

We look after our own.



Financial Snapshot

\$'000	2021	2020	Change	Change %
Premium revenue	618,480	595,228	23,252	3.9%
Gross margin	60,032	47,347	12,685	26.8%
Management exp	(56,279)	(56,533)	(254)	-0.4%
Management exp ratio	9.1%	9.5%		-0.50%
Net margin	3,753	(9,186)	12,939	140.9%
Investment and other income	36,507	8,967	27,540	307.1%
Operating surplus	35,195	(219)	35,414	16,170.8%
Total assets	580,850	500,605	80,245	16.0%
Total liabilities	207,840	162,790	45,050	27.7%
Total capital reserves	373,010	337,815	35,195	10.4%
Number of policies	146,324	143,072	3,252	2.3%
Market share	2.12%	2.13%		

Purpose

Our core purpose is to protect the health of those who protect our country.

Vision

Our vision is to be your preferred and trusted health partner.

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Performance Highlights 2020-21

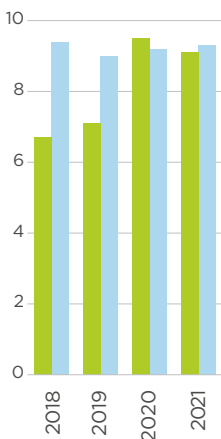
242,465
hospital days covered

Caring for the Defence community is in our DNA. Since 1953, we've been here to protect the health of those who protect our country. And that's never been more critical than during a global pandemic.

262,305
calls handled, with 73% of calls from members answered within the service level of 60 seconds

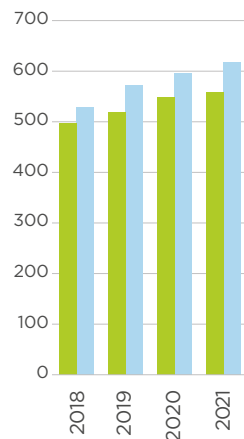
Management expense ratio (%)

- Defence Health
- Industry



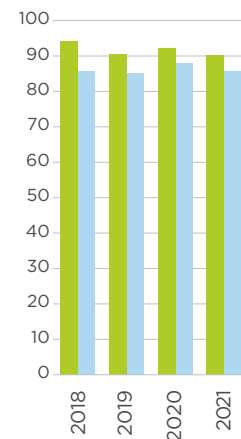
Benefits and premiums (\$'m)

- Benefits paid
- Premium revenue



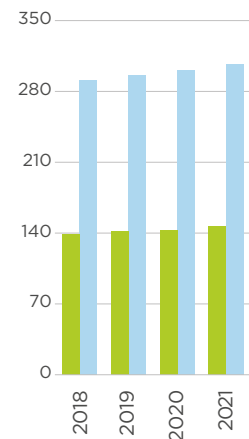
Benefits paid as % of premium (%)

- Defence Health
- Industry



Memberships and people covered ('000)

- Memberships
- People covered



270,220

Defence Health members held hospital cover as at 30 June 2021

(91% with combined extras cover) and 36,657 held extras-only cover

81%

of members are satisfied with their membership (May 2021)

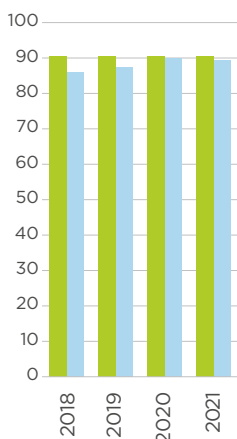
306,877

people covered



Hospital related medical services fully covered (%)

- Defence Health
- Industry



Hospital related medical services fully covered (the proportion of in-hospital medical services where there was 'no-gap' for the patient).





Chairman's Statement

The Board of Directors is committed to the long-term stability of the fund and delivering sustainable growth.

The financial accounts for 2020-21 reflect the extremely difficult environment the health sector is operating in. Costs in the health sector continue to rise at a rate higher than inflation. At the same time private health insurers - especially those like Defence Health that are not-for-profit - are under immense pressure to keep premiums as low as possible.

This year the fund continued to be impacted by the uncertainty created by the coronavirus pandemic. Every facet of our operations, revenue and investments, benefit payments, and relief measures for members were affected.

The relief measures delivered through the COVID-19 Member Support Program totalled \$12.7 million over the financial year. And with several states experiencing further lockdowns in May and June 2021, the support for members was ongoing at balance date.

At 30 June 2021, we had 306,877 members covered by 146,324 policies. Despite the uncertainty and disruptions to the economy, the fund has continued to grow its membership base.

The April 2020 premium adjustment was delayed until 1 October, to provide immediate financial relief to members in the first wave of the pandemic. The annual adjustment returned to its regular schedule on 1 April 2021. Premium revenue increased by 3.9% to \$618,480 million.

Extensive resources continued to be devoted to our new technology project known as DELTA. The work with Oracle Health Insurance to build the new platform is the first of its type in Australia and will transform how we interact with our members. DELTA will be vital to our future stability, capability and ongoing growth. At the time of writing, the project is on track for launch in 2022.

As a not-for-profit company, the Directors of Defence Health have a keen interest in maximising the value we can deliver to every one of our members. This value proposition is founded on our commitment to keep premiums affordable, to deliver meaningful health care benefits for members, and to cut waste and unnecessary cost from our operations.

The fund paid \$558.4 million in benefits during the year, representing an increase of 2% on the previous year. For every \$1.00 of premiums, \$0.90 was provided for benefits.

Management expenses are always tightly managed by the fund. This year, on the advice of our external auditors, Defence Health has adopted recent changes to the accounting standards for software as a service. Software as a service is a significant component of the expenditure in Project DELTA. In effect, it moves the project expenditure from an intangible asset on the balance sheet to a management expense.

With the required prior year adjustments made to reflect the change in accounting standards, management expenses were stable at \$56.3 million. The management expense ratio (MER) remains lower than the industry average (9.3%) but has increased due to the accounting adjustments. The MER was 9.1% of premium revenue.

The fund achieved a surplus of \$35.2 million in 2020-21.

I would like to acknowledge the agility and adaptability of Defence Health employees during a long and unpredictable year. The majority of the workforce is based in Melbourne, where everyone endured several periods of strict lockdown.

From their home offices all year, their delivery of outstanding service for our members was extremely commendable. Being named the 2020 Private Health Insurer of the Year (not-for-profit and restricted category) in the Roy Morgan Customer Satisfaction Awards is wonderful recognition of their commitment.

The CEO, Gerard Fogarty, and his Executive Team have continued to adapt to the demands COVID-19 has placed on the business. Gerard and his executives have ensured the safety of staff and continuity of high-quality service delivery under very trying circumstances.

Members can have confidence in the prudent, ethical and responsible management of their health fund. The Board of Directors has broad experience, skill and insight to the needs of our members, and I thank them for their commitment to the long-term financial sustainability of the fund.



Alan Beckett
Chairman



CEO Statement

As the COVID-19 pandemic continues to impact Australia, the importance and value of private health insurance has never been more apparent.

While Australia managed to avert our health system being overwhelmed by COVID-19 patients in 2020, 2021 is demonstrating the vulnerability of our largely unvaccinated population as the virus mutates into more virulent strains.

During such an unpredictable time, many people have turned to private health care for its reliability, quality and the peace-of-mind it provides. As public hospital waiting lists blow-out further due to the pandemic, an additional 245,000 Australians took out hospital cover and 352,000 took out extras cover in the 12 months to June 2021¹. Almost 14 million Australians now have some form of health insurance.

The uncertainty in our operating environment resulted in multiple reforecasts during the year. Each time we had to factor in an increasingly diverse range of financial and service delivery scenarios.

Despite the challenges, Defence Health has maintained high service levels, performance and productivity over the year. We delivered extra value for members in two of our hospital products by including additional clinical categories. And we provided valuable support to members through the COVID-19 Member Support Program.

1. APRA quarterly statistics June 2021

The interruptions to some hospital and other health services in 2020 impacted members' ability to use their benefits. We entered the current financial year with a reserve specifically allocated to fund a delay in claims. While this was a prudent measure to account for the claims we knew would flow, the Deferred Claims Liability was also a requirement of the industry regulator, the Australian Prudential Regulation Authority.

Hospital treatment that couldn't take place in 2019-20 was still likely to occur in 2020-21. And much of it did. We saw a resurgence in hospital and ancillary claims by November 2020.

In finalising the 2020-21 financial accounts, we have reconciled the actual claims made against the estimated liability. This has resulted in an amount of COVID-19 claims savings. It is our intention to return these COVID-19-related claims savings to our members in 2021-22 through further premium relief.

The most efficient way to do this is by delaying the 2022 premium increase that would normally occur in April. The length of the proposed delay will be reviewed closer to the time based on the most up-to-date claims data. The amount that will be returned to members is in addition to the \$12.7 million delivered through the COVID-19 Member Support Program.

For the third year in a row, Defence Health was named an Employer of Choice in the Australian Business Awards. And for the second year running, we were named Major Private Health Insurer of the Year (not-for-profit or restricted) in the 2020 Roy Morgan Customer Satisfaction Awards. In fact, Defence Health won a clean sweep of the 12 independent monthly surveys to win the award.

When our members turn to us, they can trust that we have their needs at the heart of our decision-making. Customer service, quality health cover, and advocacy for more affordable health insurance premiums are top of mind for us.

But the price of medical devices in Australia continues to inflate the cost of private health insurance. We pay around 30% more than countries such as New Zealand, France and the UK for the devices used in many surgical procedures. The exact same item used in hip replacements costs more than \$4000 in Australia – but costs just \$1800 in New Zealand.

This means big multinational medical device companies make much larger profits in Australia – to the detriment of privately insured patients. It's not fair and has no medical basis. Our peak body, Private Healthcare Australia, has presented an alternative pricing model to government that does not impact doctor or patient choice. We call on the government to urgently reform medical device pricing in this country and help us deliver immediate and significant savings for all privately insured Australians.

It has been a very challenging year. But we've remained focused on delivering better value health insurance for our members. We've also remained resolute in the work to replace our core operating platform. We will deliver this project (DELTA) in the coming year and it will enable us to deliver an ever-increasing range of products and services for members.

I thank the Chairman and the Board of Directors for their encouragement and tireless support for our strategic direction during unsettled times.

Major General Gerard Fogarty, AO (Ret'd)
Chief Executive Officer

About Us

Defence Health was established in 1953 to ensure the families of those who serve our country could get timely and affordable access to health care.

In those days before Medicare, the majority of people who needed hospital care had to personally pay for all their hospital and medical charges. With the entry of private health insurers, private hospitals were built which boosted overall capacity and made access to care more affordable.

Private health also had a benefit for public patients as it relieved the demand on elective surgery waiting lists and enabled faster public treatment.

Defence Health tailors its health cover for the Defence community and operates on a not-for-profit basis. Being not-for-profit means we're in a position to provide greater value for members, rather than dividends to shareholders or foreign owners.

As a not-for-profit fund, our decision-making is guided by the service and health needs of our members. We are always mindful about protecting member contributions to the fund for the long term. And any surplus remains in the fund for the benefit of all members.



Core Values

Private health in Australia

Hospital services around Australia have experienced varying degrees of disruption in the past 18 months. The private hospital network has played a critical role in helping to clear the elective surgery backlogs created by the pandemic.

The government recognises the importance of the private health sector. Government legislation enables a number of incentives to encourage people to take out private hospital insurance.

- Younger people are offered a discount when they take out eligible hospital cover before turning 30.
- Lifetime Health Cover further encourages people to take out private health insurance before turning 31 by making it more expensive for those who take it out later in life.
- The Medicare Levy Surcharge imposes an additional tax on higher income earners who do not take out private hospital cover. The amount of surcharge ranges from an extra 1% to 1.5% in tax, depending on income.
- Most privately insured people receive the Australian Government Rebate on Private Health Insurance which helps reduce the cost of premiums. It is also means tested, and a higher rate of rebate is payable to older Australians (from age 65 and higher again from age 70).

Our values define us. They provide the foundation for the way we work with members, providers and each other.



Trust

We earn your trust by consistently delivering personal service that meets your needs. We're as good as our word - every time.



Ownership

We're part of the ADF family. So we accept responsibility, act with initiative and follow through. We won't let you down.



Excellence

We're proud to serve you and will provide service and experience that others won't or can't. We actively seek ways to continuously improve our offer to you.



Respect

We're friendly and here to help you make good choices. We listen with intent and offer clear explanations, to provide you with peace of mind and support.



Community

We're here for people, not profit. We are committed to making a positive difference to the health and wellbeing of the Defence community.

Hospital cover

Private hospital cover gives people almost immediate access to high quality health care. The COVID-19 pandemic has reminded people about the dependability of private cover. With public hospital waiting lists growing longer, greater numbers of people are turning to private health insurance than in recent years.

Hospital insurance is categorised according to the clinical treatment included in the cover. The minimum included treatment in gold, silver, bronze and basic hospital cover is standardised across all health insurers. While they may include more than the minimum, they may not exclude a clinical category from the standard cover.

With an appropriate level of cover for the treatment required, private hospital insurance covers the cost of the hospital accommodation charges and theatre fees, meals and medication, and nursing care while in hospital.

Hospital cover also contributes to the fees charged by the medical specialists who treat the hospital patient.

- ▶ In 2020–21, Defence Health fully covered 90.6% of all hospital related medical services for our members (compared with the industry average of 89.3%)
- ▶ In the same year, we funded 242,465 days of hospital treatment, totalling \$391 million in hospital and medical benefits (up 5.7%).

Extras cover

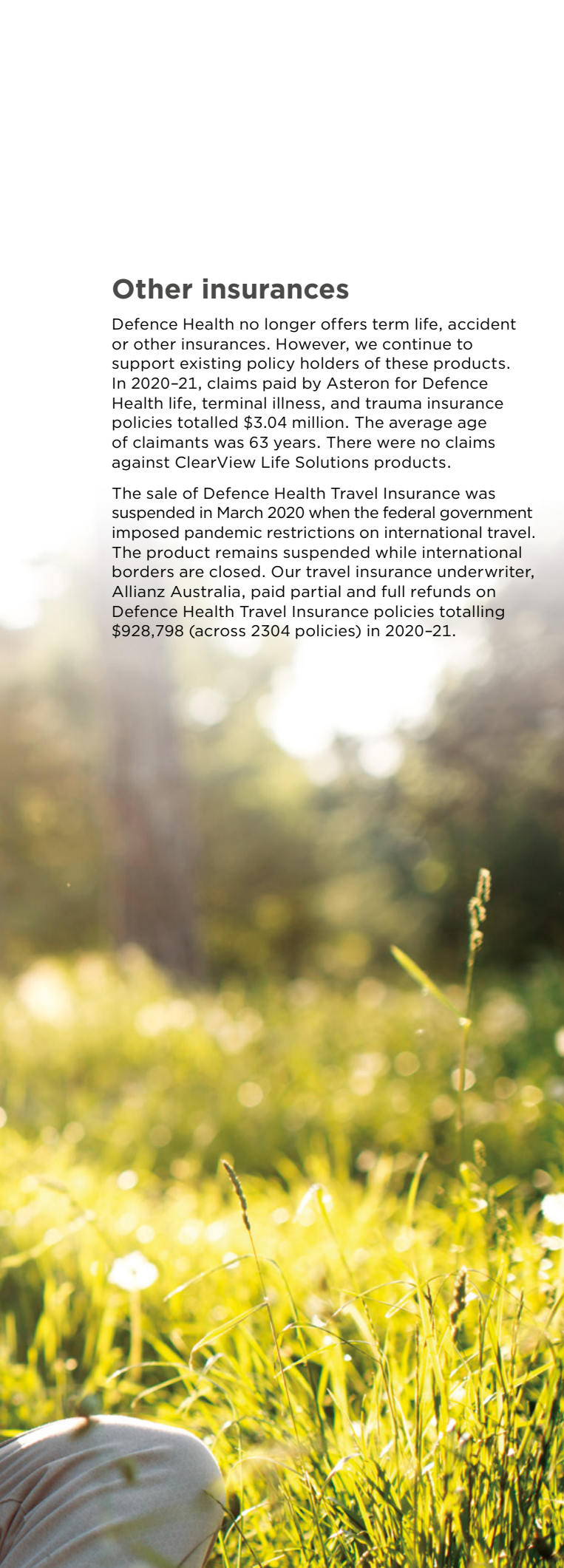
Extras cover provides benefits for a range of allied health care services. The type of treatment includes dental and optical care, physiotherapy, speech and occupational therapy, and podiatry.

Medicare does not provide benefits towards this general treatment unless it's part of an extended care plan. So the benefits available from extras cover make a valuable contribution to this every-day health care.

Defence Health extras policies also include comprehensive ambulance cover. Members are covered Australia-wide for state-appointed ambulance services on the road, in the air, or on the sea.

Important information:

ClearView LifeSolutions issued by ClearView Life Assurance Limited (ABN 12 000 0021 581 AFSL 227682). ClearView LifeSolutions Super issued by ClearView Nominees Pty Ltd (ABN 37 003 682 175 AFSL 227683), as trustee of ClearView Retirement Plan (ABN 45 828 721 007). AGA Assistance Australia Pty Ltd (ABN 52 097 227 177 AFSL 245631) trading as Allianz Global Assistance issues and managed Defence Health Travel Insurance for the insurer Allianz Australia Insurance Ltd (ABN 15 000 122 850 AFSL 234708). Suncorp Life & Superannuation Ltd (ABN 87 073 979 530 AFSL 229880) is the issuer of Defence Health Term Life Insurance. Defence Health receives commission payments from the product issuers of insurance products. Details of this commission are in our Financial Services Guide. The information on Travel and Term Life in this report is of a general nature and does not take into account your personal objectives, financial situation or needs. Defence Health is not the issuer of these products and does not warrant that they are suitable for you. You may wish to obtain Personal Advice. You should consider the relevant Product Disclosure Statement (PDS) in deciding whether to acquire these products. A PDS can be obtained by calling 1800 335 425 or by downloading it from the Defence Health website.



Other insurances

Defence Health no longer offers term life, accident or other insurances. However, we continue to support existing policy holders of these products. In 2020-21, claims paid by Asteron for Defence Health life, terminal illness, and trauma insurance policies totalled \$3.04 million. The average age of claimants was 63 years. There were no claims against ClearView Life Solutions products.

The sale of Defence Health Travel Insurance was suspended in March 2020 when the federal government imposed pandemic restrictions on international travel. The product remains suspended while international borders are closed. Our travel insurance underwriter, Allianz Australia, paid partial and full refunds on Defence Health Travel Insurance policies totalling \$928,798 (across 2304 policies) in 2020-21.

2020-21 Strategic Achievements

Health insurer of choice for the ADF and ex-serving

- ▶ We pride ourselves on our reputation for outstanding service. And for our genuine connection with our core membership of serving and ex-serving veterans. We are a leading insurer for this community and they comprise 43% of the people we cover.
- ▶ For the second year running, Defence Health was named Private Health Insurer of the Year (not-for-profit or restricted category) in the 2020 Roy Morgan Customer Satisfaction Awards.
- ▶ We maintained high levels of member satisfaction during the year, dipping slightly from a peak of 87% in August 2020 to 81% in the May 2021 survey.
- ▶ We continued with significant work on a new membership management platform that will further enhance and differentiate our service for members. The project is on track for launch in 2022.

Enhance the health and wellbeing of our members

- ▶ We added additional clinical categories of cover to two of our hospital products. The additional cover adds value for members and gives members greater options in choosing the ideal level of hospital cover to suit their needs.
- ▶ Members continued to have access to telehealth benefits for a range of allied health services as part of our COVID-19 Member Support Program.
- ▶ In April 2021, telehealth benefits for dietetics, psychology and speech therapy consultations became a standard inclusion on most of our extras. All members with hospital cover can access COVID-19 related treatment in a private hospital if they need it, regardless of their level of hospital cover.

Sustainable growth

- ▶ We've improved our marketing capability with enhanced automation of our activities and better informed 'voice of member' survey feedback.
- ▶ The Folio Contract Management System was launched to streamline contracts and better manage costs.
- ▶ Business growth opportunities will be accelerated following the appointment of a Chief Strategy Officer.
- ▶ Capital per member increased to \$2599.

Financial Performance

Premium revenue

In 2020-21, the revenue from premium contributions grew by 3.9% to \$618.5 million. Revenue was heavily impacted by the pandemic. Many members sought to suspend their membership due to their personal financial circumstances. And we provided significant financial relief to members by delaying the April 2020 premium increase until October.

3.9%

Increase in revenue

Benefits

The value of benefits paid to, or on behalf of members, increased by 1.9% to \$558.4 million. We realised in the last financial year that hospital admissions and other health care was being postponed due to the pandemic. We accrued for the likely claims that would be delayed into the 2020-21 financial year.

While there was a resurgence in hospital and general treatment claims, we also anticipate a further surge in claims as we move out of the pandemic. This is due to people presenting to health services with more advanced disease because lockdowns have prevented access to routine health checks. We have seen, and anticipate we will continue to see, an increase in demand for inpatient mental health services.

Management expenses

Management expenses include the cost of doing business, such as salaries, rent, heat, light, power and depreciation. Defence Health always focuses on keeping these expenses as low as possible. This year the management expense was stable at \$56.3 million, after prior year adjustments to align with a change in the accounting standards for software as a service (SaaS). As a percentage of premium revenue, the management expense ratio of 9.1% remains lower than the industry average of 9.3%.

Surplus

Due to lower-than-expected benefit outlays and increases in investment income, the fund produced a surplus of \$35.2 million. This includes an amount of COVID-19-related claims savings - which will be returned to members as premium relief in 2021-22.

\$35.2m

Surplus

Investment income and capital

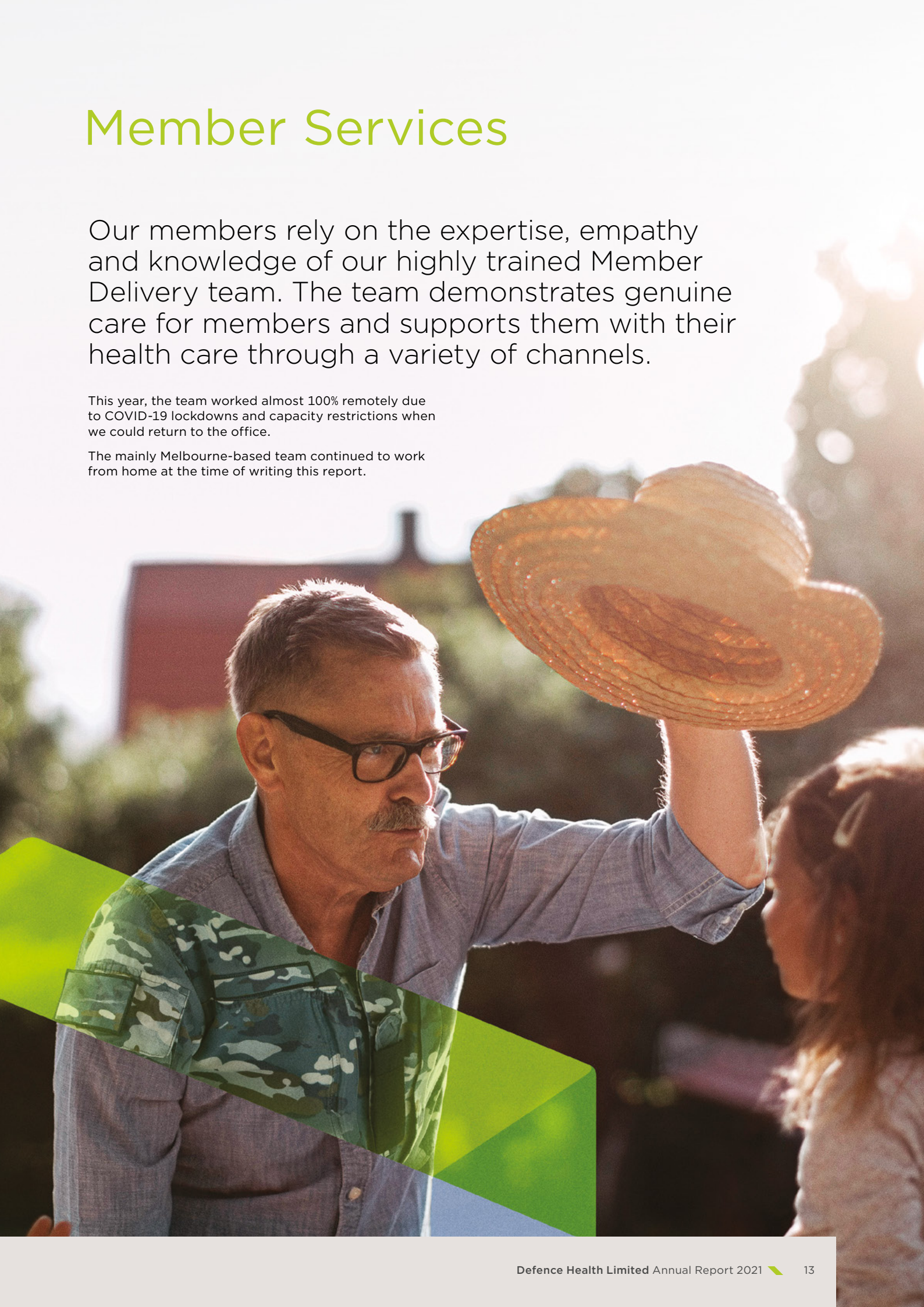
Despite the economic uncertainty created by the pandemic, global share markets performed strongly in 2020-21. Our investment portfolio produced income of \$31.4 million. This income is consolidated into the fund's capital reserves, which closed at \$373 million or \$2599 per policy.

Member Services

Our members rely on the expertise, empathy and knowledge of our highly trained Member Delivery team. The team demonstrates genuine care for members and supports them with their health care through a variety of channels.

This year, the team worked almost 100% remotely due to COVID-19 lockdowns and capacity restrictions when we could return to the office.

The mainly Melbourne-based team continued to work from home at the time of writing this report.





Member satisfaction

Our service delivery culture demonstrates a true affinity for members. We pride ourselves on first-call resolution of member enquiries and treating members like they are part of the family rather than just a name and number.

Our promise to members is that we look after our own. And we go to great lengths to ensure we exceed member expectations.

We measure member satisfaction on a quarterly basis. In August 2020, member satisfaction was recorded at 87%. It dipped slightly in November to 83%, bounced up to 86% in February 2021, and declined to 81% in May 2021.

This year Defence Health was again named Health Insurer of the Year (not-for-profit and restricted category) in the Roy Morgan 2020 Customer Satisfaction Awards. The fund won all 12 months of the independently conducted research.

The high and consistent service levels at Defence Health mean the Ombudsman receives very few complaints from our members. In 2020-21, the Ombudsman received just 44 complaints from our members. This represents 1.8% of all complaints to the Ombudsman and is lower than our market share of 2.1%.

Project Delta

The transformational technology project that we call 'DELTA' commenced in 2019 and is due to go live in 2022. We are working with specialists from Oracle Health Insurance and EY to build a new core operating platform that will transform the member experience and bring greater capability to the business.

End-to-end testing commenced in June and comprehensive training of all staff will commence later in 2021. Staff are regularly updated on the progress of the project through 'showcase' presentations. The project team has also recently begun a series of 'immersion' sessions to familiarise their colleagues with the platform before training commences.

"I feel valued, supported, and listened to..."



Our People

Our corporate values are very important to us: trust; excellence; ownership; respect; and community. They are the foundation for our interactions with members, service providers, and each other.

In the June 2021 staff engagement survey, 98% of staff reported they “believe in our values”. And in the same survey, staff recorded the equal-highest-ever engagement score of 89%. This is a very pleasing result in a year of dislocation and working from home.

The survey results are also testament to the commitment and resilience of our people. And evidence of the great efforts by team leaders to ensure staff felt connected and supported.

For the third year in a row, Defence Health was named an Employer of Choice in the 2020 Australian Business Awards. The awards celebrate organisations that maximise the potential of their workforce through effective recruitment, engagement, training and retention. It’s great to receive this recognition that Defence Health is a rewarding and stimulating place to work.

90% agree Defence Health is committed to health, safety and wellbeing of staff

88% say their manager is an outstanding leader

87% are aligned with the strategy and vision

86% agree we demonstrate trust

88% believe Defence Health values respect

91% value our community

94% agree we promote diversity and inclusiveness

96% agree leaders support equality

“We’ve managed to maintain our people and culture despite working in a remote environment...”

“The organisation values its people and makes every effort to ensure they are looked after...”

Employment

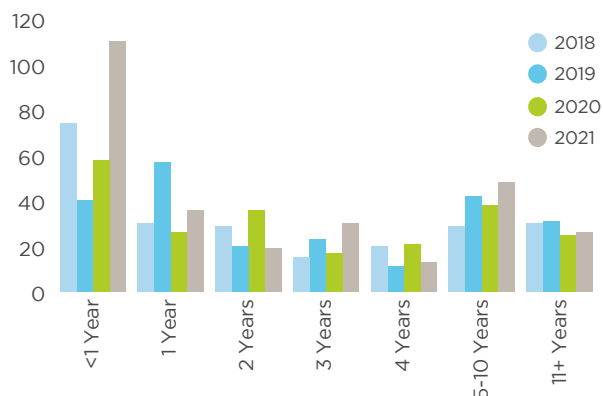
The COVID-19 circumstances in 2020–21 necessitated the recruitment of more than 100 new employees, without us having met them face-to-face. Despite the challenges this posed for recruiters, trainers, and team leaders, these eager new staff were successfully integrated within the business and have made valuable contributions to our performance.

At 30 June 2021 we had a workforce of 282 people (61 more than the same time last year). This is comprised of 217 full-time staff, 46 part-timers, 10 casuals and 9 directors.

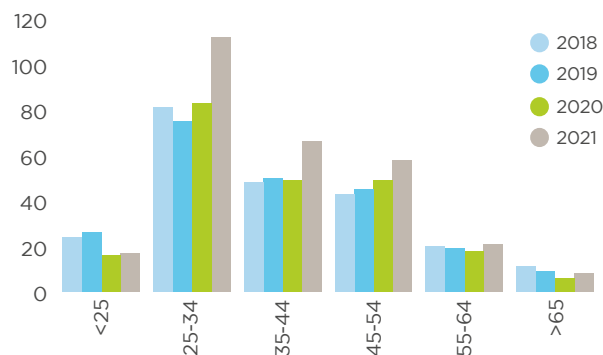
The gender composition of the workforce is 62% women. And 55% of promotions went to women. The Board is 67% women. The Associate Director Traineeship program further supports women by giving them experience in the function of a corporate Board.

During the year there were 103 employee departures (or 36.5% turnover) - including two directors who retired at the Annual General Meeting in November.

Number of staff by length of service



Number of staff by age





Health and wellbeing

We're conscious the health, resilience and wellbeing of staff has had some ups and downs in the past 12 months. Long periods of time away from the office and face-to-face contact with colleagues has been a strain for many.

The company has responded to the challenges with additional resources to support the Wellbeing Strategy. The Strategy encompasses the five pillars of health: being financial, career, physical, mental and social.

With the support of HR, our teams have engaged in innovative initiatives to support their wellness. The 'new look' strategy included measures such as virtual health and social activities, ergonomic training and assessment, an online talent quest, conversation roulette to encourage new connections, meditation and mindfulness sessions, and a well-attended online Christmas event.

Staff have been encouraged to be vaccinated against COVID-19 as soon as vaccine becomes available for them. They have been supported with half a day of paid leave to get their vaccinations.

Benefits of employment with Defence Health include comprehensive health insurance for full-time and part-time staff; all staff have access to the Employee Assistance Program; anyone experiencing domestic violence is supported with additional paid leave; and everyone can dedicate a day to their health with an additional day of 'wellbeing' annual leave.

Staff have been encouraged to be vaccinated against COVID-19 as soon as vaccine becomes available for them. They have been supported with half a day of paid leave to get their vaccinations.

Support for the Defence community

Our network of Defence community relationship officers are normally on the ground in all major Defence locations in Australia. Their primary role is to support the community in its understanding of the health sector and the health care options available.

COVID-19 restrictions have prevented many face-to-face activities this year. But the team has creatively engaged with the community to maintain connection and support. A new initiative has been a 'kiosk' presence on ADF bases and in ex-serving settings. This accessibility is important for our members, prospective members and the team.

Our support to ADF Transition Seminars continued virtually. These seminars guide serving veterans through the process of preparing for civilian life. Our presentations on how the health system operates are an important component of the financial education content.




The team also engaged in:

- ▶ face-to-face and virtual stakeholder meetings to ensure we understand the issues impacting the community including: Defence Families Australia, Open Arms, Department of Veterans' Affairs (DVA), and ADF Financial Services Consumer Centre
- ▶ supporting ADF Commanders and Units with education sessions and member support through kiosks on base, and at induction training and rehabilitation centres (including Soldier Recovery Centre and Military Support functions)
- ▶ support for the Defence community welcome days, family events and virtual events to enhance community wellbeing during lockdowns
- ▶ collaboration with Commonwealth Superannuation Corporation on base to enhance serving member access to face-to-face services
- ▶ continuing to roll out the 'Making Connections Matter' Defence School Mentor webcam program to connect absent Defence parents with their child's classroom and teachers
- ▶ extending the kiosk presence with DVA Wellbeing Centres
- ▶ ongoing connection with veteran organisations including Bravery Trust, Servulink, Legacy, Kookaburra Kids, and Women Veterans Network Australia
- ▶ supporting employment opportunities for serving families through the Defence Families Australia partner employment program, RSL employment program and Soldier On
- ▶ partnership with the Defence Specials Needs Support Group and support funding for the Computers for Kids program
- ▶ continuing our pledge with Soldier On as a Platinum Partner, and fostering ex-serving working groups to enhance collaboration of organisations at the regional level
- ▶ establishing a partnership with Swiss 8, a health promotion charity founded by veterans.

Defence Health Foundation

The sole purpose of Defence Health Foundation has been to fund medical research to improve the health and wellbeing of serving and ex-serving ADF and their families.





Established in 2010 and wholly funded by Defence Health, the Foundation identifies target areas of research, in conjunction with Joint Health Command and the Department of Veterans' Affairs.

In 2020-21, Defence Health Foundation made grant funding available to three medical research projects that totalled \$241,399. The research focused on excellence in cardiac and orthopaedic rehabilitation models. These are the final grants made by the Foundation as it prepares to divest itself from the direct commissioning of further medical research. Defence Health is grateful to the Foundation Board for its governance, and the dedication of the Scientific Advisory Committee. The esteemed members of the committee have volunteered their time to the assessment of medical research funding applications.

Board of Directors

The Board of Directors is comprised of eight non-executive, independent directors and one associate director. The Associate Director Traineeship program was introduced in 2015 as an initiative to improve the representation of women in corporate Australia. The program gives talented women in the Defence community exposure to governance and board operations.

The Chief Executive Officer is appointed by the Board.

Directors' interests and committee memberships, as at 30 June 2021, are detailed below.



Alan Beckett

BEc FCA GAICD

Chairman since November 2019

Director since January 2006

- Member - Nomination and Remuneration Committee
- Chair - Meat and Livestock Australia Ltd
- Director - Westbourne Capital Pty Ltd
- Director - Westbourne Credit Management Ltd
- Director - Integrity Systems Company Ltd
- Director - MLA Donor Company Ltd



COL Anthony Hambleton

AM CSC GAICD

Director since February 2014

- Chair - Nomination and Remuneration Committee
- Chair - Defence Health Foundation
- Member - Standby Army Reserve
- Appointed Director - Chief of Army



GPCAPT Susan Stothart

**CSC BBus M Def Stud Grad
Dip Applied Finance GAICD**

Director since November 2016

- Member - Risk Committee
- Member - Audit Committee
- Member - Nomination and Remuneration Committee
- Member - RAAF Active Reserve
- Appointed Director - Chief of Air Force



Alice Williams

**BComm FCPA FAICD CFA
ISFA AIF**

Director since February 2010

- Chair - Investment Committee
- Director - Djerrivarrah Investments Ltd
- Director - Mercer Investments Australia Ltd
- Director - Tobacco Free Portfolios



Robin Burns

FAICD

Director since October 2018

- Chair - Risk Committee
- Chair - Audit Committee
- Member - Investment Committee
- Director - BT Funds Management Ltd
- Director - BT Funds Management No 2 Ltd
- Director - Westpac Securities Administration Ltd
- Independent Member - External Compliance Committee, PIMCO Australia Ltd



Carolyn Ireland

MBA (Executive) CA GAICD

Director since October 2018

- Member - Investment Committee
- Director - International Women's Development Agency
- Director - Xavier College Foundation
- Chair - Finance Committee, Melbourne Archdiocese Catholic Schools Ltd



Rebecca Davies AO

LLB (Hons) BEc FAICD

Director since November 2019

- Member - Nomination and Remuneration Committee
- Member - Risk Committee
- Member - Audit Committee
- Director - Catholic Healthcare Ltd
- Director - Transparency International Australia
- Director - The Actuator Operations Ltd
- Director - Lifehouse Australia
- Member - National Health and Medical Research Council: Health Innovations Advisory Committee and Community and Consumer Committee
- Member - National Heart Foundation of Australia: Strategic Research Committee
- Member - UNSW Centre for Big Data in Health, Advisory Committee
- Member - Medical Research Future Fund: Targeted Translational Research Board



Shelly Park

BA MSc Mgt GAICD

Director since November 2020

- Member - Risk Committee
- Member - Audit Committee
- Director - Australian Red Cross Lifeblood
- Director - Emerge Women & Children's Support Network
- Executive Member - Alliance of Blood Operators



COL Michelle Mason

Associate Director since October 2020

- Attendee - Risk Committee
- Attendee - Audit Committee

Governance

Defence Health is a company limited by guarantee registered under the *Corporations Act 2001*. It is also registered under the *Private Health Insurance (Prudential Supervision) Act 2015* as a not-for-profit health insurer with no shareholders or borrowings.

The Statutory Members of the fund are the Chief of Army, Chief of Air Force and the Board of Directors. The Board is responsible for the governance and performance of the fund.

We have a robust governance structure and prudent risk, compliance, and financial management culture. The governance culture and goal of best-practice corporate governance is underpinned by the five core values of trust, excellence, ownership, respect and community.

Defence Health provides regular reports to the Australian Prudential Regulation Authority, which is the independent statutory authority that monitors and regulates the private health insurance industry.

Executive Management Team

The Chief Executive Officer is responsible to the Board for the overall management and performance of the company. His Executive Management Team supports him in this role.

The Executive consists of:



Chief Executive Officer
MAJGEN Gerard Fogarty, AO (Ret'd)
BBus Grad Dip Mgt MBA
MSS(USA) GAICD



Chief Risk Officer
Tanya Haines
Ass Dip Bus Mktg Grad
Cert Bus Mgt Cert Gov Prac
& Risk Mgt



Company Secretary and
General Counsel
Andrew Guerin
LLB BEc FGIA FCIS DipFS
(FinPlan)



Chief Operating Officer
Joanne Kadlecik
Ass Dip Bus Mgt GAICD



Chief Financial Officer
Matthew Walsh
BCom CA



Chief People Officer
Kelly Dickson
Ass Dip HRM



Chief Marketing Officer
Candice Liew
BBM (Mktg)



Chief Strategy Officer
Christine Smyth
PhD BA BSc (Hons)

Code of conduct

Our corporate code of conduct conveys clear guidelines on the ethics and behaviour expected of our employees. We are also a signatory to the industry based Private Health Insurance Code of Conduct.

Under both codes, we commit to:

- communicate with members in plain English
- provide relevant information to help members and prospective members in their decision making
- ensure our staff are thoroughly trained and know what they are talking about
- provide members with easy access to an effective dispute resolution process.

The company undertakes a regular audit of our compliance under the industry code.

Concise Financial Statements

for the year ended 30 June 2021

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Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)
Level 7, 380 St Kilda Road
Melbourne VICTORIA 3004

Consolidated Concise Financial Statements for the year ended 30 June 2021

The Consolidated Concise Financial Report is derived from the full financial report and cannot be expected to provide as full an understanding of the financial position, and financial and investing activities of the Company as the full financial report which is available at defencehealth.com.au

Directors' Report

Defence Health Limited ("Defence Health" or the "Company") is a company limited by guarantee, incorporated and domiciled in Australia. The Company reports to members and has obligations to the Australian Prudential Regulation Authority (APRA), which regulates and monitors the private health insurance industry and to the Australian Securities and Investments Commission which regulates its corporate and financial services obligations. The Company's subsidiary, Defence Health Foundation Pty Ltd, is the trustee of Defence Health Foundation. Collectively, the Company and subsidiary are referred to as the "Group".

Members

The Members of Defence Health are the Directors, and the officeholders of the Chief of Army and the Chief of Air Force.

Defence Health Limited has one class of Member and each Member is entitled to one vote on matters determined by Members' votes. If the Company is wound up, each person who is a Member at the time or who was a Member within the preceding year is liable to contribute up to one hundred dollars as necessary to meet the debts and liabilities of the Company. The total amount which Members are liable to contribute collectively is one thousand dollars.

Directors

The ten non-executive Directors and one associate Director who held office during the financial year are as follows. The interests of the Director shown below are as at 30th June 2021:

Mr Alan Ian Beckett

BEc FCA, GAICD

Appointed to the Board in January 2006. Current term expires at the Annual General Meeting to be held in 2023. Mr Beckett was appointed as the Chair of the Board in November 2019 and is a member of the Nomination and Remuneration Committee. Mr Beckett is a Chairman of Meat and Livestock Australia Ltd, a Director of Westbourne Capital Pty Ltd and Westbourne Credit Management Ltd, Director of Integrity Systems Company Ltd and a Director of MLA Donor Company Ltd. He is also an ex-partner of Ernst and Young.

COL Anthony Gerard Hambleton AM

GAICD

Appointed to the Board in February 2014. Current term expires at the end of the Annual General Meeting to be held in 2021. COL Hambleton's term has been approved for extension by the Chief of Army for an additional 2 years until the Annual General Meeting in 2023. COL Hambleton was the Chair of the Nomination and Remuneration Committee for the entire year. COL Hambleton is a Director and was appointed Chair of Defence Health Foundation Pty Ltd in November 2019. COL Hambleton is a member of the Army Standby Reserve and the appointed Director of Chief of Army.

GPCAPT Susan Stothart CSC

BBus, Mgmt, M Def Stud, Grad Dip Applied Finance, GAICD

Appointed to the Board in November 2016. Current term expires at the Annual General Meeting to be held in 2024. GPCAPT Stothart was a member of the Risk and Audit Committees for the entire year. Group Captain Stothart retired as a member of the Investment Committee in November 2020 and then became a member of the Nomination and Remuneration Committee in December 2020. GPCAPT Stothart is a member of the RAAF active reserve and is the appointed Director of Chief of Air Force.

Ms Alice Joan Morrice Williams

BComm FCPA FAICD CFA ISFA AIF

Appointed to the Board in February 2010. Current term expires at the Annual General Meeting to be held in 2021. Ms Williams was Chair of the Investment Committee for the entire year. Ms Williams was a Director of Equity Trustees Limited, Cooper Energy Ltd, Foreign Investment Review Board, Mercer investments (Australia) Ltd, Vocus Group Ltd, Pro Medicus Limited and a Member of the Felton Bequest Committee for part of the year, and Director of Djerriwarrah Investments Ltd and Tobacco Free Portfolios for the entire year.

Mr Robin Buick Orr Burns

FAICD

Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022. Mr Burns was the Chair of the Risk and Audit Committees and a member of the Investment Committees for the entire year. Mr Burns was a Director of Indue Ltd and a Director of 8IP Emerging Companies Ltd for part of the year and was a Director of BT Funds Management Ltd, BT Funds Management No 2 Ltd and Westpac Securities Administration Ltd and a member of the External Compliance Committee of PIMCO Australia Management Ltd for the entire year.

Ms Carolyn Ireland

MBA (Executive), CA, GAICD

Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022. Ms Ireland was a member of the Investment Committee for the entire year. Ms Ireland was a Director of International Women's Development Agency and Xavier College Foundation for the entire year and for part of the year was a Director and Chair of the Finance Committee, Melbourne Archdiocese Catholic Schools Ltd.

Ms Rebecca Davies AO

LLB (Hons), Bec, FAICD

Appointed to the Board in November 2019. Current term expires at the Annual General Meeting to be held in 2023. Ms Davies was a member of the Nomination and Remuneration, Risk and Audit Committees for the entire year. Ms Davies is also a Director of Catholic Healthcare Ltd, Transparency International Australia, The Actuator Operations Ltd, Lifehouse Australia, Committee Member, National Health and Medical Research Council Health Innovations Advisory Committee and the Community and Consumer Committee, Strategic Research Committee member, National Heart Foundation of Australia and Member Advisory Committee, UNSW Centre for Big Data in Health and a Member of the Targeted Translational Research 'Board' - a program funded by the Medical Research Future Fund.

Ms Shelly Park

Appointed to the Board on 4 November 2020. Current term expires at the Annual General Meeting to be held in 2024. Ms Park was appointed a member of the Risk and Audit Committees in February 2021. Ms Park is also a Director of Australian Red Cross Lifeblood and Emerge Women & Children Support Network and an Executive Member of Alliance Blood Operators.

COL Michelle Mason

The Board appointed an Associate Director, COL Mason on 28 October 2021. COL Mason's term is set to expire in October 2022. COL Mason is a full-time serving member of the Australian Army and a Director of Hughes Primary School Board.

Mr Garry Albert Richardson

FAICD

Appointed to the Board in February 2011. Mr Richardson retired from the Board at the Annual General Meeting held in 2020. Mr Richardson was a member of the Nomination and Remuneration, Risk and Audit Committees at the time of his retirement.

WGCDR Amy Beck

The Board appointed an Associate Director, WGCDR Amy Beck in October 2017. WGCDR Beck's term expired at the 09 September 2020 Board Meeting. Whilst WGCDR Beck is not a Director, she attended two Board Meetings in 2020. WGCDR Beck is a serving member of the Royal Australian Airforce.

The Directors named above held office during the entire of the financial year, with the exception of Mr Garry Richardson, WGCDR Amy Beck, Ms Shelly Park and COL Michelle Mason.

Directors' Report continued

Company Secretary

Mr Andrew Guerin LLB, BEc, FGIA was appointed Company Secretary in September 2005. Mr Guerin is also the Company Secretary of Defence Health Foundation Pty Ltd.

Directors' meetings

The number of Board and Committee meetings held during the financial year and attendance by each Director are shown below.

	Board of Directors' Meetings		Investment Committee Meetings		Risk Committee Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Chair	A I Beckett		A J M Williams		R Burns		R Burns		A Hambleton	
Meetings held	9		4		4		5		6	
A I Beckett	9	9							6	6
R Davies	9	8			4	4	5	4	6	6
A Hambleton	9	9							6	6
G Richardson	3	3			2	2	2	2	2	2
S Stothart	9	9	2	2	4	4	5	4	3	3
A J M Williams	9	9	4	4						
R Burns	9	9	4	4	4	4	5	5		
C Ireland	9	8	4	4						
S Park	5	5			2	2	2	2		

Principal activities

The principal activities of Defence Health during the financial year were:

- to operate a registered health benefits fund in accordance with the *Private Health Insurance Act 2007*; and
- to provide health insurance and complementary products to members and families of the Australian Defence Force (ADF) and the wider Defence community.

There were no significant changes in the nature of the Company's activities during the financial year.

Objectives of the Company

The core purpose is to support members of the ADF and the wider Defence community to protect their health. The Company's vision is to be the trusted health partner of the Defence community. To achieve this vision the company seeks to:

- Be the health insurer of choice for the ADF and ex-serving community.
- Enhance the health and wellbeing of members.
- Sustain PHI and deliver strategic growth

Achievement of goals

- The Company will offer differentiated products and propositions tailored to our specific market segments.
- The Company will offer health programs to support and improve the health and wellbeing of target segments.
- The Company will maintain a strong PHI portfolio and extend its scope of business to further embed itself in the Defence community

The Company regularly measures, monitors and addresses its performance towards its strategic goals by:

- its market share, and the level of member advocacy in designated target segments.
- the number and outcomes of its health and wellbeing programs
- the financial performance of its PHI business and its pipeline of strategic growth opportunities

Review of operations

Defence Health recorded a surplus of \$35.2 million in the 12 months to 30 June 2021, an increase of \$35.4 million on the prior year. This increase has predominantly come from the return on investments, which have increased by 262.2% from \$8.7 million in the previous year to \$31.4 million. The total return on the investment portfolio was 6.2%.

COVID-19 has had an impact on members being able to utilise benefits. Our intention is to return COVID related claims savings to our members through a deferral of the 2022 premium rate rise. The length of the deferral will be reviewed closer to the time based on the most recent claims data and the outcome of the finalisation of the premium rate rise. It is also relevant to note that this is in addition to the COVID member support program which has totalled \$12.7m to date.

During the year the number of health insurance policies increased by 2.27%. Defence Health has 146,324 policies at 30 June 2021. During the year, premium revenue increased by 3.9% to \$618.5 million and net benefits expenses increased by 3.1% to \$554.3 million.

Total management expenses of \$56.3 million were contained at 9.1% of premium income. This is in line with prior years management expenses and is due to investing in a new core IT platform that will benefit members in the future. It is expected this expense ratio will decrease in future years.

A lease derecognition for our office space has resulted in other revenue to 30 June 2021 of \$5.1 million, an increase of \$4.8 million compared to prior year.

Dividends

As a company limited by guarantee, Defence Health is prohibited by its constitution from paying dividends.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company.

Subsequent events

Since 30 June 2021 Australia is facing new waves of COVID-19, with some locations in lockdown. This has resulted in elective surgery being partially deferred. This has the potential to affect claims expenses and liabilities moving into the financial year 2022. Our intention is to provide members with a deferral of the 2022 premium rate rise. The length of the deferral will be reviewed closer to the time based on the most recent claims data and the outcome of the finalisation of the premium rate rise.

Environmental regulation

The Company's operations are not materially exposed to any environmental regulations.

Directors' benefits

Directors' fees are disclosed in Note 21 and related party transactions disclosed in Note 20 to the Financial Statements. No Director received any benefit as a result of a contract made by the Company with the Director, or with a firm associated with the Director or in which the Director has a substantial financial interest.

Indemnification of Directors and Officers

The Company has paid premiums to indemnify each of the Directors and executive officers against any liability, claim, expense or cost which may arise as a result of work performed in their respective capacities, to the extent permitted by law.

Directors' Report continued

Auditor's independence declaration

The auditor's independence declaration is included on page 29.

Rounding of amounts

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with the Class Order amounts in the Directors' Report and the Financial Report are rounded to the nearest thousand dollars, unless otherwise indicated.



Mr Robin Buick Orr Burns
Director

08 October 2021



Mr Alan Ian Beckett
Director

08 October 2021

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

8 October 2021

The Board of Directors
Defence Health Limited
380 St Kilda Road
MELBOURNE VIC 3004

Dear Board Members

Auditor's Independence Declaration to Defence Health Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Defence Health Limited.

As lead audit partner for the audit of the financial report of Defence Health Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Financial Statements

Consolidated income statement and other comprehensive income for the financial year ended 30 June 2021

	Notes	2021 \$'000	2020 (Restated) \$'000
		\$'000	\$'000
Premium revenue	4	618,480	595,228
Direct benefits expense		(520,320)	(501,866)
Risk Equalisation Trust Fund expense		(29,358)	(31,420)
State ambulance levies		(4,659)	(4,559)
Net benefits expense		(554,337)	(537,845)
Unexpired risk reserve		(4,111)	(10,036)
Underwriting result		60,032	47,347
Employee expenses		(27,492)	(22,269)
Marketing expenses		(1,689)	(1,801)
IT and computing expenses		(17,265)	(21,531)
Transaction processing costs		(1,915)	(1,963)
Professional fees		(2,682)	(1,599)
Depreciation and amortisation expenses		(2,061)	(2,875)
Occupancy expenses		(466)	(1,158)
Industry subscriptions		(1,006)	(905)
Commissions		-	(739)
Agency legal costs		(315)	(309)
Interest expense		(111)	(44)
Other management expenses		(1,277)	(1,340)
Total expenses		(56,279)	(56,533)
Underwriting result after operating expenses		3,753	(9,186)
Investment income	4	31,418	8,674
Other revenues	4	5,089	293
Other expenses		(5,065)	0
Surplus/(deficit) for the year		35,196	(219)
Other comprehensive income		0	0
Total comprehensive income/(loss) for the year		35,195	(219)

This consolidated income statement and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2021

	Notes	2021 \$'000	2020 (Restated) \$'000	2019 (Restated) \$'000
Current assets				
Cash and cash equivalents		24,694	63,451	21,167
Trade and other receivables		16,563	16,544	18,940
Contract assets		779	893	990
Financial assets	5	525,715	410,471	418,332
Total current assets		567,751	491,359	459,429
Non-current assets				
Contract assets		2,606	3,385	4,278
Property, plant and equipment		684	1,033	1,963
Intangible assets		50	61	1,286
Deferred acquisition costs		0	0	726
Right of use asset		9,759	4,767	0
Total non-current assets		13,099	9,246	8,253
Total assets		580,850	500,605	467,682
Current liabilities				
Trade and other payables		65,769	56,617	58,145
Lease Liability		1,080	231	0
Claims liabilities	6	114,689	87,306	66,757
Provisions		15,820	11,402	2,133
Total current liabilities		197,358	155,556	127,035
Non-current liabilities				
Trade and other payables		0	0	101
Lease Liability		7,321	5,041	0
Provisions		3,161	2,193	2,512
Total non-current liabilities		10,482	7,234	2,613
Total liabilities		207,840	162,790	129,648
Net assets		373,010	337,815	338,034
Equity				
Contributed equity		43,346	43,346	43,346
Retained earnings		329,664	294,469	294,688
Total equity		373,010	337,815	338,034

This consolidated statement of financial position should be read in conjunction with the accompanying notes.

Financial Statements continued

Consolidated statement of changes in equity

for the financial year ended 30 June 2021

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
Balance at 1 July 2018	43,346	255,095	298,441
Adjustment to opening balance due to adopting AASB 15	0	6,258	6,258
Total comprehensive income for the year	0	38,454	38,454
Change in accounting interpretation for core IT platform	0	(5,119)	(5,119)
Balance at 30 June 2019 (Restated)	43,346	294,688	338,034
Total comprehensive income for the year	0	17,094	17,094
Change in accounting interpretation for core IT platform	0	(17,313)	(17,313)
Balance at 30 June 2020 (Restated)	43,346	294,469	337,815
Total comprehensive income for the year	0	35,195	35,195
Balance at 30 June 2021	43,346	329,664	373,010

This consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the financial year ended 30 June 2021

	Notes	2021	2020 (Restated)
		\$'000	\$'000
Cash flows from operating activities			
Premium receipts		621,575	595,666
Benefits paid to and on behalf of fund members		(494,155)	(482,427)
Government and other levies paid		(4,641)	(4,543)
Payments to Risk Equalisation Trust Fund		(27,313)	(32,685)
Payments to suppliers and employees		(48,418)	(52,160)
Payments for deferred acquisition costs		0	(13)
Commission received		899	1,282
Net cash from operating activities		47,947	25,120
Cash flows from investing activities			
Purchase of investment securities		(455,734)	(328,551)
Proceeds on sale of investment securities		360,352	331,725
Interest and dividends received		11,125	14,474
Purchase of property, plant and equipment		(1,647)	(356)
Repayment of lease liability		(689)	(84)
Interest paid on lease liability		(111)	(44)
Net cash used in investing activities		(86,704)	17,164
Net increase/(decrease) in cash and cash equivalents		(38,757)	42,284
Cash and cash equivalents at the beginning of the financial year		63,451	21,167
Cash and cash equivalents at the end of the financial year		24,694	63,451

This consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1 – Summary of significant accounting policies

Defence Health Limited (referred to as “Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company and its subsidiary, the Defence Health Foundation Pty Ltd, together are referred to as the “Group”. The paid up capital of Defence Health Foundation Pty Ltd is one dollar. Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation. The Company is a not-for-profit entity. The address of its registered office and principal place of business is Level 7, 380 St Kilda Road Melbourne Victoria 3004.

1.1 Statement of compliance

The general purpose financial statements of the Company for the year ended 30 June 2021 have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, International Financial Reporting Standards and comply with other requirements of law.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 8 October 2021.

1.2 Basis of preparation

The general-purpose financial statements have been prepared:

- on a historical cost basis, except for financial instruments which are measured at fair value; and
- presented in Australian dollars and rounded to the nearest thousand dollars.

1.3 Key judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions in applying the Company’s accounting policies which are disclosed in note 2.

1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries of Defence Health are not material as they comprise only one subsidiary (Defence Health Foundation Pty Ltd, 100% owned) with total assets and net assets of \$1. Accordingly, no separate disclosures of parent entity financial information have been included in the financial statements.

1.5 Revenue recognition

Revenue is recognised for the major income streams as follows:

- (i) Premium revenue consists of contributions from policyholders, inclusive of the government rebate. This is recognised in the income statement when it has been earned evenly over the period of contract commencing from the attachment date. The earning of premium approximates the pattern of the incidence of risk expected over the term of the contract period. The proportion of premiums not earned at the reporting date is recognised as an unearned premium liability.
- (ii) Dividend and interest revenue from investments is recognised when the right to receive income is established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, through the expected life of the financial asset to that asset’s net carrying amount.

(iii) Other revenue includes Life, Travel and Accident insurance commissions.

Under AASB 15, revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer (net of refunds) and excludes amounts collected on behalf of third parties. The Company typically satisfies its performance obligations at a point in time, and recognises revenue as and when the life, travel and accident insurance products are sold and the Company transfers control of the good to a customer.

Variable consideration

The Company applies judgement in estimating the related variable consideration, which is measured on a best estimate basis using the 'expected value' method, and which is recognised to the extent that a significant reversal will not occur (a constraint).

In making the estimate, the Company uses historical, current and forecast information that is reasonably available to it.

A higher constraint is applied when the results underlying these arrangements are highly susceptible to factors outside the Company's influence or when the Company's experience has limited predictive value.

Estimates of the variable consideration are assessed at the end of each reporting period to determine whether they need to be revised. The estimated commission is recognised as a contract asset and is reclassified to trade and other receivables when the underlying insurance premiums are determined.

The company has used the following assumptions:

- Lapse rates – use of a combination of historical and current data to forecast
- Commission rates – assumption that there is an increase based on inflation
- Discount rate used – risk free rate based on inflation plus risk margin

1.6 Receivables

Unclosed business premiums – earned (contributions in arrears) represent amounts owing by policyholders in relation to health insurance policies. Contributions in arrears are recognised when they become receivable. After 63 days the policy is cancelled.

Health insurance rebates receivable represents the amount claimed by the Company from the Government for members' entitlement to the Private Health Insurance Rebate.

Other receivables include prepaid expenses, commissions for life, travel and accident insurances, and other amounts due at the balance sheet date. These amounts are usually received within 90 days.

1.7 Income tax

The Company is a not-for-profit entity. Its Constitution prohibits it from paying dividends and returning capital to its members. Accordingly, the Company is exempt from income tax.

1.8 Goods and Services Tax

Revenue, expenses and assets are recognised net of the goods and services tax (GST), except where GST on a purchase is not recoverable from the Australian Taxation Office (ATO). In such a case, the GST is recognised as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are reported on a gross basis in the statement of cash flows. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.9 Provision for Risk Equalisation

Under the provisions of the *Private Health Insurance Act 2007*, all eligible registered health insurers must participate in the Risk Equalisation Trust Fund.

The amounts payable to and receivable from the Risk Equalisation Trust Fund are determined by Australian Prudential Regulation Authority (APRA) after the end of each quarter. Estimated provisions are recognised on an accruals basis.

Notes to the financial statements continued

1.10 Investments and other financial assets

The Company manages its investment portfolio to ensure adequate liquidity exists to match future health insurance liabilities, also having regard to operational cash flows. Investments comprise assets backing insurance liabilities.

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The classification of financial assets depends on the nature and purpose of the financial asset and is determined at the time of the initial recognition. Financial assets are classified into the following specified categories:

Financial assets at fair value through profit or loss (held for trading)

Financial assets are classified as financial assets at fair value through the statement of profit or loss where the financial asset:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) is part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) is a derivative that is not designated and effective as a hedging instrument.

Net gains or losses recognised in the statement of profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 17(f).

Held-to-maturity investments

This type of investment has fixed or determinable payments and fixed maturity dates (where the group has the positive intent and ability to hold to maturity). Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

This includes fixed income and equity trusts that are not traded in an active market; are stated at fair value; and are highly liquid. Gains and losses arising from changes in fair value are recognised through other comprehensive income.

Loans and receivables

Fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are measured at amortised cost using the effective interest method less impairment.

Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impaired.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of other tangible and intangible assets

The carrying amounts of tangible and intangible assets are reviewed for impairment at balance sheet date. If there is an indication of impairment, the recoverable amount is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount is estimated to be less than the carrying amount, the impaired asset is written down to the recoverable amount. An impairment loss is recognised in the statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, less what the amortised value would have been. A reversal of an impairment loss is recognised in the statement of profit or loss immediately.

1.11 Assets backing insurance liabilities

Financial assets held by the Company have been determined to be assets backing insurance liabilities and are designated as “at fair value through profit or loss”. Fair value is based on independent valuation for all assets for which a secondary market exists. Cash at bank and deposit products are valued at cost. All related realised and unrealised gains or losses are included in investment income. Interest earned or dividends received are included in interest and dividend income respectively.

1.12 Product classification

‘Insurance contract’ means a contract under which one party (the insurer) accepts significant risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once classified as such, it remains an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during this period.

1.13 Insurance contract liabilities

Health insurance outstanding claims liabilities

Health insurance outstanding claims liabilities are measured as the central estimate of the present value of expected future payments against claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central estimate.

Claims handling costs include internal and external costs incurred in the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Outstanding claims liabilities are generally fully settled within one year and are substantially settled within three months of the insurable event. Therefore, the effective discount rate is zero.

Due to the deferral of elective surgeries from the effects of the COVID-19 pandemic, potential claims that may have arisen have been included as a deferred claims liability. This provision is in-line with APRA recommendations and guidance from ASIC which recommended we review forecasts prior to the pandemic and forecasts after the pandemic to see what claims had potentially been deferred due to the impact of the pandemic.

Provision for unearned premium and unexpired risks

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the statement of profit or loss in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

The adequacy of the unearned premium liability in respect of each class of business is assessed by considering current estimates of all expected future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected cash flows relating to future claims, 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 entire deficiency is recognised in the statement of profit or loss and other comprehensive income and recorded in the statement of financial position as an unexpired risk liability.

Notes to the financial statements continued

1.14 Deferred acquisition costs

Direct acquisition costs in obtaining 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 future premium revenue. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The company has identified the amortisation period to be 4 years based on average tenure of membership.

1.15 Software-as-a-Service (SaaS) arrangements

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The new accounting policy is presented below.

Historical financial information has been restated to account for the impact of the change – refer Note 1.24. SaaS arrangements are service contracts providing the Group with the right to access the cloud provider’s application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider’s application software, are recognised as operating expenses when the services are received.

Some of these costs incurred can be for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs, if incurred, can be recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate. At this point the Group has no costs incurred like this.

1.16 New and revised accounting standards affecting amounts reported and/or disclosures

Change in accounting policy – Software-as-a-Service arrangements

The IFRS Interpretations Committee (IFRIC) has issued two agenda decisions related to accounting for Software-as-a-Service (SaaS) arrangements:

- In March 2019, the IFRIC considered the accounting for SaaS arrangements (the first agenda decision) and concluded that for many such arrangements the substance is that the entity has contracted to receive services rather than the acquisition (or lease) of software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider’s application software, rather than a license over the IP i.e. control over the software code itself.
- In April 2021, the IFRIC specifically considered how an entity should account for configuration and customisation costs incurred in implementing these (SaaS) service arrangements. The IFRIC concluded (the second agenda decision) that these costs should be expensed, unless the criteria for recognising a separate asset are met.

The Group has implemented this guidance retrospectively as a change in accounting policy. The change in accounting policy resulted in the Group reassessing the current development agreement for the development of the new core IT platform.

Consolidated statement of profit or loss

This change in accounting interpretation has affected the following items:

	2020	2 019
	\$'000	\$'000
Increase in IT and Computing expenses	(17,313)	(5,119)
Decrease in Surplus for the financial year	(17,313)	(5,119)

In addition to the above the Group has incurred \$12.335 million in expenses in 2021 due to the change.

Consolidated statement of financial position

The change in accounting interpretation has affected the following items:

	2020	2019
	\$'000	\$'000
Decrease in intangible assets	(22,432)	(5,119)
Decrease in Net assets for the financial year	(22,432)	(5,119)

In addition to the above the Group would have had a decrease of \$25.385 million in intangible assets in 2021 due to the change.

Consolidated statement of cash flows

The change in accounting interpretation has affected the following items:

	2020	2019
	\$'000	\$'000
Increase in payments to suppliers and employees	17,313	5,119
Increase in cash generated by operating activities	17,313	5,119
Decrease in payments for intangible assets	(17,313)	(5,119)
Decrease in cash used for investing activities	(17,313)	(5,119)

In addition to the above the Group would have had a change of \$9.539 million in cash flow for suppliers and intangible assets in 2021 due to the change.

Note 2 – Key judgements and estimates

The Company estimates certain assets and liabilities, the most material being the provision for outstanding claims liabilities.

The provision for outstanding claims (Note 11) is based on a central estimate of the present value of the expected future payments for claims incurred, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Also included this year was a deferred claims provision due to the COVID-19 pandemic which saw elective surgery put on hold for a month.

As approximately 95% of claims are settled within three months of the reporting date, the expected future payments do not differ materially from the present value of those payments. Therefore, a discount rate of zero has been applied.

The expected future payments include amounts in relation to: reported and unpaid claims; claims incurred but not reported; claims incurred but not reported in their entirety; risk equalisation payments; and costs which the Company expects to incur in settling the incurred claims.

The expected payments to the Risk Equalisation Trust Fund are separately recognised in the financial statements.

The key judgements and estimates are the:

- (i) Central estimate which is the mean of all the possible values of expected future payments.
- (ii) Risk margins which reflect the variability of the underlying insurance risk, the reliability and volume of data available and the robustness of the valuation models.

The risk margin adopted by the Company for outstanding claims, on the advice of the Appointed Actuary, is 8.0% (2020: 6.0%) and determined to give at least a 75% probability of adequacy. The increase in risk margin is due to no hindsight adjustment applied this year. On review of the hindsight valuation it was determined that the current June-21 provision was prudent and therefore more adequate.

The unexpired risk reserve in Note 12 was adopted on the advice of the Appointed Actuary and is determined with a risk margin of 3.3% (2020: 3.3%), and a 75% probability of adequacy.

Notes to the financial statements continued

(iii) Deferred claims provision for COVID-19 has been calculated by reviewing forecasts prior to the pandemic and forecasts after the pandemic to see what claims had potentially been deferred due to the impact of the pandemic. This provision is in-line with APRA recommendations and guidance from ASIC.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Note 3 – Insurance contracts; risk and risk management

An important part of the Company's overall risk management framework is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. These risks include insurance risks, financial risks and other risks such as capital and regulatory risk.

a) Insurance risk, underwriting risks and risk selection and pricing

The *Private Health Insurance Act 2007* prohibits the Company from discriminating against an existing or prospective contributor on the basis of health, age, or claims history.

This 'community rating' principle means the Company cannot charge risk related premiums. However, the individual risks are absorbed within the total portfolio which presents a relatively consistent and predictable total risk.

Concentration risk

Due to community rating, the Company is exposed to a possible concentration of insured people who have a higher than average likelihood of requiring frequent or high cost health care. The concentration risk is managed by regularly predicting future expected claiming patterns and where a significant change is identified, making appropriate changes to the terms or the premium or both for all insurance policies where the risk exists. Past predictions are regularly measured against actual experience to gauge their effectiveness. The concentration risk is mitigated through the "high cost claims pool" administered by APRA, whereby high cost claims are partially funded by all insurers.

Claims management and claims provisioning risks

Note 2 explains how the Company determines the outstanding claims provision. Adequacy of the provision is also informed by the following controls:

- Regular review of payment patterns to ensure the timeliness of claims notification and payment remains within the assumed 12-month period.
- External quarterly reviews by the Appointed Actuary of the financial conditions of the Company with a formal Financial Conditions Report delivered to the Board annually.
- Reviews of forecasts to ensure the factors considered remain appropriate and effective.
- A deferred claims provision for the COVID-19 pandemic which was approved by the Appointed Actuary in line with APRA and ASIC regulations

b) Financial risks arising from insurance contracts

The Company is exposed to the risk of medical services inflation being greater than expected in relation to setting the contribution rates and schedule of benefits. This risk is substantially reduced through contracts between the Company and the majority of hospitals and medical practitioners which establish set charges for hospital and medical services.

c) Capital and regulatory risks

Prudential regulations designed to protect contributors require the Company to maintain adequate capital reserves. Regulations include solvency and capital adequacy requirements and continue to evolve in response to economic, political, demographic and industry developments. The Company works closely with the regulator (APRA) and monitors any developments that could impact the prudential management of the Company.

d) Sensitivities

The interval between the provision of an insured service and the presentation of a claim is generally less than one year. More than 95% of all claims are settled within 90 days. Once lodged and assessed, claims are generally subject to little variation.

Therefore, processed health insurance claims are not sensitive to inflation, interest rates or other time-value of money factors. Accordingly, no sensitivity analysis has been presented.

Note 4 - Revenue

	2021	Restated 2020
	\$'000	\$'000
Continuing Operations		
Premium revenue pursuant to a contract of private health insurance	618,480	595,228
Investment revenue		
Interest revenue		
Bank deposits	102	263
Term deposits	1,773	3,876
Interest bearing securities	456	628
	2,331	4,767
Dividends		
Unlisted fixed income trusts	3,133	3,299
Unlisted equity trusts	4,732	5,297
Alternatives	360	0
	8,225	8,596
Realised gains/(losses) on disposal		
Unlisted fixed income trusts	(373)	(10)
Unlisted equity trusts	(710)	(3,499)
	(1,083)	(3,509)
Unrealised gains/(losses) of		
Unrealised gains/(losses) of Unlisted fixed income trusts		
	(565)	(748)
Unlisted equity trusts	18,968	(432)
Alternatives	3,542	0
	21,945	(1,180)
Total Investment Revenue	31,418	8,674
Other revenue		
Life insurance revenue	99	(37)
Travel insurance revenue	(100)	325
Accident insurance revenue	4	5
Other revenue	3	0
Other Revenue - Lease derecognition	5,083	0
	5,089	293
	654,987	604,195

Notes to the financial statements continued

Note 5 – Financial assets

	2021	2020
	\$'000	\$'000
Current		
Term deposits	238,312	188,710
Interest bearing securities ⁽ⁱ⁾	20,006	19,339
Units in fixed income trusts	84,735	99,804
Units in unlisted equity trusts	140,521	89,118
Alternatives	42,141	13,500
Total investments	525,715	410,471

Investments held to maturity and carried at carried at fair value through profit or loss

(i) The company has granted the lessor of the property a bank guarantee to support the lease obligations of \$1.6M (2020:\$0.7M)

Note 6 – Claims liabilities

	2021	2020
	\$'000	\$'000
Gross outstanding claims	62,241	50,648
Risk equalisation cost	2,068	1,752
Claims handling costs	444	398
Risk margin	2,480	1,532
Deferred Claims (COVID-19)	47,456	32,976
Gross outstanding claims liability	114,689	87,306
Changes in the gross outstanding claims liabilities can be analysed as follows:		
Opening balance	87,306	66,757
Benefits incurred during the year	508,780	473,784
Benefits utilised during the year	(493,633)	(482,799)
Unused provision from prior year	(3,553)	(2,410)
Risk equalisation cost	316	(584)
Claims handling costs	45	(37)
Risk margin	948	(381)
Deferred claims (COVID-19)	14,480	32,976
Closing balance	114,689	87,306

The risk margin of 8.0% (2020: 6.0%) has been estimated to equate to at least 75% probability of adequacy (2020: 75%) refer to Note 2.

Note 7 – Contingent liabilities and contingent assets

There are no material contingent liabilities and contingent assets at reporting date.

Note 8 – Subsequent events

Since 30 June 2021 Australia is facing new waves of COVID-19, with some locations in lockdown. This has resulted in elective surgery being partially deferred and some ancillary being under utilised. This has the potential to affect claims expenses and liabilities moving into the financial year 2022. Our intention is to provide members with a deferral of the 2022 premium rate rise. The length of the deferral will be reviewed closer to the time based on the most recent claims data and the outcome of the finalisation of the premium rate rise.

Directors' Declaration

The Directors of Defence Health Limited declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe the Group is able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- (c) in the Directors' opinion, the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Director's made pursuant to S.295(5) of the *Corporations Act 2001*.

On behalf of the Board of Directors.



Mr Robin Buick Orr Burns
Director

08 October 2021



Mr Alan Ian Beckett
Director

08 October 2021

Independent Auditor's Report

to the members of Defence Health Limited

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of Defence Health Limited

We have audited the accompanying concise financial report of Defence Health Limited ("the Entity") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and related notes, derived from the financial report of Defence Health Limited for the year ended 30 June 2021.

In our opinion, the accompanying concise financial report of Defence Health Limited for the year ended 30 June 2021 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

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

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

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the

auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

Directors' Responsibility for the Concise Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with AASB

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Independent Auditor's Report continued

Deloitte.

1039 Concise Financial Reports based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 8 October 2021

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Contact Us



Phone

1800 335 425

Monday to Friday
8:30am to 6:00pm AEDT/AEST



Web

defencehealth.com.au



Email

info@defencehealth.com.au



Post/Street Address

PO Box 7518
Melbourne, Victoria 3004

7/380 St Kilda Road
Melbourne, Victoria 3004