

ANNUAL REPORT 2020



PURPOSE

To protect the health of those who protect our country.



Financial snapshot

| \$'000 | 2020 | 2019 | Change | Change % |
|-----------------------------|----------|----------|----------|----------|
| Premium revenue | 595,228 | 571,697 | 23,531 | 4.1% |
| Gross margin | 47,347 | 53,758 | (6,411) | -11.9% |
| Management expense | (39,220) | (36,186) | 3,034 | 8.4% |
| Management expense ratio | 6.6% | 6.3% | | 0.2% |
| Net margin | 8,127 | 17,572 | (9,445) | -53.8% |
| Investment and other income | 8,967 | 20,882 | (11,915) | -57.0% |
| Operating surplus | 17,094 | 38,454 | (21,360) | -55.5% |
| Total assets | 523,037 | 472,801 | 50,236 | 10.6% |
| Total liabilities | 162,790 | 129,648 | 33,142 | 25.6% |
| Total capital reserves | 360,247 | 343,153 | 17,094 | 5.0% |
| Number of policies | 143,072 | 141,700 | 1,372 | 1% |
| Market share | 2.13% | 2.12% | | |



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VISION

To be your preferred and trusted health partner.

PERFORMANCE HIGHLIGHTS 2020

For Defence Health, family is everything. That's why we've been here – since 1953 – supporting the families of those who defend our country. In 2019–20 we've demonstrated our strong and genuine commitment to our community.



300,735 people covered



263,782 members held hospital cover
(36,953 held extras-only cover)



384 hips replaced



724 knees replaced



243,805 hospital days covered

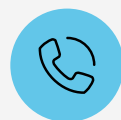


1871 babies born

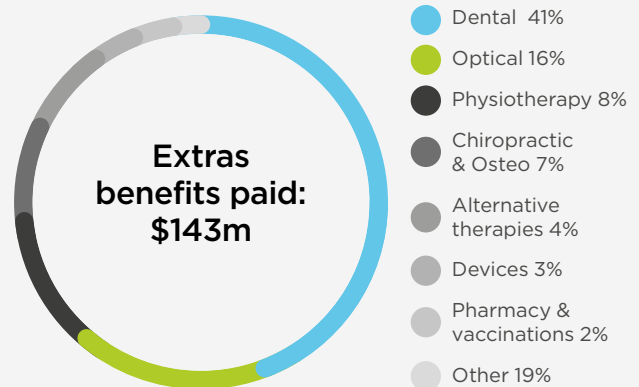
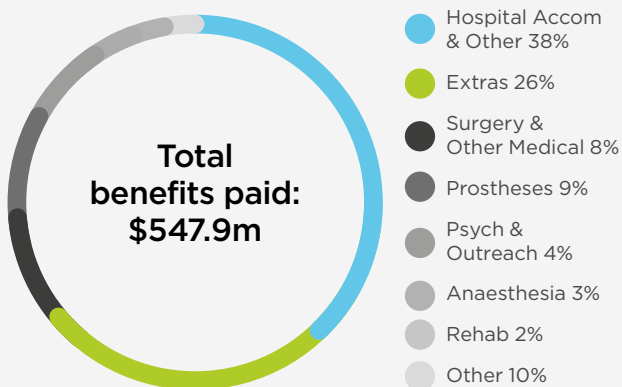


84.9% members satisfied with their membership

May 2020

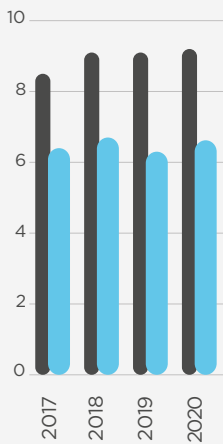


266,401 calls with members



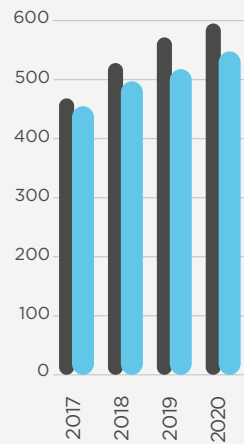
Management expense ratio (%)

- Defence Health MER
- Industry MER



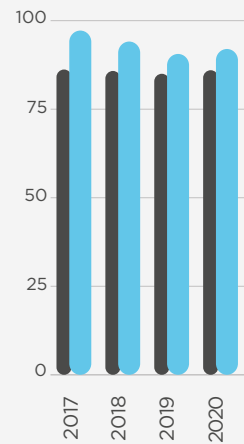
Benefits and premiums (\$'m)

- Benefits paid
- Premium revenue



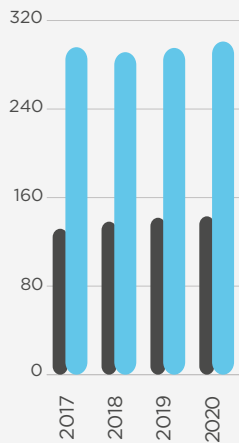
Benefits paid as % of premium (%)

- Defence Health % of premium
- Industry



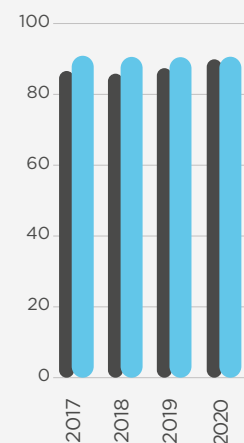
Memberships and people covered ('000)

- People covered
- Memberships



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 financial sustainability of the fund.

The financial accounts for 2019–20 reflect the extremely difficult environment the health sector is facing. Costs continue to rise at a rate higher than inflation. At the same time the 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 was also impacted by the uncertainty created by the coronavirus pandemic and the additional costs in providing relief for all members.

The range of relief measures introduced in March 2020 as part of the COVID-19 Member Support Program totalled approximately \$13 million by balance date.

At 30 June 2020, we had 300,735 members covered by 143,072 policies. The outstanding customer service for which Defence Health is renowned, as well as the generous level of benefits paid to members, sees the fund continue to grow its membership base.

The annual premium adjustment which was due on 1 April 2020 was suspended in March after the outbreak of COVID-19. Premium revenue increased by 4.1% to \$595.2 million.

The significant technology platform we are building with Oracle Health Insurance will transform how we interact with our members. It will be vital to our future stability, capability and ongoing growth. It is the largest technology project the organisation has ever committed to and is consuming extensive internal and external resources. The project is anticipated to be operational in 2021–22.

As a not-for-profit company, the Directors have a keen interest in maximising the value we can deliver to every one of our members. We are not beholden to shareholders or the demands of foreign owners. The value proposition for members is always top-of-mind.

The fund paid \$547.9 million in benefits during the year, representing an increase of 5.8% on the previous year. For every \$1.00 of premiums, \$0.92 was provided for benefits.

Management expenses grew by \$3.0 million to \$39.2 million. Stringent management of expenses is typical of the fund's member-centric culture. The management expense ratio is just 6.6% of premium revenue, compared with the industry average of 9.2%. The fund achieved a surplus of \$17.1 million in 2019–20.



I would like to highlight and acknowledge the commitment and adaptability of the Defence Health team during a year of significant upheaval. The level of service and care shown for members during the pandemic has been unwavering.

The response to the pandemic by the CEO, Gerard Fogarty, and his Executive Team was swift and sure-footed. The safety of staff and continuity of service delivery for members was paramount. Relief measures came quickly, as did the relocation of most staff to work remotely in their homes.

It has been an eventful first year as Chairman of the Board of Directors. I would like to acknowledge and thank Greg Garde for his committed service to the Board. Greg retired in November 2019 after eight years as Chairman and more than 15 years on the Board.

I would also like to acknowledge the eight years' service from director, Julie Blackburn, who also retired in November 2019.

Despite the turbulence in the economy and the demands within the health sector, members should have confidence in the prudent, ethical and responsible management of their health fund. We have a skilled and experienced Board of Directors with unique insight to the needs of our members. I thank them for their wise stewardship and rigorous scrutiny for the benefit of all members.

A handwritten signature in black ink, appearing to read 'Alan Beckett', followed by a horizontal line.

ALAN BECKETT

Chairman

CORE VALUES



TRUST



EXCELLENCE



OWNERSHIP



RESPECT



COMMUNITY

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.

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.

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

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.

CEO STATEMENT

Providing high quality, affordable health insurance continues to drive our actions at Defence Health.



IT HAS BEEN A VERY CHALLENGING YEAR. BUT WE'VE REMAINED FOCUSED ON DELIVERING THE BEST VALUE HEALTH INSURANCE FOR MEMBERS AND REACHING THEM WITH TARGETED SUPPORT.

But the actions of some in the health sector are primarily motivated by profit. It is their behaviour that adds unnecessary costs and waste to the sector. And that, coupled with a slowing economy in recent years makes affordability a significant challenge.

We need young people in the mix of the privately insured. They have a stabilising effect on premiums, but many are buckling under the pressure of flat wage growth. The industry has seen a decline of 0.27% in privately insured hospital members in the 12 months to June 2020 – with much of the decline being young people.

We continue to lobby the federal government to maintain its reform agenda and help us eliminate unnecessary costs from the system. Only the government can address the behaviour of medical device manufacturers who significantly inflate and distort the cost of health care in Australia. For example, a common stent used in heart surgery costs five times more in Australia than New Zealand.

We want the government to cut the red-tape that prevents us from delivering timely and valuable health services in out-of-hospital settings. And we want the government to restore the full rebate and provide meaningful incentives to attract young people back to private health cover.

The net margin of all funds fell by 42% to 2.8% for this financial year. No industry sector is immune to the dramatic impact of COVID-19. We must be prudent in the financial decisions we make and call out waste where we see it.

Even before the coronavirus arrived in Australia in February, we understood many members were doing it tough. Even the lowest industry premium increase in 19 years would be difficult for many. It was clear the outbreak of the pandemic and lockdown of many elements of the economy required a rapid response from us to protect our members.

We immediately suspended the planned premium increase for April and launched the COVID-19 Member Support Program. This program delivered significant financial relief for members. Some of the measures will phase out later in 2020, while others will continue to the first and second quarters of 2021.

ABOUT US

It has been a very challenging year. But we've remained focused on delivering the best value health insurance for members and reaching them with targeted support.

The other major focus for us has been the work on replacing our core operating platform. This is a multi-year effort that from 2021 will deliver efficiencies and provide us with greater agility to deliver an ever-increasing range of products and services.

Our capable, creative and resilient people have not missed a beat this year - despite the majority having to adapt to working from home since March. Our Pandemic Response Team has kept everyone safe; technologically resourced to perform at their best; and whole-heartedly engaged in our mission to support Defence families and the Defence community.

We've delivered new hospital products to market; we were named Employer of Choice for the second year running; and awarded Private Health Insurer of the Year (restricted and not-for-profit) in the 2019 Roy Morgan Customer Satisfaction Awards.

Our long-serving Chairman of the Board of Directors, Major General Greg Garde, retired from the Board in November 2019. He led the company with energy and commitment and provided wonderful counsel to me as CEO. He is fondly remembered and I am grateful for his support and guidance. We are fortunate to have another very experienced director, Alan Beckett, replace him as Chair.

MAJOR GENERAL GERARD FOGARTY, AO (RET'D)

Chief Executive Officer

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.

That was in the days before Medicare and health care was harshly means tested. The majority of people who needed hospital care had to personally pay for all their hospital and medical charges.

The *National Health Act 1953* paved the way for private health insurers to enter the sector. Private hospitals were built and 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.

Even today, with around 44% of the population holding private hospital cover, the time a patient spends waiting for elective surgery is 4.5 times longer in a public hospital than a private hospital (109 days compared with 24).¹

The government recognises the importance of the private health sector. It encourages people to take out private hospital insurance through a number of incentives.

- Lifetime Health Cover encourages people to take out private health insurance before turning 31 - and makes 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. Plus a higher rate of rebate is payable when someone turns 65 and again at age 70.
- The recently introduced Youth Discount is available to people under 30 who take out eligible hospital cover. The discount can be retained until age 41 and is then gradually phased out.

Not-for-profit makes a difference

As a not-for-profit fund we have the freedom to concentrate our efforts and resources for the benefit of members rather than shareholders or foreign owners. It puts our members at the centre of our decision-making and keeps us focused on their health and wellbeing. Being not-for-profit means any surplus remains in the fund for the benefit of all members. So there will always be more for members at Defence Health.

¹ IPSOS: Healthcare & Insurance Australia 2019.

2019–20

STRATEGIC ACHIEVEMENTS

Our goals are clear and we're proud of our achievements this year.

1

HEALTH INSURER OF CHOICE FOR THE DEFENCE COMMUNITY

- The launch of two new hospital products (Core Silver and Advantage Silver Plus) giving members a greater choice of cover to suit their needs and life stage.
- In a highly competitive market, Defence Health membership continued to grow at a rate stronger than the industry average. Our members are among the most satisfied, and are more likely to remain with us than people at other funds.



2

GREAT VALUE AND EXCELLENT SERVICE

- The two new hospital products we launched represent great value within the Silver tier - and both offer the Youth Discount for people under 30 years of age.
- Every day we aim to exceed members' expectations with outstanding service and high performance. We are very pleased to be named Private Health Insurer of the Year (restricted or not-for-profit category) in the 2019 Roy Morgan Customer Satisfaction Awards. Defence Health was the stand-out insurer, winning 11 out of the 12 months of the survey.



3 SUPPORTING HEALTH AND WELLBEING

- We introduced new 'telehealth' benefits for members with extras cover - to ensure members received vital ongoing treatment during the COVID-19 pandemic.
- We extended the cover available for all members with a hospital policy who may require COVID-19 related treatment, regardless of their level of cover. This measure will continue until 1 July 2021.
- Delivered evidence-based health programs that support the health of members with chronic conditions.



4 CONTINUOUS IMPROVEMENT

- We know that supporting our staff for career and personal success motivates and satisfies them at work. For the second year running, Defence Health was named an Employer of Choice in the 2019 Australian Business Awards.
- Staff are highly engaged in the service they provide to members and committed to performing at their best. More than 90% of staff participated in the annual staff survey, with an overall engagement score of 83% - up 10% on the previous year.



5 PRUDENT MANAGEMENT OF MEMBERS' FUNDS

- This year has seen heightened attention to managing risk, especially in relation to cybersecurity, and ensuring the integrity of claims assessments and payments.
- Although one of the lowest premium adjustments in a decade, the planned increase for April 2020 was temporarily suspended due to the outbreak of the COVID-19 pandemic.
- The COVID-19 Member Support Program was rolled out in March with targeted and responsible relief measures for members during the pandemic.



HOSPITAL COVER

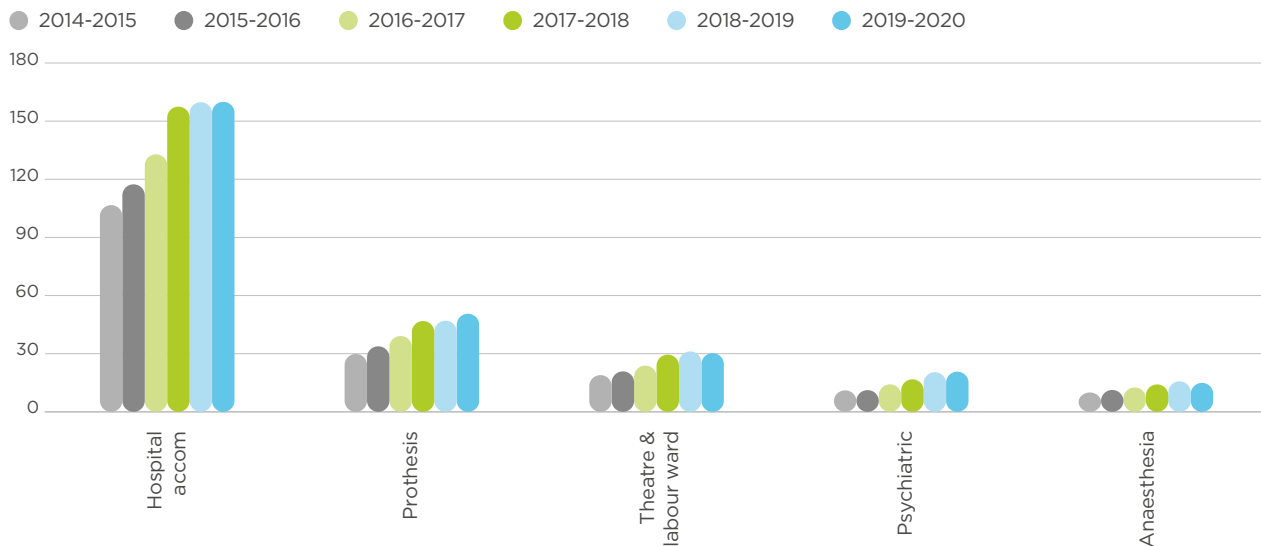
Private hospital cover gives members peace of mind knowing they will get the treatment they need, when they need it. They do not need to join the public hospital elective surgery waiting list – where they could wait up to a year just to see a specialist.

Whether it's for day surgery or longer-stay inpatient treatment, private hospital insurance pays for the hospital accommodation and theatre fees, as well as meals, medication and nursing care while in hospital.

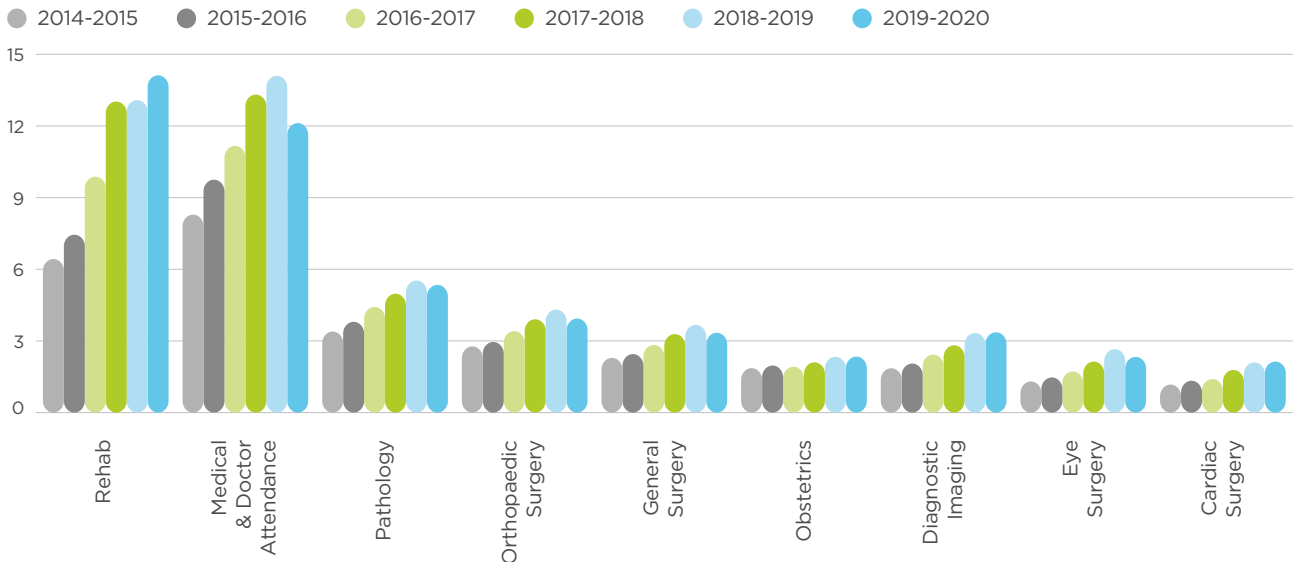
Hospital cover also contributes to the fees charged by the medical specialists for their in-hospital treatment.

- In 2019-20, Defence Health fully covered 90.6% of all hospital related medical services for our members, compared with the industry average of 89.9%.
- In the same year, we funded 243,805 days of hospital treatment to the total of \$370 million, up 4.8% on prior year.

Growth in hospital and medical benefits paid (\$'m)



Growth in hospital and medical benefits paid (\$'m)



EXTRAS COVER

Extras cover provides benefits towards a broad range of general health care services that are provided outside of hospital. Unless someone has an extended care plan in place, Medicare does not make a contribution towards these important services. Dental treatment, optical care, physiotherapy, speech and occupational therapy and podiatry, for example, are commonly included in extras cover.

In response to COVID-19, benefits for telehealth consultations were introduced in March this year. This enabled thousands of members to maintain important health care during the different stages of pandemic-related restrictions.

Defence Health also includes comprehensive ambulance cover in its extras policies. So all members, whether covered by a hospital, extras, or combined policy, are covered Australia-wide for state-appointed ambulance transport in the air, on the sea or across the land.

OTHER INSURANCE

Life insurance

Defence Health Term Life, accident and other insurances are no longer available. We continue to support existing policy holders of these products, but do not accept applications for new policies.

In 2019–20, claims paid by Asteron for Defence Health life, terminal illness and trauma insurance policies totalled \$3.62 million. The average age of claimants was 58.8 years. There were no claims against ClearView Life Solutions products.

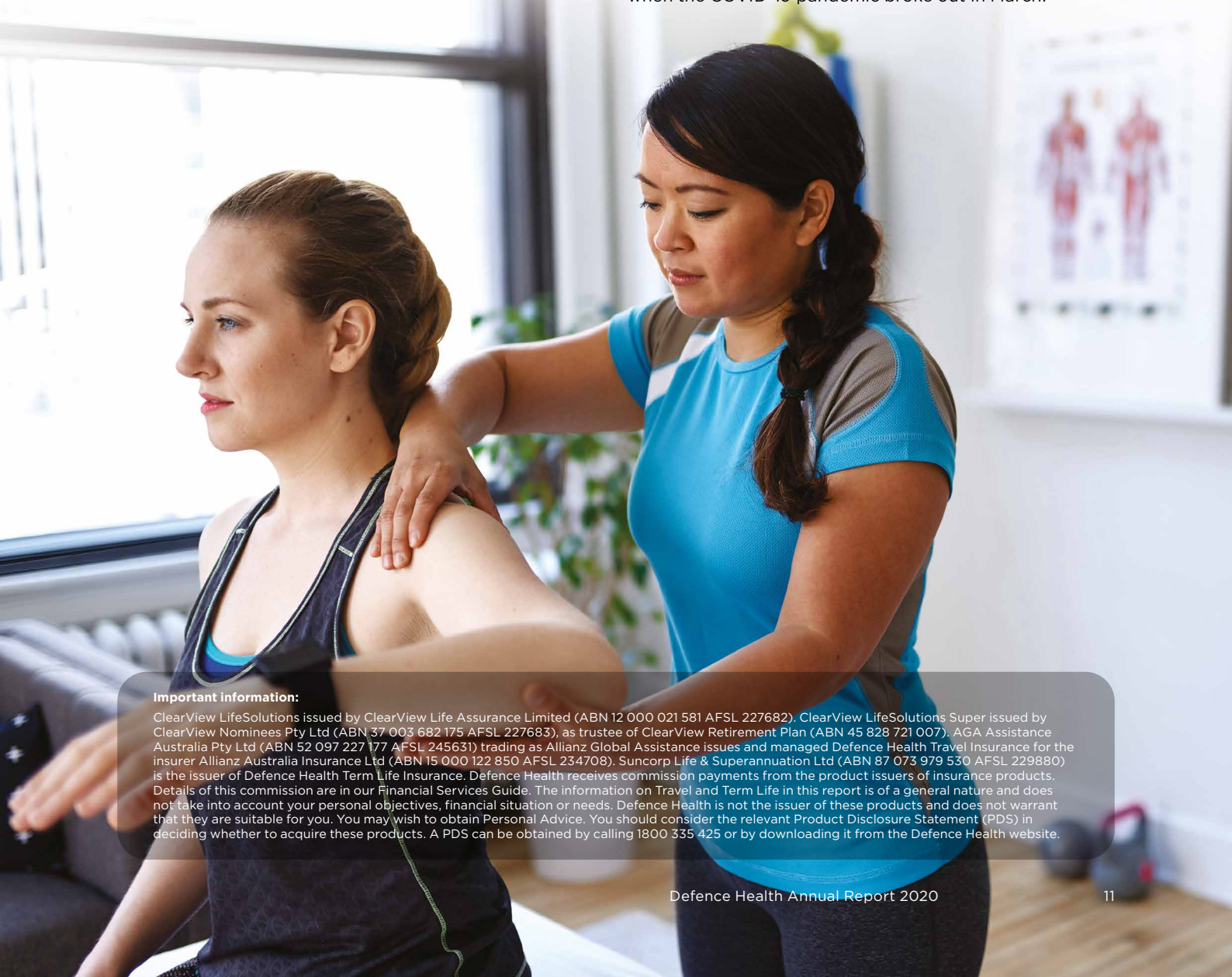
Travel insurance

The competitively priced Defence Health travel insurance is underwritten by Allianz Australia Insurance Limited. It provides a generous schedule of cover for international and domestic travellers. Additional cover is also available for snow, cruise and adventure holidays. And it has special features which are designed to meet the needs of serving ADF members.

All sales of our travel insurance were suspended when the COVID-19 pandemic broke out in March.

Important information:

ClearView LifeSolutions issued by ClearView Life Assurance Limited (ABN 12 000 021 581 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.



FINANCIAL PERFORMANCE

Premium revenue

Premium contributions grew from \$571.7 million to \$595.2 million, up 4.1% on prior year. Premium revenue was impacted this year due to the temporary suspension of the April 2020 premium increase, which was part of the fund's COVID-19 Member Support Program.

Benefits

The value of benefits increased by 5.8% this year to \$547.9 million. There was a brief interruption to some health care services (and benefit payments) during the initial pandemic lockdown in April and early May. Telehealth enabled the continued payment of benefits for many general treatment consultations, and there was a rapid resurgence in both hospital claims and general treatment claims at the end of the six-week 'shutdown'. Claims for in-hospital psychiatric services continue to grow and form a large component of the high-cost hospital claims we paid which were in excess of \$10,000 per admission. This is a concern Australia-wide and across all health funds. Each year, thousands more Australians are needing intensive private hospital treatment to manage mental health conditions – up 42% in the last four years.²

Management expenses

Defence Health has always kept management expenses low – and among the lowest (as a percentage of premium revenue) in the industry. This year the final management expense ratio was impacted by lower than anticipated revenue (due to suspended premium increase), with the ratio increasing to 6.6%.

Investment income and capital


The fund holds a conservative investment portfolio but was not immune to share market and investment volatility this year. Investment income and other income declined by 57% to \$9 million. This income is consolidated into the fund's capital reserves, which closed at \$360.2 million, or \$2387 per policy.

² PHA High Claims 2020 Report.

Surplus

We know that benefit inflation is rising at a greater rate than premiums. Over the last few years the fund has been focused on improving its margin performance and safeguarding capital reserves. Our response to the COVID-19 pandemic had a significant financial impact. Year-end we closed with a 55.5% drop in surplus to \$17.1 million (or 4% of revenue).





5.8%
INCREASE IN BENEFITS

MEMBER SERVICES

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

This year, the centralised office team became a remote team in the space of one weekend during March. The relocation of 87% of the contact centre to a working-from-home model was in response to the rapidly growing COVID-19 pandemic. A small group was supported with ongoing work in the office due to the absence of suitable work-from-home alternatives.

The transition to remote service delivery was highly successful and was ongoing at the time of writing this report.

Member satisfaction

We pride ourselves on our industry-leading member satisfaction ratings. This year we moved away from the long-term annual survey of member satisfaction to a more frequent, finger-on-the-pulse monitor of our performance.

In the May 2020 survey, despite immense uncertainty and anxiety in the community, member satisfaction was rated at 84.9%.

In February 2020, we were delighted to be named Health Insurer of the Year (restricted and not-for-profit category) in the Roy Morgan 2019 Customer Satisfaction Awards. Defence Health scooped the pool, winning 11 out of the 12 months of the survey.

With the arrival of the pandemic in February, we quickly launched our COVID-19 Member Support Program. The premium increase planned for April was immediately suspended for six months. This was one of a wide range of measures aimed at providing targeted relief for members and helping them stay connected and supported.

In May, 64% of surveyed members reported they felt confident we would meet their needs during COVID-19.

In most cases we can resolve any service issues for members as soon as they arise. Very few complaints are made to the Ombudsman, which is indicative of our service culture and the strong and trusting relationship we have with members - through good times and difficult times. In 2019-20, the Ombudsman received only 56 complaints from our more-than 300,000 members (and we were contacted for further information in just three cases). This represents 1.8% of all complaints to the Ombudsman and is lower than our market share of 2.13%.

OUR PEOPLE

The corporate values of Defence Health are the driving force that guide our interactions with our members and with each other. They are tangible and they are fiercely guarded.

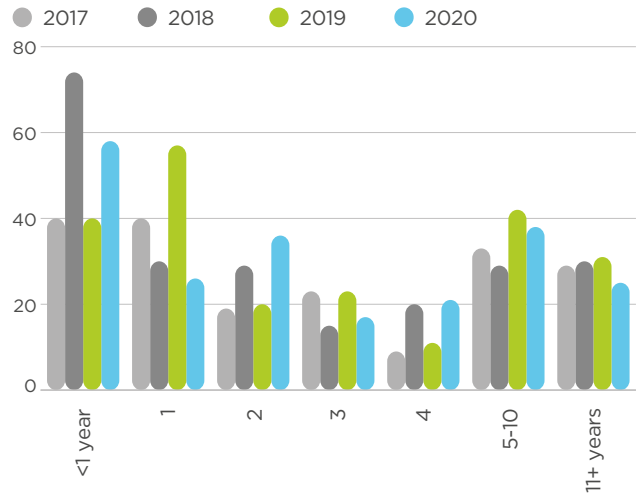
The high-performance culture of the workplace is underpinned by these values: trust; excellence; ownership; respect and community. The values shape our recruitment and induction processes and performance is appraised against the demonstration of the values.

Staff are keen to report how they're feeling at work: 90% participated in the annual staff engagement survey; and the overall engagement score of 83% is 10% higher than the previous year. The survey also provides evidence of how powerfully the corporate values resonate with staff. All five values scored higher this year, with respect being the strongest.

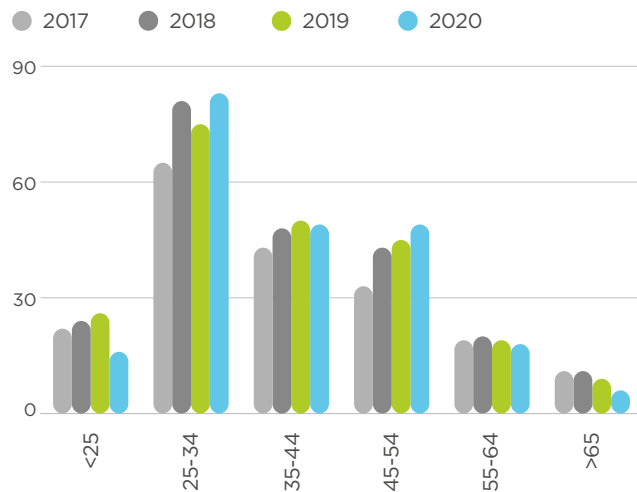
For the second year running, Defence Health was named an Employer of Choice in the 2019 Australian Business Awards. The awards celebrate organisations that maximise the potential of their workforce through effective recruitment, engagement, training and retention. It's great to receive this recognition that Defence Health is a rewarding and stimulating place to work.



Number of staff by length of service



Number of staff by age



“THE CULTURE IS AND ALWAYS HAS BEEN SO WELCOMING...”

“THERE IS A REAL WILLINGNESS TO ASSIST AND HELP EACH OTHER...”

“MY TEAM LEADER IS THE MOST SUPPORTIVE AND ENCOURAGING PERSON I HAVE EVER WORKED FOR...”

“I FEEL WE MAKE A DIFFERENCE IN THE LIVES OF OUR MEMBERS...”

88%

**BELIEVE DEFENCE HEALTH
VALUES RESPECT**

86%

**VALUE OUR
COMMUNITY**

82%

**OF STAFF FEEL THEY ARE
PROVIDED OPPORTUNITIES
FOR LEARNING AND
DEVELOPMENT**

90%

**AGREE DEFENCE HEALTH
IS COMMITTED TO HEALTH,
SAFETY AND WELLBEING
OF STAFF**

83%

**SAY THEIR MANAGER IS
AN OUTSTANDING LEADER**

85%

**SCORE FOR PEOPLE, CULTURE
AND JOB SATISFACTION**

Employment

At 30 June 2020 we had a workforce of 221 people (which is stable with the prior year). This is comprised of 150 full-time staff, 43 part-timers, 19 casuals and 9 directors.

The gender composition is 61% women. And 66% of promotions went to women. The Board is 55% women and the Associate Director Traineeship program is aimed at supporting women to gain corporate experience.

During the year there were 82 employee departures (or 37% turnover) - including two long-serving directors who retired at the Annual General Meeting in November.

Our recruiters and trainers have successfully met the COVID-19 challenge this year with completely remote interviews and induction.

Project Delta

The transformational technology project that we call 'Delta' commenced in 2019 and is due to go live in 2021-22. We are working with specialists from Oracle Health Insurance to build a new core operating platform that will be supported by digital and data platforms.

The project has presented many development opportunities for existing staff from all corners of the business. A team of 'change champions' are immersed in the configuration and testing of the new systems from a member and operator perspective. Their progress and the benefits of the system are then showcased quarterly with everyone in the business who will eventually use the technology and deliver a supreme member experience.

COMMUNITY SUPPORT

Health and wellbeing

The health, resilience and wellbeing of staff is our priority always. In a pandemic it is even more important. With the majority of the workforce travelling to work on public transport, the Pandemic Response Team made the decision in mid-March to shift as many staff as possible to working from home.

The company's Wellbeing Strategy encompasses the five pillars of health, being financial, career, physical, mental and social. With the usual activities we undertake to support the strategy off-limits due to COVID-19, it was necessary to tweak the strategy with isolation-friendly initiatives.

Virtual walking, running and cycling groups; social gatherings; quiz nights; and a talent quest helped keep teams engaged and connected with colleagues. Aware of the emotional roller-coaster isolation can create, resilience initiatives included group meditation sessions, and support from the MindBodyBrain Performance Institute.

Flu vaccinations could not be performed in the office this year, but were reimbursed to those who received them privately. Pandemic leave was also introduced to support staff should they become unwell.

Full-time and part-time staff are provided with comprehensive health insurance; 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.

Our network of Defence community relationship officers are on the ground in all major Defence locations in Australia. They participate in family events and help support the community in its understanding of the health sector and the health care options available.

The team has a key education role at ADF Transition Seminars. With COVID-19 restrictions in place in 2020, the team supported the development of presentation and engagement opportunities for the first-ever ADF Virtual Transition Seminar.

The team also engaged in:

- face-to-face and virtual meetings with Defence stakeholders to ensure we understand the issues impacting the community including: Open Arms, Department of Veterans' Affairs, and ADF Financial Consumer Services Centre;
- supporting ADF Commanders and Units with education sessions and member support;
- support for the Defence Community welcome days, family events and virtual events to enhance community wellbeing during lockdowns;
- delivering the 'Making Connections Matter' Defence School Mentor webcam program to connect absent Defence parents with their child's classroom and teachers;
- partnership with the Defence Specials Needs Support Group and support funding for the Computers for Kids program;
- supporting employment opportunities for serving families through the Defence Families Australia partner employment program;
- establishing a Partnership Pledge with Soldier On, and fostering ex-serving working groups to enhance collaboration of organisations at the regional level;
- building relationships with the DVA Wellbeing Centre in each state, including The Oasis Townsville; and
- ongoing connection with community organisations including Legacy, Kookaburra Kids, and Women Veterans Network Australia.

**THE COMPANY'S
WELLBEING STRATEGY
ENCOMPASSES
THE FIVE PILLARS OF
HEALTH: FINANCIAL,
CAREER, PHYSICAL,
MENTAL AND SOCIAL.**

DEFENCE HEALTH FOUNDATION

The Defence Health Foundation has had one clear purpose: to fund medical research that specifically benefits serving and ex-serving members of the Australian Defence Force and their families.

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

The Foundation is wholly funded by Defence Health and is further evidence of our commitment to the health and wellbeing of Defence families. In 2019–20, Defence Health Foundation committed to funding four medical research grants totalling \$329,840. These grants covered the critical areas of suicide in the ADF and veteran community; birth outcomes for ADF women; and profiling injuries suffered by female soldiers in the Army.

GOVERNANCE

Defence Health is a registered company, limited by guarantee, 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 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.



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 2020, are detailed below.



GARRY RICHARDSON
FAICD

Director since February 2011

- Member - Risk Committee
- Member - Audit Committee
- Member - Nomination and Remuneration Committee



ROBIN BURNS
FAICD

Director since October 2018

- Member - Investment Committee
- Chairman - Risk Committee
- Chairman - Audit Committee
- Director - Indue Ltd
- Director - 8IP Emerging Companies Ltd
- Independent member - External Compliance Committee, PIMCO Australia Ltd
- Director - BT Funds Management Ltd
- Director - BT Funds Management No 2 Ltd
- Director - Westpac Securities Administration Ltd



CAROLYN IRELAND
MBA (EXECUTIVE), CA, GAICD

Director since October 2018

- Member - Investment Committee
- Director - International Women's Development Agency
- Director - Xavier College Foundation Ltd



ALICE WILLIAMS
BCOMM FCPA FAICD CFA ISFA AIF

Director since February 2010

- Chairman - Investment Committee
- Director - Equity Trustees Ltd
- Director - Djerriwarrh Investments Ltd
- Director - Cooper Energy Ltd
- Director - Foreign Investment Review Board
- Director - Tobacco Free Portfolios Ltd
- Member - Felton Bequest Committee



COL ANTHONY HAMBLETON
AM CSC GAICD

Director since February 2014

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



REBECCA DAVIES AO
DCSG LLB (HONS) B.ECON 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



**WGCDR AMY BECK
BE (HONS) LLB GAICD MIEAUST**

Associate Director since
October 2017

- Full-time serving member of the Royal Australian Air Force



**GPCAPT SUSAN STOTHART
CSC B BUS M MGT, M DEF STUD,
GRAD DIP APPLIED FINANCE, GAICD**

Director since November 2016

- Appointed Director - Chief of Air Force
- Member - RAAF Active Reserve
- Member - Risk Committee
- Member - Audit Committee
- Member - Investment Committee



**ALAN BECKETT
BEC FCA GAICD**

Chairman since November 2019
Director since January 2006

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

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.

EXECUTIVE 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.



**CHIEF EXECUTIVE OFFICER
MAJGEN GERARD FOGARTY AO
(RET'D)**

BBus GradDipMgmt MBA
MSS (USA) GAICD



**CHIEF RISK OFFICER
TANYA HAINES**

Ass Dip BusMktg
GradCertBusMgt
CertGovPrac&RiskMgt



**COMPANY SECRETARY
AND GENERAL COUNSEL
ANDREW GUERIN**

LLB BEc FGIA FCIS
DipFS (FinPlan)



**CHIEF OPERATING OFFICER
JOANNE KADLECİK**

AssDip BusMgmt GAICD



**CHIEF FINANCIAL OFFICER
BARRY LEUNG**

BCom (Hons) FIAA CERA



**CHIEF PEOPLE OFFICER
KELLY DICKSON**

AssDip HRM



**CHIEF MARKETING OFFICER
CANDICE LIEW**

BBM (Mktg)

FINANCIAL STATEMENTS

for the year ended 30 June 2020

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Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Registered Office and Principal Place of Business
Level 4 380 St Kilda Road
Melbourne VICTORIA 3004

Consolidated Concise Financial Statements for the year ended 30 June 2020

Extract from the Financial Statements signed on 16 September 2020.

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

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2020.

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 that Members are liable to contribute collectively is one thousand dollars.

Directors

The names and details of the Directors of Defence Health Limited who held office during the financial year are:

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 2020. Mr Beckett was appointed as the Chair of the Board in November 2019 and is a member of the Nomination and Remuneration Committee. He was Chairman of the Risk and Audit Committees and a member of the Investment Committee until he retired from these committees in November 2019. 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.

Colonel 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. Colonel Hambleton was the Chair of the Nomination and Remuneration Committee for the entire year. Colonel Hambleton is a Director and was appointed Chair of Defence Health Foundation Pty Ltd in November 2019. Colonel Hambleton is a member of the Army Standby Reserve and the appointed Director of Chief of Army.

Mr Garry Albert Richardson

FAICD

Appointed to the Board in February 2011. Mr Richardson has announced his retirement from the Board with effect from the Annual General Meeting to be held in 2020. Mr Richardson became a member of the Nomination and Remuneration Committee in December 2019.

Group Captain Susan Stothart CSC

BBus, Mmgmt, 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 2020. Group Captain Stothart was a member of the Risk and Audit Committees for the entire year. She retired as a member of the Nomination and Remuneration Committee in November 2019 and then became a member of the Investment Committee in December 2019. Group Captain 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 is a Director of Equity Trustees Limited, Director of Djerriwarrah Investments Ltd, Director of Cooper Energy Ltd, Director of the Foreign Investment Review Board, Director Tobacco Free Portfolios and Member of the Felton Bequest Committee.

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 a member of the Risk, Audit and Investment Committees for the whole year.

Mr Burns was also appointed Chair of the Risk and Audit Committees in December 2019. Mr Burns is a Director of Indue Ltd, a Director of 8IP Emerging Companies Ltd, Director of BT Funds Management Ltd, a Director BT Funds Management No 2 Ltd and a Director of Westpac Securities Administration Ltd and a member of the External Compliance Committee of PIMCO Australia Management Ltd.

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 whole year. Ms Ireland is also a Director of International Women's Development Agency and Xavier College Foundation.

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 appointed a member of the Nomination and Remuneration, Risk and Audit Committees in December 2019. 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.

Major General Gregory Howard Garde AO RFD (Ret'd)

BA(Hons) LLM

Appointed to the Board in April 2004 and appointed Chair in October 2011 whose term expired at the Annual General Meeting held in 2019. Major General Garde was a member of the Investment Committee and a member of the Nomination and Remuneration Committee until his retirement in November 2019. Major General Garde is a Reserve Justice of the Supreme Court of Victoria.

Ms Julie Anne Blackburn

BNurs GradDip Midwifery GAICD

Appointed to the Board in November 2011 whose term expired at the Annual General Meeting held in 2019. Ms Blackburn was a member of the Risk and Audit Committees until her retirement in November 2019. Ms Blackburn is a Director of Karralika Program Inc and was Chair of Defence Health Foundation Pty Ltd until November 2019.

Ms Amy Beck

WGCDR

The Board appointed an Associate Director, Ms Amy Beck in October 2017. While Ms Beck is not a Director, she attended seven Board Meetings, one Risk and Audit Committee Meeting and four Investment Committee Meetings. Ms Beck is a serving member of the Royal Australian Airforce.

The Directors named above held office during the whole of the financial year, with the exception of Ms Rebecca Davies, Major General Gregory Howard Garde and Ms Julie Blackburn.

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' REPORT (CONTINUED)

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 | 8 | | 6 | | 4 | | 4 | | 6 | |
| A I Beckett | 8 | 8 | 1 | 1 | 2 | 2 | 2 | 2 | 6 | 6 |
| R Davies | 8 | 8 | | | 2 | 2 | 2 | 2 | 2 | 1 |
| A Hambleton | 8 | 8 | | | | | | | 6 | 6 |
| G Richardson | 8 | 8 | | | 4 | 4 | 4 | 4 | 2 | 2 |
| S Stothart | 8 | 8 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| A J M Williams | 8 | 7 | 6 | 6 | | | | | | |
| R Burns | 8 | 7 | 6 | 6 | 4 | 4 | 4 | 4 | | |
| C Ireland | 8 | 8 | 6 | 6 | | | | | | |
| G H Garde | 3 | 3 | 1 | 0 | | | | | 3 | 2 |
| J Blackburn | 3 | 3 | | | 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 manage their personal and family health care. The Company seeks to be the preferred, trusted and active provider of health insurance and health services to the Defence community. The goals for achieving this outcome are to:

- be the health insurer of choice for current and ex-serving members of the ADF;
- represent great value for money private health insurance and excellent service for those with Defence connections;
- fulfil our responsibility for the health and wellbeing of the Defence community;
- be a values-based organisation that continually improves; and
- be a prudent manager of members' funds now and into the future.

Achievement of objectives

- The Company offers competitively priced health insurance that is tailored to appeal to specific market segments.
- The Company appeals to members who seek high quality, personal service and meaningful benefits towards their health care.
- The Company views its role as more than a 'payer of bills' and is actively exploring and introducing health programs in a deliberate move into greater care for its target market.
- The corporate values of the Company are embedded in all communication and its code of conduct.
- The Company has a robust framework of financial and risk management, with a Chief Risk Officer and Head of Risk supporting all areas of the business with their individual risk controls.

The Company measures its performance against the strategic goals by:

- monitoring its market share, competitiveness of its product offering, and the level of member advocacy in designated target markets;
- offering evidence-based health programs to support members in their health, wellbeing and recovery from illness;
- ensuring organisational values are observed by all staff and that staff feel valued and engaged in their work (measured through independent research); and
- striving for best-practice risk and financial management (and acting on any advice from external assessors).

Review of operations

Defence Health recorded a surplus of \$17.1 million in the 12 months to 30 June 2020, a decrease of \$21.4 million on the prior year.

During the year the number of health insurance policies increased by 0.9%. Defence Health has 143,072 policies at 30 June 2020. During the year, premium revenue increased by 4.1% to \$595.2 million and net benefits expenses increased by 3.1% to \$537.8 million. Improving margin performance and preserving capital was a key focus during the year in preparation for future benefit inflation exceeding premium increases.

Total management expenses of \$39.2 million were contained at 6.6% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income decreased by 57.2% from \$20.2 million in the previous year to \$8.7 million due to our portfolio performance in relation to the COVID-19 pandemic. The total return on the investment portfolio was 1.9%.

The Company continues to invest in technology, staff, and brand to maintain a strong platform to ensure a continuation of the high standard in our service delivery in the future.

Other revenue in the 12 months to 30 June 2020 was \$0.3 million, a decrease of \$0.3 million compared to prior year, which was related to a decrease in travel commission due to the COVID-19 pandemic and the resultant travel restrictions.

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 2020 the state of Victoria and other parts of Australia are facing a second wave of COVID-19, with some locations in lockdown. This has resulted in elective surgery being partially deferred in Victoria. This has the potential to affect claims expenses and liabilities in the new year again.

Environmental regulation

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

Directors' benefits

Directors' fees are disclosed in Note 20 and related party transactions disclosed in Note 19 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 27.

DIRECTORS' REPORT (CONTINUED)

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

16 September 2020



Mr Alan Ian Beckett
Director

16 September 2020

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

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16 September 2020

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 2020, 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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Premium revenue | 4 | 595,228 | 571,697 |
| Direct benefits expense | | (501,866) | (485,516) |
| Risk Equalisation Trust Fund expense | | (31,420) | (31,861) |
| State ambulance levies | | (4,559) | (4,501) |
| Net benefits expense | | (537,845) | (521,878) |
| Unexpired risk reserve | | (10,036) | 3,939 |
| Underwriting result | | 47,347 | 53,758 |
| Employee expenses | | (22,164) | (21,455) |
| Marketing expenses | | (1,801) | (1,774) |
| IT and computing expenses | | (4,550) | (4,198) |
| Transaction processing costs | | (1,963) | (2,039) |
| Professional fees | | (1,377) | (1,205) |
| Depreciation and amortisation expenses | | (2,875) | (1,337) |
| Occupancy expenses | | (1,158) | (1,157) |
| Industry subscriptions | | (905) | (916) |
| Commissions | | (739) | (404) |
| Agency legal costs | | (309) | (304) |
| Interest expense | | (44) | - |
| Other management expenses | | (1,335) | (1,397) |
| Total expenses | | (39,220) | (36,186) |
| Underwriting result after operating expenses | | 8,127 | 17,572 |
| Investment income | 4 | 8,674 | 20,257 |
| Other revenues | 4 | 293 | 625 |
| Surplus for the year | | 17,094 | 38,454 |
| Other comprehensive income | | 0 | 0 |
| Total comprehensive income for the year | | 17,094 | 38,454 |

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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | | 63,451 | 21,167 |
| Trade and other receivables | | 16,544 | 18,940 |
| Contract assets | | 893 | 990 |
| Financial assets | 5 | 410,471 | 418,332 |
| Total current assets | | 491,359 | 459,429 |
| Non-current assets | | | |
| Contract assets | | 3,385 | 4,278 |
| Property, plant and equipment | | 1,033 | 1,963 |
| Intangible assets | | 22,493 | 6,405 |
| Deferred acquisition costs | | 0 | 726 |
| Right of use asset | | 4,767 | 0 |
| Total non-current assets | | 31,678 | 13,372 |
| Total assets | | 523,037 | 472,801 |
| Current liabilities | | | |
| Trade and other payables | | 56,617 | 58,145 |
| Lease Liability | | 231 | 0 |
| Claims liabilities | 6 | 87,306 | 66,757 |
| Provisions | | 11,402 | 2,133 |
| Total current liabilities | | 155,556 | 127,035 |
| Non-current liabilities | | | |
| Trade and other payables | | 0 | 101 |
| Lease Liability | | 5,041 | 0 |
| Provisions | | 2,193 | 2,512 |
| Total non-current liabilities | | 7,234 | 2,613 |
| Total liabilities | | 162,790 | 129,648 |
| Net assets | | 360,247 | 343,153 |
| Equity | | | |
| Contributed equity | | 43,346 | 43,346 |
| Retained earnings | | 316,901 | 299,807 |
| Total equity | | 360,247 | 343,153 |

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 2020

| | 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 |
| Balance at 30 June 2019 | 43,346 | 299,807 | 343,153 |
| Total comprehensive income for the year | 0 | 17,094 | 17,094 |
| Balance at 30 June 2020 | 43,346 | 316,901 | 360,247 |

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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|-----------------|
| Cash flows from operating activities | | | |
| Premium receipts | | 595,666 | 572,954 |
| Benefits paid to and on behalf of fund members | | (482,427) | (483,534) |
| Government and other levies paid | | (4,543) | (4,488) |
| Payments to Risk Equalisation Trust Fund | | (32,685) | (30,715) |
| Payments to suppliers and employees | | (34,847) | (34,725) |
| Payments for deferred acquisition costs | | (13) | (183) |
| Commission received | | 1,282 | 1,615 |
| Net cash from operating activities | | 42,433 | 20,294 |
| Cash flows from investing activities | | | |
| Purchase of investment securities | | (328,551) | (262,214) |
| Proceeds on sale of investment securities | | 331,725 | 231,255 |
| Interest and dividends received | | 14,474 | 13,964 |
| Purchase of property, plant and equipment | | (357) | (147) |
| Payments for intangible assets | | (17,312) | (5,120) |
| Repayment of lease liability | | (84) | 0 |
| Interest paid on lease liability | | (44) | 0 |
| Net cash used in investing activities | | (149) | (22,262) |
| Net increase/(decrease) in cash and cash equivalents | | 42,284 | (1,338) |
| Cash and cash equivalents at the beginning of the financial year | | 21,167 | 22,505 |
| Cash and cash equivalents at the end of the financial year | 6 | 63,451 | 21,167 |

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 4, 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 2020 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 16 September 2020.

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; and
- 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 that 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 16.

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.

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 four years based on average tenure of membership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 6.0% (2019: 6.0%) and determined to give at least a 75% probability of adequacy.

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% (2019: 2.7%), 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

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4 – Revenue

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Continuing Operations | | |
| Premium revenue pursuant to a contract of private health insurance | 595,228 | 571,697 |
| Investment revenue | | |
| Interest revenue | | |
| Bank deposits | 263 | 621 |
| Term deposits | 3,876 | 4,693 |
| Interest bearing securities | 628 | 814 |
| | 4,767 | 6,128 |
| Dividends | | |
| Unlisted fixed income trusts | 3,299 | 2,359 |
| Unlisted equity trusts | 5,297 | 5,822 |
| | 8,596 | 8,181 |
| Realised gains/(losses) on disposal | | |
| Unlisted fixed income trusts | (10) | (23) |
| Unlisted equity trusts | (3,499) | (539) |
| | (3,509) | (562) |
| Unrealised gains/(losses) of | | |
| Unlisted fixed income trusts | (748) | 2,458 |
| Unlisted equity trusts | (432) | 4,052 |
| | (1,180) | 6,510 |
| Total Investment Revenue | 8,674 | 20,257 |
| Other revenue | | |
| Life insurance revenue | (37) | 0 |
| Travel insurance revenue | 325 | 437 |
| Accident insurance revenue | 5 | 5 |
| Other revenue | 0 | 183 |
| | 293 | 625 |
| | 604,195 | 592,579 |

Note 5 – Financial assets

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Current | | |
| Term deposits | 188,710 | 211,962 |
| Interest bearing securities ⁽ⁱ⁾ | 19,339 | 19,836 |
| Units in fixed income trusts | 99,804 | 78,852 |
| Units in unlisted equity trusts | 89,118 | 107,682 |
| Alternatives | 13,500 | 0 |
| Total investments | 410,471 | 418,332 |

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 \$0.7 million (2019:\$0.5 million).

Note 6 – Claims liabilities

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Gross outstanding claims | 50,648 | 62,073 |
| Risk equalisation cost | 1,752 | 2,336 |
| Claims handling costs | 398 | 435 |
| Risk margin | 1,532 | 1,913 |
| Deferred Claims (COVID-19) | 32,976 | 0 |
| Gross outstanding claims liability | 87,306 | 66,757 |
| Changes in the gross outstanding claims liabilities can be analysed as follows: | | |
| Opening balance | 66,757 | 63,665 |
| Benefits incurred during the year | 473,784 | 488,419 |
| Benefits utilised during the year | (482,799) | (482,104) |
| Unused provision from prior year | (2,410) | (2,846) |
| Risk equalisation cost | (584) | (315) |
| Claims handling costs | (37) | 0 |
| Risk margin | (381) | (62) |
| Deferred claims (COVID-19) | 32,976 | 0 |
| Closing balance | 87,306 | 66,757 |

The risk margin of 6.0% (2019: 6.0%) has been estimated to equate to at least 75% probability of adequacy (2019: 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 2020 the state of Victoria is facing a second wave of COVID-19, with Melbourne in stage 4 lockdown. This has resulted in elective surgery being partially deferred in Victoria. This has the potential to affect claims expenses and liabilities in the new year again.

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

16 September 2020



Mr Alan Ian Beckett
Director

16 September 2020

INDEPENDENT AUDITOR'S REPORT

to the members of Defence Health Limited



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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 2020, 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 2020.

In our opinion, the accompanying concise financial report of Defence Health Limited for the year ended 30 June 2020 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 1039 *Concise Financial Reports* based on our procedures, which were

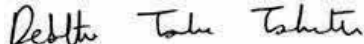
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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Deloitte

conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants
Melbourne, 16 September 2020

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