office: 3.54% Retail: 2.97%	• expected market rental growth was higher/(lower)	Occupancy 26.09% Lease duration 2.19 years
		Terminal yield	6.13%	6.25%	• terminal yield was lower/(higher)	Term of cash flow 10.0 years

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below includes descriptions and definitions relating to valuation techniques, unobservable inputs and other assumptions made in determining the fair values:

Income capitalisation method (Commercial buildings)	The Capitalisation of Net Income approach has been undertaken by applying a yield to both the potential fully let passing net income (initial yield) and the potential reversionary net income (reversionary yield). To the value derived, adjustments have been made for any relevant rental reversions including letting up allowances, where applicable, for vacant space, incentives, leasing fees, capital expenditure and other appropriate capital allowances.
Discounted cash flow method ('DCF')	Involves the discounting of the net cash flow on a monthly basis over an assumed cash flow period (i.e. 10 years) at an appropriate cash rate to reflect risk to derive a market value. The net cash flow comprises the cash inflows less the cash outflows over the cash flow period, with the addition of the terminal value in the final cash flow period. Cash flows comprise income from the property adjusted to reflect actual rental income, speculative rental income and rental growth, whilst cash outflows comprise outgoings adjusted to reflect anticipated inflation, lease incentives and leasing and marketing fees. The terminal value is determined by the capitalisation of the imputed net market income in the month after the final cash flow period with allowances for any relevant capital adjustments.
Estimated rental value ('ERV')	The estimated rental value per square metre at which space could be let in the market conditions prevailing at the date of valuation.
Discount rate	A rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically, it should reflect the opportunity cost of capital (i.e. the rate of return the capital can earn if put to other uses having similar risk). Determined with reference to a 10-year bond and risk margin - also referred to as the required rate of return.
Initial yield (Fully leased)	The initial net income at the date of transaction or valuation expressed as a percentage of the sale price or valuation.
Reversionary yield	The assessed net market income divided by the sum of the sale price or the adopted value plus any capital adjustments to the core value such as letting up allowances, capital expenditure and present value of reversions (to obtain this net market income).
Terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period or property resale value.

Property fair value measurement – valuation process

Valuations are performed on an annual basis by an approved external valuer who is appointed based upon market knowledge, reputation, independence and whether professional standards are maintained. For the current and previous four years, this has been Colliers International Consulting and Valuation Pty Limited.

Following consultation with the Company's external valuers, management reviews and accepts whether a property's fair value has been reliably determined and the assumptions and methodologies applied.

The valuations are presented to the Board of Directors for adoption

Holdings in unlisted foreign trust fair value measurement – valuation process

The fair value of financial assets traded in active markets are based on quoted market prices at the close of trading on the reporting date, with the fair value of the unit trust being based on its unit price.

The fair value of financial assets that are not traded in an active market are estimated using valuation methodologies that consider a range of assumptions a market participant would use, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected performance, financial condition and financing transactions subsequent to the acquisition of the investments. The inputs into the determination of fair value require significant judgement. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed.

18. INVESTMENT IN CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	NOTE	2022 %	2021 %	2022 $000	2021 $000
JANA Tailored Trust No. 3	Australia	7	**99.1**	97.5	**2,195,638**	1,893,167
JANA Cash Trust	Australia	7	**0.0**	100.0	**-**	80,168
Other controlled entities						
HCF Life Insurance Company Pty Ltd						
▪ ordinary and preference shares	Australia		**100.0**	100.0	**26,000**	26,000
Manchester Unity Australia Ltd	Australia		**100.0**	100.0	**11,594**	11,594
Railway and Transport Health Fund Ltd	Australia		**100.0**	0.0	**-**	-
Transport Health Pty Ltd	Australia		**100.0**	0.0	**13,273**	-
					50,867	37,594

Recognition and measurement

Investment in controlled entity
- JANA Tailored Trust No.3 and JANA Cash Trust

HCF's investment portfolios are managed by the appointed investment advisor JANA. The investment assets held in JANA Tailored Trust No.3 and JANA Cash Trust ('the Trusts') are subject to an investment mandate set by HCF. JANA Tailored Trust No.3 and JANA Cash Trust are considered controlled entities of HCF, as HCF and its related entities own 100% of the issued units.

The investment assets held by the Trusts are classified as financial assets at fair value through profit or loss, with the fair value of the investment assets reflecting the fund manager's valuation. HCF has valued its investment in JANA at fair value through profit or loss.

In 2021, the HCF Research Foundation ('the Foundation') held $50.8 million in JANA Tailored Trust No.3, which was approximately 2.5% of the Trust's units and its minority interest was recognised in the Statement of Financial Position as a liability. In July 2021, the Foundation adopted a new investment strategy and transitioned from JANA Tailored Trust No.3 to JANA Investment Trusts portfolio that has greater weight on growth assets, and its minority was derecognised from the Statement of Financial Position.

During the year, Transport Health commenced investment in JANA Tailored Trust No.3 and holds $20.9 million in JANA Tailored Trust No.3, which is approximately 0.9% of the Trust's units.

Interests in wholly-owned subsidiaries

The parent entity has valued its investment in wholly-owned subsidiaries at cost. Investments in controlled entities are carried at cost less impairment in the Company's accounts. Dividends received from subsidiaries are recognised in the Statement of Comprehensive Income when the right to receive the dividend is established.

Following the completion of merger between HCF and rt health in November 2021, it became a wholly owned subsidiary of HCF. Transport Health, which was previously a wholly owned subsidiary of rt health became a wholly owned subsidiary of HCF.

The investment in controlled entities will be assessed at each reporting date to determine whether there is any objective evidence that they are impaired. It is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. All impairment losses are recognised in the Statement of Comprehensive Income.

19. ASSETS HELD FOR SALE

In accordance with AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*, for the 2021 Statement of Financial Position, the Hurstville property was classified as held for sale. It was sold on 16 August 2021. The assets/operations out of scope for the sale are shown as continuing operations in the Statement of Financial Performance.

	2022 $000	2021 $000
Property, plant and equipment	**-**	3,414
Assets held for sale	**-**	3,414
NET ASSETS HELD FOR SALE	**-**	3,414

Recognition and measurement

Property, plant and equipment

This relates to Hurstville land and building which was revalued by the Directors at 30 June 2021 at the lower of the carrying amount and fair value less cost to sell. The independent valuations were carried out by Colliers International Valuation and Advisory Services Pty Limited.

20. COMMITMENTS

	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Estimated capital expenditure contracted but not provided for at balance date:				
• payable not later than one year after the end of the financial year	**10,977**	17,796	**10,977**	17,796
• payable after one year but not more than five years after the end of the financial year	**27,256**	28,154	**27,256**	28,154
• more than five years after the end of the financial year	**5,596**	7,854	**5,596**	7,854
TOTAL CAPITAL EXPENDITURE COMMITMENTS	**43,829**	53,804	**43,829**	53,804

HCF has a commitment to increase the level of investment in one of its investment trusts by $11.1 million (2021: $11.8 million).

21. FUTURE LEASE COMMITMENTS

Leases as lessor

The Group leases out its investment property consisting of its owned commercial properties as well as leased property. All leases are classified as operating leases from a lessor perspective with the exception of a sub-lease, which the Group has classified as a finance sub-lease.

The following tables set out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Operating lease	CONSOLIDATED		PARENT	
	2022 $000	2021 $000	2022 $000	2021 $000
Future minimum rentals receivable under non-cancellable operating leases				
No later than one year	**9,139**	8,195	**8,765**	8,195
Later than one year and not later than five years	**22,892**	24,546	**21,709**	24,546
Later than five years	**15,880**	20,416	**15,594**	20,416
GROSS OPERATING LEASE RECEIVABLES	**47,911**	53,157	**46,068**	53,157
Finance lease				
Future minimum rentals receivable under non-cancellable finance sub-lease				
No later than one year	**-**	251	**-**	251
Later than one year and not later than five years	**944**	1,091	**944**	1,091
Later than five years	**-**	113	**-**	113
GROSS FINANCE SUB-LEASE RECEIVABLES	**944**	1,455	**944**	1,455

Notes:

(a) Rental receipts for receivable leases are determined on a lease by lease basis depending on lease terms.

(b) Commitments represent future minimum lease payment expected to be received at the reporting date.

22. CONTINGENT ASSETS AND LIABILITIES

HCF Life has a potential future liability to a third party of up to $3.4 million payable (2021: $3.4 million payable) after one year but not more than five years after the end of the financial year dependent on the success of a product proposition. This is contingent on that product meeting defined growth and profitability milestones. There are no other contingent assets or liabilities as at balance sheet date.

23. EVENTS AFTER THE REPORTING PERIOD

No matters have occurred, other than those disclosed, after balance sheet date which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

24. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2022 $	**2021 $**	**2022 $**	**2021 $**
Fees to Ernst & Young (Australia):				
• Fees for auditing the statutory financial report of the Parent covering the Group and auditing the statutory financial reports of any controlled entities	**768,420**	803,586	**367,070**	621,178
• Fees for assurance services that are required by legislation to be provided by the auditor	**254,127**	244,928	**188,350**	185,201
• Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	**82,488**	49,500	**27,595**	2,750
• Fees for other services				
– Tax compliance	**59,550**	101,185	**-**	–
TOTAL AUDITOR'S REMUNERATION	**1,164,585**	1,199,199	**583,015**	809,129

The auditor does not receive any other benefits.

25. RELATED PARTY DISCLOSURES

(a) Details of Key Management Personnel's retirement benefits and remuneration are set out in Note 26.

(b) During the past year the Company collected insurance premiums, supplied office space and supporting services and other administrative functions to HCF Life on a cost recovery basis. During the financial year the Company received commissions under normal terms and conditions totalling $1,430,452 (2021: $8,521,056) from HCF Life for sales of life insurance policies. The amount receivable by the Company at 30 June 2022 is $531,846 (2021: payable of $4,260,071).

(c) The Company collected rental receipts on behalf of Manchester Unity and supplied supporting services and administrative functions to Manchester Unity on a cost recover basis totalling $28,642 (2021: $37,366). The amount payable by the Company at 30 June 2022 is $27,534 (2021: receivable of $512,902).

(d) The Company supplied supporting services and administrative functions to HCF Research Foundation totalling $509,480 (2021: $448,417). This amount was charged to the HCF Research Foundation on a cost recovery basis. The amount payable to the Company at 30 June 2022 is $36,636 (2021: $30,679).

(e) rt health supplied supporting services and administrative functions to the Company on a cost recovery basis totalling $392,219 (2021: nil), and also collected insurance premiums and settles claims payments on the Company's behalf. The amount payable by the Company to rt health at 30 June 2022 is $1,700,766 (2021: nil).

(f) The Company supplied supporting services and administrative functions to Transport Health totalling $864,525 (2021: nil). This amount was charged to Transport Health on a cost recovery basis. The amount payable to the Company at 30 June 2022 is $559,268 (2021: nil).

(g) rt health supplied supporting services and administrative functions to Transport Health totalling $1,117,787 (2021: nil). This amount was charged to Transport Health on a cost recovery basis. The amount payable by Transport Health to rt health at 30 June 2022 is $190,093 (2021: nil).

26. REMUNERATION OF KEY MANAGEMENT PERSONNEL

The key management personnel include:

For The Hospitals Contribution Fund of Australia Ltd, Manchester Unity Australia Ltd, Railway and Transport Health Fund Limited and Transport Health Pty Limited

- 8 Non-Executive Directors (2021: 9 Non-Executive Directors)
- 1 Managing Director and 9 Chief Officers (2021: 1 Managing Director and 10 Chief Officers)

For the HCF Life Insurance Company Pty Ltd

- 4 Non-Executive Directors (2021: 4 Non-Executive Directors)
- 1 General Manager (2021: 1 General Manager)

	CONSOLIDATED		PARENT	
	2022 $	2021 $	2022 $	2021 $
Short-term employee benefits	**10,197,830**	10,526,369	**9,627,256**	9,832,240
Post-employment benefits	**535,455**	583,735	**492,445**	530,067
Termination benefits	**364,695**	318,209	**361,597**	144,545
	11,097,980	11,428,313	**10,481,298**	10,506,852

Key management personnel received no other remuneration benefits.

The Hospitals Contribution Fund of Australia Ltd, Manchester Unity Australia Ltd, Railway and Transport Health Fund Limited and Transport Health Pty Limited have a common management team. The amount is paid/payable at the Group level and allocated based on services rendered.

27. NEW ACCOUNTING STANDARDS

a) New and amended accounting standards and interpretations adopted from 1 July 2021

All new and amended Australian Accounting Standards and interpretations mandatory as at 1 July 2021 to the Group have been adopted, and unless otherwise specified, have had no material impact to the financial statements of the Group.

b) Accounting standards and interpretations issued but not yet effective

The following standards, interpretations and amendments were available for early adoption and applicable to the Group but have not been adopted for the year ending 30 June 2022. Apart from the standards below, other accounting standards and interpretations issued but not yet effective are not expected to have a material impact on the financial statements of the Group.

AASB 17: *Insurance Contracts*

AASB 17 Insurance Contracts is a new accounting standard for insurance contracts which was released in July 2017. The effective date of AASB 17 is for annual periods beginning on or after 1 January 2023. Based on this, the Group will apply AASB 17 for the annual period beginning 1 July 2023. AASB 17 will replace existing accounting standards AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

AASB 17 establishes principles for the recognition, measurement, presentation of disclosure of insurance contracts issued. The standard represents significant change to insurance accounting requirements with extensive new disclosure requirements, along with changes to profit recognition. It will change the accounting for insurance contracts for HCF's health insurance and life insurance.

Measurement of insurance contracts

Contract boundary

Contract boundary is used to determine the start and end points of coverage in order to identify cash flows for inclusion in the measurement of an insurance contract under AASB 17. The Group's private health insurance policies have a contract boundary at the first renewal date after the annual premium increase each year on 1 April. HCF Life yearly renewable term products and accident products contract boundary has been assessed to be the next policy renewal date. For stepped premium products the renewal date with a pricing increase forms the contract boundary. For whole of life products the contract boundary is assessed as long term. Cash flows within the boundary of a reinsurance contract held arise from substantive rights and obligations of HCF Life as the holder of the contract.

Measurement models

The standard introduces three measurement models for accounting for insurance contracts. These include the General Model for long term contracts, a simplified Premium Allocation Approach ('PAA') for short term contracts and a Variable Fee approach for insurance contracts with direct participation features.

Based on preliminary assessments, the Group anticipates that the PAA will be available for adoption for the majority of the Group's insurance contracts. HCF Life is currently conducting the PAA eligibility assessment for the remainder of its insurance contracts.

For groups of contracts that are eligible to apply the simplified PAA and have a coverage period of one year or less, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Group plans to adopt this option and expects to expense the acquisition costs as incurred, which is a departure from the current accounting under AASB 1023.

Level of aggregation and onerous contracts

AASB 17 requires aggregation of insurance contracts by: portfolio of contracts that have 'similar risks' and 'managed together', profitability group, and annual cohorts. The Group has determined that its health insurance contracts have similar risks and are managed together, resulting in one portfolio of contracts (level of aggregation). HCF Life will have aggregated policies to product groups for Mortality products (term life), Morbidity (including trauma, income protection and accident products), Group life, and Flip Insurance. Reinsurance contracts follow similar requirements to direct insurance contracts.

AASB 17 also requires the identification of groups of onerous contracts to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under the existing AASB 1023 and AASB 1038. Contracts that are measured using the Premium Allocation Approach are assumed not to be onerous unless facts and circumstances indicate otherwise. The Group is developing a framework for identifying relevant facts and circumstances that may indicate the existence of onerous contracts which includes management reports available to senior management for planning and performance management purposes as a source of evidence for facts and circumstances.

On adoption of AASB 17, if facts and circumstances indicate the existence of onerous contracts, there would be a one-off adjustment to recognise the onerous contracts impacting the retained earnings and insurance contract liabilities on the Statement of Financial Position. On subsequent reviews of onerous contracts, any changes to the size of the loss component is to be recognised immediately in the Statement of Comprehensive Income and against the insurance contract liabilities on the Statement of Financial Position. The Group is currently assessing the application of the onerous contracts requirements and the financial impact is yet to be determined.

Risk adjustment

AASB 17 requires a risk adjustment to be used in the measurement of insurance contract liabilities. AASB 17 disclosure is required for the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities, where the risk adjustment represents the compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks. This will replace risk margin under AASB 1023. The Group has developed a number of principles for setting the risk adjustment, with reference to HCF's Pricing Philosophy and with a minimum confidence level of APRA risk margin's probability of sufficiency. The Group is currently assessing the application of risk adjustment and the financial impact is yet to be determined.

Transition

On transition, the Group expects to apply full retrospective transition approach for the majority of its insurance contracts except to the extent that it is impracticable to do so, in which case a fair value approach may be applied. The Group provides quarterly update to the Board that includes project plan status and implementation plan actions.

Financial impact

The requirements of AASB 17 are complex and the expectations noted above are subject to change as the implementation progresses and as the Group continues to analyse the impacts of the standard and monitor industry developments in order to assess the impact of evolving interpretations and other changes. The financial impact of adopting AASB 17 cannot be reasonably estimated at the date of this report. The Group intends to disclose the potential financial impact of adopting AASB 17 once it is practically able to provide a reliable estimate.

Implementation progress

The Group continues to perform detailed evaluations and recommendations on key AASB 17 interpretative positions based upon the Group's specific facts and circumstances, with reviews and approval by the Audit & Finance Committee. The Group is actively engaged with its auditor about methodology and interpretations.

In line with its AASB 17 implementation roadmap, accounting guidance and application methodologies are being developed, and the implementation team is also focusing on the development and testing of actuarial models as well as the implementation of changes to finance systems and reporting processes, which are expected to be completed ahead of adoption of AASB 17 for the annual period beginning 1 July 2023.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2022

The Hospitals Contribution Fund of Australia Ltd and its controlled entities

In accordance with a resolution of the Directors of The Hospitals Contribution Fund of Australia Ltd, I state that:

In the opinion of the Directors:

(a) the Financial Statements and notes of The Hospitals Contribution Fund of Australia Ltd for the financial year ended 30 June 2022 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 2022 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and the *Corporations Act 2001*;

(b) the Financial Statements and notes also comply with International Financial Reporting Standards; 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

Mark Johnson

M.G. Johnson
Chair
Sydney
1 September 2022

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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the members of The Hospitals Contribution Fund of Australia Ltd

Opinion

We have audited the financial report of The Hospitals Contribution Fund of Australia Ltd (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2022;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements 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 is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the Company's and the Group's financial position as at 30 June 2022 and of their financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Emphasis of Matter – Private Health Insurance Basis of Accounting

We draw your attention to Notes to the Financial Statements 'About This Report'. This note identifies the incorporation of the published views of the Australian Securities and Investments 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 the COVID-19 pandemic.

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In our view, this matter is fundamental to the users' understanding of the Consolidated Financial Report and the financial position and performance of the Company and the Group. Our Opinion is not modified with respect to this matter.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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 Company's and 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 Company or 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:

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- 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 Company's or the Group's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or 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 Company or 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

Louise Burns
Partner
Sydney
1 September 2022

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