



**Defence Health Limited**  
(ABN 80 008 629 481 AFSL 313890)

**Financial Statements**  
**for the year ended 30 June 2021**

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**Registered Office and Principal Place of Business**

Level 7 380 St Kilda Road  
Melbourne VICTORIA 3004

## 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 Directors shown below are as at 30<sup>th</sup> 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), Bc, 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.

**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.

## **Auditor's independence declaration**

The auditor's independence declaration is included on page 6.

## **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

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

8 October 2021

Dear Board Members

**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 statements of Defence Health Limited for the financial 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 sincerely

DELOITTE TOUCHE TOHMATSU

Neil Brown  
Partner  
Chartered Accountants



## Consolidated income statement and other comprehensive income

for the financial year ended 30 June 2021

	Notes	2021 \$'000	2020 (Restated) \$'000
Premium revenue	4	618,480	595,228
Direct benefits expense	5	(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	5	(4,111)	(10,036)
<b>Underwriting result</b>		<b>60,032</b>	<b>47,347</b>
Employee expenses	5	(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	5	(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)
<b>Underwriting result after operating expenses</b>		<b>3,753</b>	<b>(9,186)</b>
Investment income	4	31,418	8,674
Other revenues	4	5,089	293
Other expenses	5	(5,065)	0
<b>Surplus/(deficit) for the year</b>		<b>35,195</b>	<b>(219)</b>
Other comprehensive income		0	0
<b>Total comprehensive income/(loss) for the year</b>		<b>35,195</b>	<b>(219)</b>

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
<b>Current assets</b>				
Cash and cash equivalents	6	24,694	63,451	21,167
Trade and other receivables	7(a)	16,563	16,544	18,940
Contract assets	7(b)	779	893	990
Financial assets	8	525,715	410,471	418,332
<b>Total current assets</b>		<b>567,751</b>	<b>491,359</b>	<b>459,429</b>
<b>Non-current assets</b>				
Contract assets	7(b)	2,606	3,385	4,278
Property, plant and equipment	9(a)	684	1,033	1,963
Intangible assets	9(b)	50	61	1,286
Deferred acquisition costs	9(c)	0	0	726
Right of use asset	9(d)	9,759	4,767	0
<b>Total non-current assets</b>		<b>13,099</b>	<b>9,246</b>	<b>8,253</b>
<b>Total assets</b>		<b>580,850</b>	<b>500,605</b>	<b>467,682</b>
<b>Current liabilities</b>				
Trade and other payables	10(a)	65,769	56,617	58,145
Lease Liability	13	1,080	231	0
Claims liabilities	11	114,689	87,306	66,757
Provisions	12(a)	15,820	11,402	2,133
<b>Total current liabilities</b>		<b>197,358</b>	<b>155,556</b>	<b>127,035</b>
<b>Non-current liabilities</b>				
Trade and other payables	10(b)	0	0	101
Lease Liability	13	7,321	5,041	0
Provisions	12(b)	3,161	2,193	2,512
<b>Total non-current liabilities</b>		<b>10,482</b>	<b>7,234</b>	<b>2,613</b>
<b>Total liabilities</b>		<b>207,840</b>	<b>162,790</b>	<b>129,648</b>
<b>Net assets</b>		<b>373,010</b>	<b>337,815</b>	<b>338,034</b>
<b>Equity</b>				
Contributed equity	14	43,346	43,346	43,346
Retained earnings	15	329,664	294,469	294,688
<b>Total equity</b>		<b>373,010</b>	<b>337,815</b>	<b>338,034</b>

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

## Consolidated statement of changes in equity for the financial year ended 30 June 2021

	Contributed Equity \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 July 2018</b>	<b>43,346</b>	<b>255,095</b>	<b>298,441</b>
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)
<b>Balance at 30 June 2019 (Restated)</b>	<b>43,346</b>	<b>294,688</b>	<b>338,034</b>
Total comprehensive income for the year	0	17,094	17,094
Change in accounting interpretation for core IT platform	0	(17,313)	(17,313)
<b>Balance at 30 June 2020 (Restated)</b>	<b>43,346</b>	<b>294,469</b>	<b>337,815</b>
Total comprehensive income for the year	0	35,195	35,195
<b>Balance at 30 June 2021</b>	<b>43,346</b>	<b>329,664</b>	<b>373,010</b>

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 \$'000	2020 (Restated) \$'000
<b>Cash flows from operating activities</b>			
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
<b>Net cash from operating activities</b>	<b>16</b>	<b>47,947</b>	<b>25,120</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash used in investing activities</b>		<b>(86,704)</b>	<b>17,164</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>(38,757)</b>	<b>42,284</b>
Cash and cash equivalents at the beginning of the financial year		63,451	21,167
<b>Cash and cash equivalents at the end of the financial year</b>	<b>6</b>	<b>24,694</b>	<b>63,451</b>

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

## **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.

## 1.5 Revenue recognition (cont'd)

- (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 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The gain or loss arising on the disposal of property, plant and equipment is determined as the difference between net proceeds and the carrying amount of the asset, at the time of disposal.

Depreciation and amortisation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on an annual basis for all assets. The expected useful lives are as follows:

Office equipment and fittings	5 years
Motor vehicles	5 years
Computer equipment	2 - 5 years

## 1.8 Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The expected useful lives are as follows:

Licenses	5 years
Trademark	10 years

## 1.9 Leases

Defence Health has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Defence Health recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost of the lease less any provision for make good on the property. This right-of-use asset is then depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the groups incremental borrowing rate.

Defence Health has elected to not recognise right-of-use assets and lease liabilities for short term leases of office space that have a lease term of 12 months or less. These are recognised as an expense as they are paid.

These leases held in previous years were recognised as operating leases and were recognised in profit and loss as they were incurred.

## 1.10 Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## 1.11 Maintenance and repairs

Maintenance, repair costs and minor renewals are recognised as expenses as incurred.

## 1.12 Employee benefits

### *Wages, salaries and bonuses*

A liability is recognised for employee benefits being wages and salaries, bonuses, annual leave and long service leave up to the balance sheet date.

### *Superannuation*

The Group makes contributions to superannuation funds for the benefit of employees at a rate of 9.50% of each employee's salary in accordance with statutory requirements. The rate of contributions to employee superannuation funds changes to 10% on 1 July 2021.

### *Annual leave and long service leave*

Provisions are made for employee annual and long service leave, based on the present value of estimated future payments and service records up to the balance sheet date. Expected future payments are discounted by rates attached to corporate bonds at the balance sheet date, which most closely match the terms to maturity of the related liabilities.

In determining the liability for employee benefits, consideration has been given to future increases in wage and salary rates, together with the Group's experience with staff departures. Related on-costs have also been included in the liability.

### 1.13 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, and deposits at call which are readily convertible to cash, subject to an insignificant risk of changes in value.

### 1.14 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.

### 1.15 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.

### 1.16 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.

### 1.17 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.



## **1.17 Investments and other financial assets (cont'd)**

### **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.

## **1.18 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.

## **1.19 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.

## **1.20 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.

## **1.21 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.

## **1.22 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.

### 1.23 Accounting standards issued but not yet effective

The Group has adopted all new and revised standards and interpretations effective during the year in the preparation of the financial statements. The adoption of these standards has not affected the amounts reported but has impacted the level of disclosure included in the notes to the financial statements.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- AASB 9 'Financial Instruments' Effective for annual reporting periods beginning on or after 1 January 2018  
On 2 July 2019 the AASB published ED 292 'Amendments to AASB 17 Insurance Contracts' that provided exemption from applying AASB 9 until 2023 for those companies whose activities are predominantly connected with insurance. The Company has taken advantage of this temporary exemption and will apply AASB 9 in the financial year ending 30 June 2024.
- AASB 17 'Insurance Contracts' Effective for annual reporting periods beginning on or after 1 January 2023.  
Expected to be initially applied in financial year ending 30 June 2024.

The changes required for AASB 9 Financial Instruments requires the group to value financial instruments at fair value, which is currently being done. This is expected to have a minimal impact on the group and will likely be limited to disclosure notes.

The AASB 17 introduces a new "general model" for the recognition and measurement of insurance contracts, but permits the use of a simplified approach (which is similar to the current basis on which insurance is brought to account under AASB 1023) The simplified PAA method is to be applied, as the contract boundary for policyholders, is less than a year in duration.

The group has completed a gap assessment and has determined that the simplified approach is expected to apply to the group's private health insurance business, based on the current product mix.

The areas of judgement applicable to measuring insurance contract liabilities under AASB 17 are expected to be broadly similar to those applicable when applying AASB 1023 and include the following, noting there are differences in the way they are to be measured:

**Risk adjustment:** The risk adjustment under AASB 17 is conceptually similar to the risk margin under AASB 1023. Similar to AASB 1023, AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities

**Onerous contracts:** AASB 17 requires the identification of 'groups' of onerous contracts which are expected to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under AASB 1023.

**Attribution of expenses:** The measurement of insurance contract liabilities under AASB 17 will include all cash flows that directly relate to the fulfilment of insurance contracts, including acquisition, claims settlement, policy administration and maintenance costs. It also includes other costs such as overheads which are currently recognised in 'Trade and other payables' on the balance sheet. Due to the short tail of claim payments, discounting cashflows is deemed to not be required.

On transition to AASB 17, the group expects to apply the new standard retrospectively to all insurance contracts.

The Group has assessed the impact of the adoption of AASB 9 and AASB 17, with the finalisation of AASB 17 to be finalised in due course by the Accounting Standards Board. The Group will continue to analyse the impacts of the standard as amendments are issued, at this stage there are no hinderances to the implementation of the standard by the 2023 timeframe set out by the Accounting Standards Board.

## 1.24 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:

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Increase in IT and Computing expenses	(17,313)	(5,119)
<b>Decrease in Surplus for the financial year</b>	<b>(17,313)</b>	<b>(5,119)</b>

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:

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

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.

## 1.24 New and revised accounting standards affecting amounts reported and/or disclosures (cont'd)

### Consolidated statement of cash flows

The change in accounting interpretation has affected the following items:

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

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.

## 1.25 Contract assets

Contract assets represent the Company's right to consideration in exchange for services rendered to customers or work completed but not invoiced at the reporting date or when that right is conditional on something other than the passage of time. The contract assets are transferred to receivables when invoicing occurs or when the rights are otherwise no longer conditional other than on the passage of time.

## 1.26 Costs of contract assets

The Company did not recognise assets relating to the cost of obtaining a contract or the cost incurred to fulfil a contract that are directly related to the contracts. This is provided that the performance obligations of the contract have already been satisfied.

## 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.

## Note 2 – Key judgements and estimates (cont'd)

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.

- (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

### Note 3 – Insurance contracts; risk and risk management (cont'd)

#### 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.

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

**Note 5 – Surplus for the year**

	2021	2020
	\$'000	\$'000
Surplus has been arrived at after charging the following expenses attributable to continuing operations:		
Direct benefits expense		
Benefits incurred this financial year	508,780	473,784
(Over)/under provision of prior year claims	(3,553)	(2,410)
COVID-19 provision (exc CHE and risk equalisation cost)	14,209	30,843
Risk margin	884	(351)
	<b>520,320</b>	<b>501,866</b>
Change in provision for unexpired risk reserve (Note 12)	4,111	10,036
Depreciation and amortisation of non-current assets	2,061	2,875
	<b>6,026</b>	<b>2,875</b>
Employee benefits	25,587	20,697
Post-employment benefits – Superannuation contributions	1,905	1,572
	<b>27,492</b>	<b>22,269</b>
Other Expenses - CDO Receivable Write Down	1,100	0
Other Expenses - Lease derecognition	3,965	0
<b>Other Expenses</b>	<b>5,065</b>	<b>0</b>

**Note 6 – Cash and cash equivalents**

	2021	2020
	\$'000	\$'000
Cash at bank and on hand	24,694	63,451
<b>Total cash and cash equivalents</b>	<b>24,694</b>	<b>63,451</b>

**Note 7(a) – Trade and other receivables**

	2021	Restated 2020
	\$'000	\$'000
<b>Current</b>		
Trade receivables	15,364	14,463
Unclosed business premiums - earned	623	496
Allowance for doubtful debts	(102)	(103)
Unclosed business premiums – unearned	678	588
Other receivables	0	1,100
<b>Total trade and other receivables - current</b>	<b>16,563</b>	<b>16,544</b>
<b>Allowance for doubtful debts summary:</b>		
Balance at beginning of the year	103	112
(Decrease)/ increase in allowance recognised in the statement of profit or loss	(1)	(9)
<b>Balance as at 30 June</b>	<b>102</b>	<b>103</b>



## Note 7(b) – Contract Assets

	2021 \$'000	2020 \$'000
<b>a) Current</b>		
Life Insurance Revenue	779	893
<b>Total Contract Assets – current</b>	<b>779</b>	<b>893</b>
<b>b) Non-current</b>		
Life Insurance Revenue	2,606	3,385
<b>Total Contract Assets – non-current</b>	<b>2,606</b>	<b>3,385</b>

## Note 8 – Financial assets

	2021 \$'000	2020 \$'000
<b>Current</b>		
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
<b>Total investments</b>	<b>525,715</b>	<b>410,471</b>

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 9(a) – Property, plant and equipment

	Leasehold improvements \$'000	Plant & equipment \$'000	Total \$'000
<b>Gross carrying amount</b>			
<b>Balance at 30 June 2019</b>	<b>185</b>	<b>1,778</b>	<b>1,963</b>
Additions	214	144	358
Disposals	0	(1)	(1)
Depreciation	(164)	(1,123)	(1,287)
<b>Balance at 30 June 2020</b>	<b>235</b>	<b>798</b>	<b>1,033</b>
Additions	36	64	100
Disposals	(160)	(8)	(168)
Depreciation	(111)	(489)	(600)
<b>Balance at 30 June 2021</b>	<b>0</b>	<b>684</b>	<b>684</b>

## Note 9(b) – Intangible assets

	Licenses \$'000	Trademarks \$'000	Total \$'000
<b>Carrying amount</b>			
<b>Balance at 30 June 2019</b>	<b>1,276</b>	<b>9</b>	<b>1,285</b>
Additions	0	0	0
Disposals	0	0	0
Amortisation	(1,222)	(2)	(1,224)
<b>Balance at 30 June 2020</b>	<b>54</b>	<b>7</b>	<b>61</b>
Additions	0	0	0
Disposals	0	0	0
Amortisation	(10)	(1)	(11)
<b>Balance at 30 June 2021</b>	<b>44</b>	<b>6</b>	<b>50</b>

## Note 9(c) – Deferred acquisition costs

Commission expenses have been derived from the use of a distribution channel. These acquisition costs have been deferred in accordance with the accounting policy described in Note 1.20.

	Deferred Acquisition Costs \$'000	Total \$'000
<b>Carrying Amount</b>	<b>726</b>	<b>726</b>
<b>Balance at 30 June 2019</b>		
Additions	0	0
Disposals	0	0
Amortisation	(726)	(726)
<b>Balance at 30 June 2020</b>	<b>0</b>	<b>0</b>
Additions	0	0
Disposals	0	0
Amortisation	(0)	(0)
<b>Balance at 30 June 2021</b>	<b>0</b>	<b>0</b>

This has been written down to zero in the prior year due to Members Own Health Funds (MOHF) brand and associated distributions channel wound up.

## Note 9 (d) Right of use asset (Restated)

	Property \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	<b>0</b>	<b>0</b>
Additions	5,131	5,131
Disposals	0	0
Depreciation	(364)	(364)
<b>Balance at 30 June 2020</b>	<b>4,767</b>	<b>4,767</b>
Additions	9,859	8,482
Disposals	(3,966)	(3,835)
Depreciation	(901)	(1,032)
<b>Balance at 30 June 2021</b>	<b>9,759</b>	<b>8,382</b>

## Note 10 – Trade and other payables

	2021 \$'000	2020 \$'000
<b>a) Current</b>		
Trade payables	6,072	2,467
Premiums in advance	52,568	48,453
Risk equalisation payable	7,129	5,697
<b>Total trade and other payables – current</b>	<b>65,769</b>	<b>56,617</b>
<b>Total trade and other payables</b>	<b>65,769</b>	<b>56,617</b>

## Note 11 – Claims liabilities

	2021 \$'000	2020 \$'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
<b>Gross outstanding claims liability</b>	<b>114,689</b>	<b>87,306</b>
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
<b>Closing balance</b>	<b>114,689</b>	<b>87,306</b>

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 12 - Provisions

	2021 \$'000	2020 \$'000
<b>a) Current</b>		
Employee benefits	986	769
Unearned premium liability	678	588
Unexpired risk reserve	14,156	10,045
<b>Total provisions – current</b>	<b>15,820</b>	<b>11,402</b>
<b>b) Non-current</b>		
Employee benefits	3,161	2,193
<b>Total provisions – non-current</b>	<b>3,161</b>	<b>2,193</b>

## Note 13 – Lease Liability

	2021 \$'000	2020 \$'000
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	1,151	335
One to five years	6,563	3,743
More than five years	1,317	1,594
<b>Total undiscounted lease liability 30 June</b>	<b>9,031</b>	<b>5,672</b>
<b>Lease Liabilities included in the Statement of Financial Position at 30 June</b>		
Current	1,080	231
Non-current	7,321	5,041
<b>Total lease liability</b>	<b>8,401</b>	<b>5,272</b>
<b>Amounts recognised in profit and loss</b>		
	2021 \$'000	2020 \$'000
Interest on lease liabilities	(111)	(44)
Expenses related to short term leases	0	(225)
Lease derecognition revenue	5,083	0
Lease derecognition expense	(3,965)	0
<b>Amounts recognised in the statement of cash flows</b>		
Total cash outflow for leases	(800)	(128)

## Note 14 – Contributed equity

	2021 \$'000	2020 \$'000
<b>Contributed equity</b>	<b>43,346</b>	<b>43,346</b>

The contributed equity represents the accumulated surplus of the former Defence Health Benefits Society (DHBS) prior to the corporate restructure implemented in June 2001. The restructure resulted in the incorporation of DHBS into the Company in order to comply with changes to the legislation and regulations governing the operations of registered health benefit organisations.

The Directors and the Chief of Army and the Chief of Air Force were Members of the Company during the whole of the financial year and up to the date of this report. In the event of the Company being wound up, each Member is liable to contribute to the payment of the Company's debts and liabilities, such amount as may be required, up to \$100. The Members are not entitled to receive dividends or a return of capital. Any proceeds on the winding up of the Company must be transferred to an Australian institution or institutions having objects similar to the objects of the Company.

## Note 15 – Reserves and retained earnings

	2021 \$'000	Restated 2020 \$'000
<b>Retained earnings</b>		
Opening balance at 1 July	294,469	299,807
Adjustment due to change in accounting policy for OHI system	0	(5,119)
Surplus for the year	35,195	(219)
<b>Retained earnings at 30 June</b>	<b>329,664</b>	<b>294,469</b>

## Note 16 – Notes to the statement of cash flows

	2021 \$'000	Restated 2020 \$'000
Reconciliation of surplus for the period to net cash flows from operating activities		
Net surplus for the year	35,195	(219)
Depreciation and amortisation expense	831	2,875
Realised/ Unrealised (gain)/loss on revaluation of fair value through the profit or loss financial assets	(20,861)	4,688
Investment income	(10,556)	(13,363)
Interest paid on lease incentive	111	44
Changes in operating assets and liabilities:		
(Increase) / Decrease in trade and other receivables	(497)	13,495
Decrease in contract assets	893	990
Increase / (Decrease) in current provisions	31,712	34,846
Increase / (Decrease) in trade and other payables	10,151	(18,868)
(Decrease) in operating lease incentive deferred	0	0
Increase / (Decrease) non-current provisions	968	(94)
Increase in deferred acquisition costs	0	726
<b>Net cash generated from operating activities</b>	<b>47,947</b>	<b>25,120</b>

## Note 17 – Financial instruments

The Company's financial instruments comprise cash, term deposits, fixed income securities, fixed income unit trusts, domestic, global equity trusts and alternatives. These financial instruments are governed by the Company's investment policy approved by the Board.

The Company does not enter into or trade financial instruments, including derivatives, for speculative purposes. The use of financial derivatives is governed by the Company's policies approved by the Board, which provide written principles on the use of financial derivatives.

The Company's financial risk management policies and practices seek to minimise potential adverse effects of volatile financial markets. The investment portfolio is managed within pre-determined asset allocation limits and specific credit quality and liquidity requirements. The policy has been adopted by the Board of Directors and oversight of the policy is delegated to the Investment Committee.

### (a) Categories of financial instruments

	2021 \$'000	2020 \$'000
<b>Financial assets</b>		
Cash assets	24,694	63,451
Term deposits	238,312	188,710
Interest bearing securities	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

## Note 17 – Financial instruments (cont'd)

### (b) Capital risk management

The Directors manage capital to ensure the Company is a going concern while maximising returns within acceptable risk tolerances. The Solvency Standard requires that capital equals or exceeds the solvency reserve, demonstrating the ability to meet all liabilities if there was an orderly termination of the company.

The Capital Adequacy Standard ensures that capital equals or exceeds the capital adequacy reserve, which is an assessment of the financial strength of the Company, assuming ongoing operations and solvency for at least the next three years after valuation date.

The Company is required to comply with these standards and results are reported to the Australian Prudential Regulation Authority (APRA).

### (c) Market risk

Market risk relates to changes in interest rate, foreign currency and market price risks. The Company's investment policy governs the extent to which the portfolio may be comprised of these instruments.

#### (i) Interest rate risk

Interest rate risk arises from interest rate changes that could impact the future value of cash flows or principal of a financial instrument. At reporting date, if interest rates changed by 50 basis points and all other variables were held constant for variable and fixed interest rate investments, the Company's surplus would change by \$1.56 million (2020: \$0.37 million).

The following table details the Company's exposure to interest rate risks at the reporting date:

2021	Weighted average effective rate	Variable interest rate	Fixed interest maturity dates Less than 1 year	Non-interest bearing	Total
	%	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash assets	0.90	24,694	-	-	24,694
Trade and other receivables	-	-	-	16,563	16,563
Term deposits	0.42	-	238,312	-	238,312
Interest bearing securities	2.23	20,006	-	-	20,006
Units in fixed income trusts	1.97	84,735	-	-	84,735
Units in unlisted equity trusts	-	-	-	140,521	140,521
Alternatives	-	-	-	42,141	42,141
		<b>129,435</b>	<b>238,312</b>	<b>199,225</b>	<b>566,972</b>
<b>Financial liabilities</b>					
Trade payables	-	-	-	6,072	6,072
Premiums in advance/unearned	-	-	-	53,246	53,246
Risk equalisation payable	-	-	-	7,129	7,129
		-	-	<b>66,447</b>	<b>66,447</b>

## Note 17 – Financial instruments (cont'd)

2020	Weighted average effective rate	Variable interest rate	Fixed interest maturity dates Less than 1 year	Non interest bearing	Total
	%	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash assets	1.20	63,451	-	-	63,451
Trade and other receivables	-	-	-	16,544	16,544
Term deposits	1.22	-	188,710	-	188,710
Interest bearing securities	2.42	19,339	-	-	19,339
Units in fixed income trusts	3.44	99,804	-	-	99,804
Units in unlisted equity trusts	-	-	-	89,118	89,118
Alternatives	-	-	-	13,500	13,500
		<b>182,594</b>	<b>188,710</b>	<b>119,162</b>	<b>490,466</b>
<b>Financial liabilities</b>					
Trade payables	-	-	-	2,467	2,467
Premiums in advance/unearned	-	-	-	49,041	49,041
Risk equalisation payable	-	-	-	5,697	5,697
		-	-	<b>57,205</b>	<b>57,205</b>

### (ii) Foreign currency risk

Foreign currency risk arises from a change to the fair value of a financial instrument due to changes in foreign exchange rates.

The Company manages foreign currency exposure through investments in hedged and unhedged overseas managed funds in accordance with the Company's investment policy.

At reporting date, the Company's exposure to foreign currency risk was \$13.2 million in unhedged overseas managed funds (2020: \$11.1 million).

The Company's sensitivity to an average increase or decrease of 10% in foreign currencies with all other variables held constant, the surplus would change by \$1.3 million (2020 \$1.1 million).

### (iii) Market price risk

Market price risk relates to changes in unit price values of unlisted investments. These risks include interest rate risk, equity price risk, and currency risk. The Company has investments in various managed funds which expose it to price risk.

Price risk is mitigated by the Company's investment policy by constructing a diversified portfolio of instruments traded on various markets.

As at reporting date, if unit prices change by 10% the Company's surplus would change by \$22.5 million (2020: \$18.9 million).

There are no changes from the prior year to the methods and assumptions used.

### (d) Credit risk management

Credit risk relates to the potential default of a counterparty to a financial transaction, with a maximum exposure equal to the carrying amount of the transaction.

There are no significant concentrations of credit risk within the Company's investment portfolio. Financial instruments are allocated to several financial institutions and fund managers in accordance with the Company's investment policy to minimise the risk of default.

The Company continuously monitors the counterparty credit ratings and ensures it maintains adequate capital reserves (note 3).

## Note 17 – Finance instruments (cont'd)

The following table provides information regarding the credit risk exposure of the Company as at report date by published Standard & Poor's credit ratings of the counterparties.

2021 Rating	AAA	AA	A	BBB	Below BBB or Not Rated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash assets	-	24,694	-	-	-	24,694
Trade and other receivables	11,876	-	-	-	4,687	16,563
Term deposits	-	165,312	63,000	10,000	-	238,312
Interest bearing securities	-	-	-	20,006	-	20,006
Units in fixed income trusts	28,064	11,648	15,065	28,207	1,751	84,735
Units in unlisted equity trusts <sup>^</sup>	-	-	-	-	140,521	140,521
Alternatives	-	-	-	-	42,141	42,141
	<b>39,940</b>	<b>201,654</b>	<b>78,065</b>	<b>58,213</b>	<b>189,100</b>	<b>566,972</b>
<b>2020</b>						
Rating	AAA	AA	A	BBB	Below BBB or Not Rated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash assets	-	63,451	-	-	-	63,421
Trade and other receivables	10,987	-	-	-	5,557	16,544
Term deposits	-	101,210	87,500	-	-	188,710
Interest bearing securities	-	-	19,339	-	-	19,339
Units in fixed income trusts	36,732	12,693	20,429	26,201	3,749	99,804
Units in unlisted equity trusts <sup>^</sup>	-	-	-	-	89,118	89,118
Alternatives	-	-	-	-	13,500	13,500
	<b>47,719</b>	<b>177,354</b>	<b>125,768</b>	<b>26,201</b>	<b>111,924</b>	<b>490,466</b>

<sup>^</sup> Fund managers are required to hold a minimum Morningstar rating of "Neutral" or Mercer rating of "B"

### (e) Liquidity risk management

Liquidity risk is the risk that payment obligations may not be met when they fall due; or insurance liability falling due for payment earlier than expected; or the inability to generate cash flows as anticipated.

The Company manages liquidity risk by maintaining adequate reserves of liquid financial assets and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the company's liquidity based on maturity date, including financial assets held for trading (Note 17 (a)).



## Note 17 – Finance instruments (cont'd)

2021	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	Total
<b>Financial assets</b>						
Cash assets	24,694	-	-	-	-	24,694
Trade and other receivables	16,099	213	251	-	-	16,563
Term deposits	17,600	54,517	166,195	-	-	238,312
Interest bearing securities	-	20,006	-	-	-	20,006
Units in fixed income trusts	84,735	-	-	-	-	84,735
Units in unlisted equity trusts	140,521	-	-	-	-	140,521
Alternatives	42,141	-	-	-	-	42,141
	<b>325,790</b>	<b>74,736</b>	<b>166,446</b>	-	-	<b>566,972</b>
<b>Financial liabilities</b>						
Trade payables	6,072	-	-	-	-	6,072
Risk equalisation payable	-	7,129	-	-	-	7,129
	<b>6,072</b>	<b>7,129</b>	-	-	-	<b>13,201</b>

2020	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	Total
<b>Financial assets</b>						
Cash assets	63,451	-	-	-	-	63,451
Trade and other receivables	15,671	362	511	-	-	16,544
Term deposits	24,500	29,225	134,985	-	-	188,710
Interest bearing securities	-	19,339	-	-	-	19,339
Units in fixed income trusts	99,804	-	-	-	-	99,804
Units in unlisted equity trusts	89,118	-	-	-	-	89,118
Alternatives	13,500	-	-	-	-	13,500
	<b>306,044</b>	<b>48,926</b>	<b>135,496</b>	-	-	<b>490,466</b>
<b>Financial liabilities</b>						
Trade payables	2,467	-	-	-	-	2,467
Risk equalisation payable	-	5,697	-	-	-	5,697
	<b>2,467</b>	<b>5,697</b>	-	-	-	<b>8,164</b>

### (f) Fair value of financial instruments

The Directors consider the carrying amount of financial assets recorded in the financial statements approximates their fair values. The fair values of financial assets are determined as follows:

- the fair value of financial assets traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## Note 17 – Finance instruments (cont'd)

Transaction costs are not included in the determination of net fair value. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Term deposits	238,312	-	-	238,312
Interest bearing securities	-	20,006	-	20,006
Units in fixed income trusts (i)	-	84,735	-	84,735
Units in unlisted equity trusts (i)	-	140,521	-	140,521
Alternatives (i)	-	42,141	-	42,141
<b>Total</b>	<b>238,312</b>	<b>287,403</b>	<b>-</b>	<b>525,715</b>

2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Term deposits	188,710	-	-	188,710
Interest bearing securities	-	19,339	-	19,339
Units in fixed income trusts (i)	-	99,804	-	99,804
Units in unlisted equity trusts (i)	-	89,118	-	89,118
Alternatives (i)	-	13,500	-	13,500
<b>Total</b>	<b>188,710</b>	<b>221,761</b>	<b>-</b>	<b>410,471</b>

(i) Valuation determined by the unit redemption prices of unlisted managed funds.

## Note 18 – Auditors remuneration

	2021 \$	2020 \$
Remuneration for audit of the financial reports and regulatory reporting	131,360	113,955
Remuneration for work related to Project Delta	380,000	0
Remuneration for work in relation to Telephony Project	178,530	0
	<b>689,890</b>	<b>113,955</b>

The auditor is Deloitte Touche Tohmatsu, who was also the auditor in the prior year. The additional remuneration was subjected to review by both the Group and Deloitte before being incurred, to ensure that it did not affect the independence of the auditors opinion on the financial statements.

## Note 19 – Commitments for expenditure

2021	Within one year	Later than one year but not later than five years	Later than five years	Total
	\$'000	\$'000	\$'000	\$'000
Expenditure core IT platform	5,002	-	-	5,002
Total	5,002	-	-	5,002

2020	Within one year	Later than one year but not later than five years	Later than five years	Total
	\$'000	\$'000	\$'000	\$'000
Expenditure core IT platform	11,440	-	-	11,440
Total	11,440	-	-	11,440

These commitments relate to the expenditure for the new IT platform, which is expected to be implemented within one year.

## Note 20 – Related party transactions

Details of transactions between the Group and other parties are disclosed below, which indicates payment made for the financial year.

	2021 \$'000	2020 \$'000
Australian Health Services Alliance (i)	689	633
Defence Health Foundation (ii)	79	113
Members Own Health Funds (iii)	0	155
Private Healthcare Australia (iv)	145	120
	<b>913</b>	<b>1,021</b>

(i) Australian Health Service Alliance Limited is a company limited by guarantee which negotiates the terms by which hospital services and hospital related medical and paramedical services are provided to its members. Major General G P Fogarty AO (Ret'd), Chief Executive Officer of Defence Health is a Director of Australian Health Service Alliance Limited.

(ii) Defence Health Foundation is a trust whose principal activity is to fund medical research for the benefit of the Defence Community. Ms Julie Anne Blackburn was Chair of the Defence Health Foundation until November 2019. Colonel Anthony Hambleton AM GAICD is a Director of Defence Health and became Chair of the Defence Health Foundation in November 2019. Major General G P Fogarty AO (Ret'd) Chief Executive Officer of Defence Health is a Director of Defence Health Foundation.

(iii) Members Own Health Funds is a company limited by guarantee, funded by means of fees payable by its members in return for the provision of services by the company and provides marketing, advertising and promotion services in relation to the Trademarks. Members Own Health Fund comparison service makes it easy to compare between hundreds of health insurance options from most of the Members Own funds. Major General G P Fogarty AO (Ret'd), Chief Executive Officer of Defence Health was Chair of Members Own Health Funds until it was wound up in October 2019.

(iv) Private Healthcare Australia Ltd provides private health insurance industry representation for members. Major General G P Fogarty AO (Ret'd), Chief Executive Officer of Defence Health is a Director of Private Healthcare Australia Ltd.

## Note 20 – Related party transactions (cont'd)

During the year the Company received health insurance contributions from and paid health insurance benefits to some Directors of the Company and their relatives on normal commercial terms and conditions.

## Note 21 – Remuneration of key management personnel

	2021 \$'000	2020 \$'000
Short-term employee benefits	3,552	3,533
Post-employment benefits	276	249
Termination benefits	163	198
	<b>3,991</b>	<b>3,980</b>

Remuneration is reviewed and determined with due regard to current market rates and is benchmarked against comparable industry remunerations.

The specified Directors for 2021:

Mr A I Beckett  
Mr R Burns  
COL A Hambleton AM  
Ms C Ireland  
Ms A M Williams  
Ms S Stothart  
Ms Rebecca Davies  
Ms Shelly Park (Appointed November 2020)  
Ms A Beck (Associate Director)  
Mr G Richardson (retired November 20)

The specified executives for 2021:

Major General G P Fogarty AO (Ret'd) – Chief Executive Officer  
Ms J M Kadlecik – Chief Operating Officer  
Mr M Walsh – Chief Financial Officer (from 19 April 2021)  
Ms T Haines – Chief Risk Officer  
Mr A N Guerin – Chief Legal Officer  
Ms Candice Liew – Chief Marketing Officer  
Ms K A Dickson – Chief People Officer  
Mr Bryan Dunne – Transformation Director  
Ms C Smyth – Chief Strategy Officer (from 31 May 2021)  
Mr B C Leung – Chief Financial Officer (until 5 February 2021)

## Note 22 – Contingent liabilities and contingent assets

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

## Note 23 – 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*.

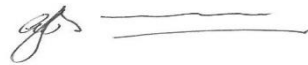
On behalf of the Board of Directors.



.....

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

### *Opinion*

We have audited the financial report of Defence Health Limited (the "Entity") and its subsidiary (the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

DELOITTE TOUCHE TOHMATSU

Neil Brown

Partner

Chartered Accountants

Melbourne, 08 October 2021