

Annual Report

2015

Financial Snapshot

\$'000	2014	2015	Change	Change %
Premium revenue	330,784	367,746	36,962	11.2%
Gross margin	21,292	17,810	3,482	-16.4%
Management exp	(19,284)	(22,948)	3,664	19.0%
Management exp ratio	5.8%	6.2%		0.4%
Net margin	2,008	(5,138)	(7,146)	-355.9%
Investment and other income	19,648	27,846	8,198	41.7%
Operating surplus	21,456	22,488	1,032	4.8%
Total assets	325,238	359,870	34,632	10.6%
Total liabilities	82,578	94,722	(12,144)	14.7%
Total capital reserves	242,660	265,148	22,488	9.3%
Policies	106,885	113,327	6,442	6.0%
Market share	1.7%	1.8%		0.1%

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Vision

Our vision is to be the preferred, trusted and active provider of health insurance and health services to the Defence community.

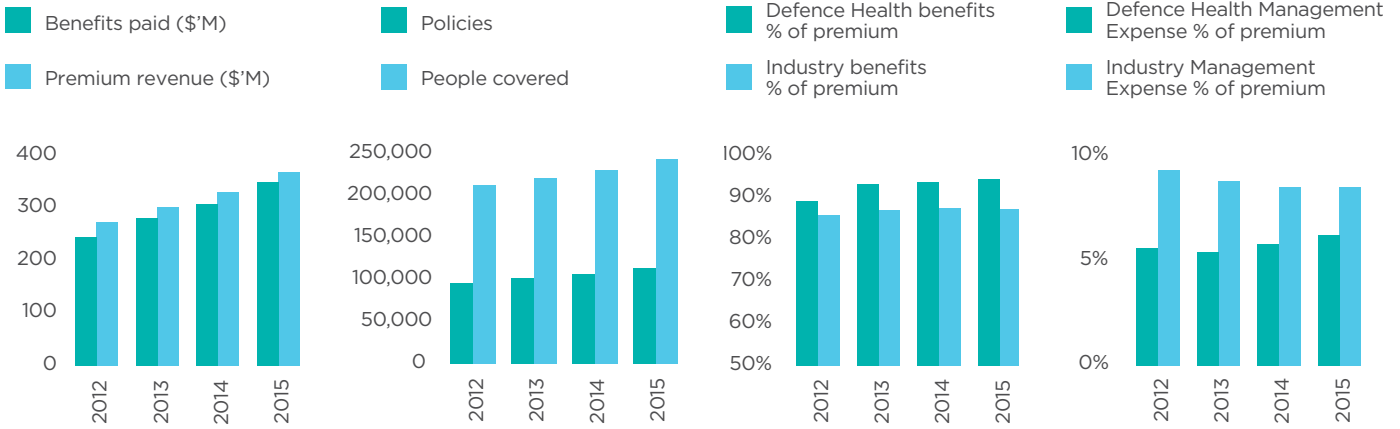
Purpose

Our core purpose is to support members of the ADF and wider Defence community to manage their personal and family health care.



Performance Highlights

experience
family value



92.1%
members

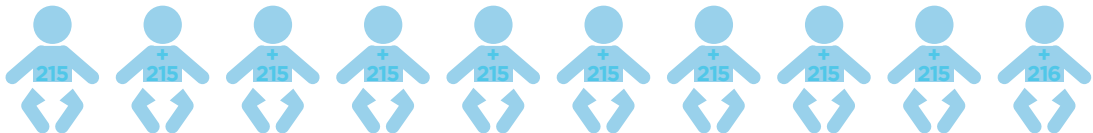
had no out-of-pocket expense for their medical treatment.

1.8%
market share
in 2014-15

only 0.6% of complaints to the Ombudsman were from Defence Health members



2,151
babies born

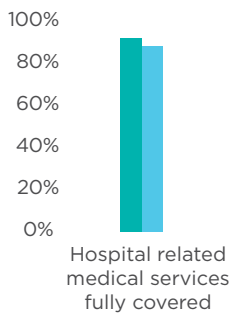


30,140
emails to our
members

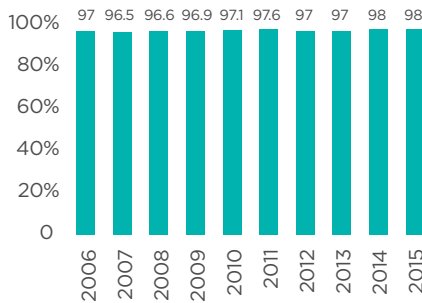
For **more than 60 years** we've been here to support the families who defend our country. To us, **our members are like family**. Our family has grown. And our commitment is stronger than ever.

Defence Health

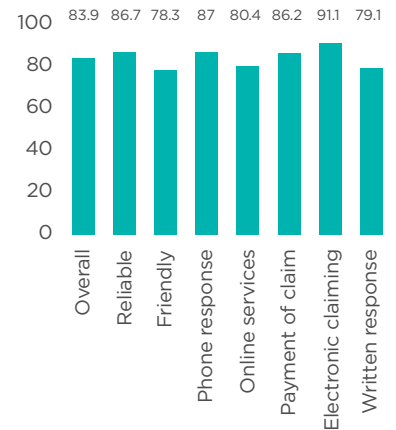
Industry



Satisfied members (%)



Satisfaction index



276,634
phone conversations
with members



78.25%
of these were answered
within 20 seconds



955,813
extras claims
processed



169,709
hospital days
covered

Core Values

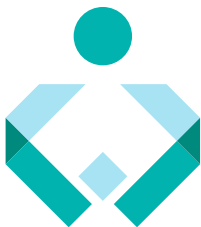
Our support for members is underpinned by five core values that drive everything we do.



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.

Chairman's Statement

The 2014-15 financial year has been one of significant achievement and success for Defence Health.



A handwritten signature of Gregory Garde in white ink, positioned above a thin white horizontal line.

Gregory Garde
Chairman

The financial statements for the 2015 financial year highlight the growth in membership and prudent financial management of the fund.

As at 30 June 2015, a total of 113,327 policies were held, covering 242,800 members of the Australian Defence community. Policies grew by 6%, against the industry growth rate of 2.5%.

Premium revenue at \$367.7 million increased by 11.2% on the previous year and is largely a result of the increase in policies and the premium increase of 5.62%. The premium increase was less than the industry average increase of 6.18%.

The fund achieved an excellent level of investment income of \$21.9 million. Benefits paid to members amounted to \$349.9 million. After management expenses of \$22.9 million, the fund produced a surplus of \$22.5 million. We are a member owned fund, and all surpluses are reinvested for the benefit of members.

The fund has an unwavering focus on its members. In every decision we make, the interests of members is paramount.

Our management expense continues to be one of the lowest in the health insurance industry. This results in greater value for members. With management expenses representing just 6.2% of premium revenue (compared with the industry average of 8.5%) Defence Health returns \$0.95 in benefits to members for every \$1.00 of premiums.

We are not content with these results. As part of a ten-year strategic plan we have committed to further enhance our support for members of the ADF and the wider Defence community. We intend to build on our capability to manage their personal and family health care.

The strategy is already delivering an increasing range of products and services tailored to the needs of members. All products and services represent excellent value for members.

Key results of the strategy are a refreshed brand and a new product suite. They were successfully launched on 1 September 2014. These two achievements are tangible and visible signs of our strategic direction and contemporary approach.

I congratulate our staff who collaborated brilliantly to implement the changes. I thank the project teams who led and implemented these strategic initiatives.

I acknowledge the performance of our CEO Gerard Fogarty and the Executive Management team who successfully implemented our change agenda. This is an excellent foundation for our strategic plan. I also thank all members of the Board for their experience, good governance and commitment to the fund.

I am proud that our fund outperforms our competitors in the premiums we charge, and the benefits we provide. The fund is well positioned to continue to do so for many years to come.



CEO Statement

The Chairman has outlined the company's significant achievements over the past 12 months. I am very proud of these achievements and excited about our plans to further increase our value to the Defence community.

Gerard Fogarty
Chief Executive Officer

We're not content to be known as a 'good' health insurer. Our commitment is to help members of the Defence Community to manage their personal and family health care. This requires an increasing range of products and services, not simply great value health insurance.

In March we joined forces with the new Members Own Health Fund group. Collectively, the 15 funds involved deliver better service, give more back in benefits and have more satisfied members than the big for-profit funds.

Under the Members Own Health Fund banner, our message has reached a greater number of people and given them the opportunity to experience our family value.

“I’m grateful to all of our staff for their dedication and commitment to you, our members.”

The launch of our new products on 1 September 2014 included specific enhancements for serving families – which importantly now includes Reservists, as well as greater choice for all our members.

We’re also investigating how we can better meet the needs of our ex-serving members. And we’re looking at a wide range of other accessible, relevant and valuable health services for all members.

It is very pleasing that members not only value their membership of Defence Health, but also feel confident to refer their family and friends to us. The number of new members who come to us on the basis of word-of-mouth referral is truly impressive.

February 2015 marked our tenth year of detailed research into member satisfaction with our service, products and the continuous improvements we make. In the latest survey, 98% of members who participated said they are satisfied with their membership. Importantly, 72% said they are very satisfied. That’s equal with our best-ever result and it’s a significant achievement in the health insurance industry.

Against the backdrop of rising health care costs, diminishing government support for the privately insured, intense competitor activity and increased switching between funds, I’m proud to report that the growth in our net membership in 2014–15 continues to be well above the industry average. In addition, new members show high levels of satisfaction by remaining with us over the long term.

Defence Health continues to report one of the lowest cost structures in the industry. We’ve got strong capital reserves and a well-entrenched culture of care. Our values provide a unifying force through which each team member is empowered to make good choices for our members. We have the agility to respond quickly to new opportunities that serve the interest of our members in a practical and meaningful way.

I’d like to thank the Chairman and directors for their support and guidance in what has been a very eventful year. And I’d especially like to acknowledge our remarkable staff who embraced and adapted to significant change while maintaining their exceptional service standards.

About Us

Defence Health within the health sector

Private health insurance is an important element of Australia's health care system. The government uses a number of financial incentives and penalties to encourage the community to use the private sector and relieve the load on the public sector.

Defence Health has been providing private health insurance for the dependants of serving ADF personnel (and Reservists) since 1953. Since writing our first policies, more than sixty years ago, Defence civilians have also been recognised as an important element of our broader Defence community.

There are currently 34 registered private health insurers in Australia. Many of these, like Defence Health, operate on a not-for-profit basis. This year, 15 of these like-minded, member-focused funds came together as the group of Members Own Health Funds. These funds have been independently audited and found to collectively give more back, provide better service, and have more satisfied members than large for-profit funds.

As at 30 June 2015, 47.4% of Australians – in excess of 11.2 million people – held insurance cover for private hospital treatment and more than 55.8% held cover for general treatment (such as dental and optical).

Strategic Achievements in 2014-15

The year in review has been a period of enormous momentum delivering on our strategic plan.

- A major refresh of our brand was implemented in September 2014. The contemporary new look was well received by staff and our members.
- New products were launched to coincide with the new branding. The products better suit the varying needs of new members and demonstrate our commitment to our core segments.
- All members were informed about the changes
- Further benefit improvements were made in April 2015 and we continue to explore opportunities to add value for members and enhance their health and wellbeing
- We invested in new technology and facilities to better reduce costs; safeguard our operations; optimise our human resources; and more intelligently use business information in our decision making.
- We have actively developed our pool of talented employees. This gives us the agility to respond to changing circumstances without interrupting our service to members. It also gives us the edge in retaining satisfied, motivated and diversely skilled people who share our culture of care for each other and our members.

Hospital insurance

Private hospital cover gives members access to high quality, timely health care. We have service and fee agreements with a network of more than 500 hospitals and same-day treatment centres around Australia. This gives members the ability to choose where and when they will receive treatment.

Our hospital insurance also contributes a benefit towards the Medicare Benefit Schedule of fees for in-hospital medical treatment. However, many doctors charge more than the government-determined fee, leaving our members with an out-of-pocket 'gap' to pay.

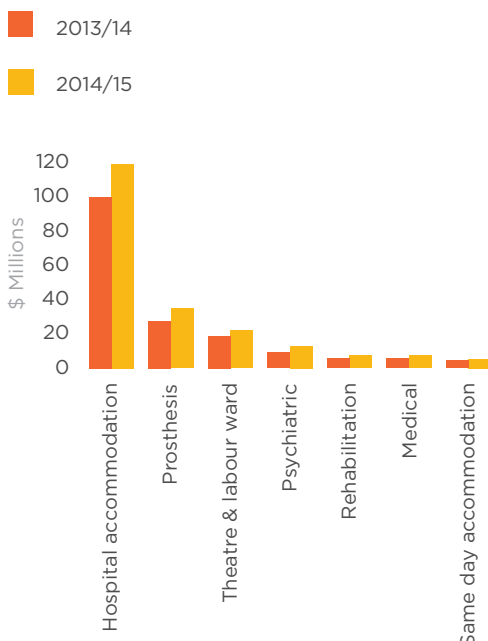
To minimise the out-of-pocket medical expense to members, we actively encourage doctors to use our Access Gap billing arrangement. Access Gap allows us to pay a slightly higher benefit to doctors in return for them minimising the medical gap to our members.

Despite the federal government placing a freeze on Medicare Benefit Schedule fees until June 2018, Defence Health will continue to index the Access Gap benefit to maintain its value to doctors. Many other funds have not made this decision but we did to limit our members' exposure to future higher out-of-pocket expenses.

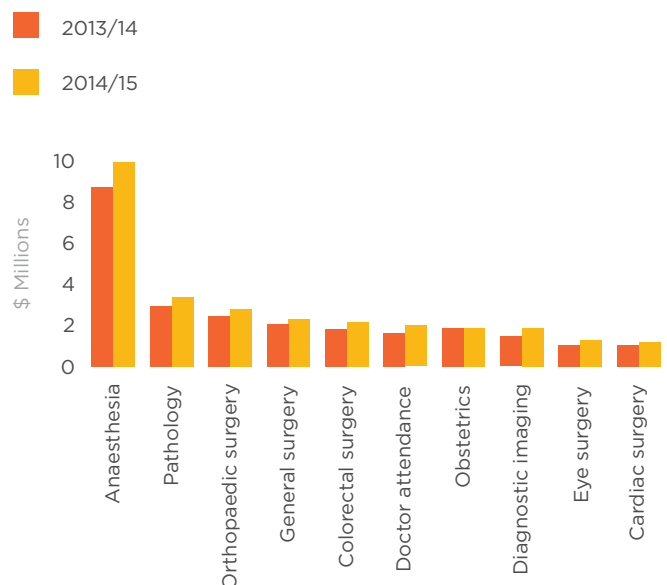
In 2014-15, 92.1% of all hospital related medical services provided to our members were fully covered (compared with the 88.3% industry average).

We provided funding for 169,709 days of hospital treatment which represents a 17.8% increase on the previous year. The hospital and medical benefits totalled \$223 million.

Hospital benefits - where do they go?



Medical benefits - where do they go?



Extras cover

Extras cover, or general treatment insurance, is for a broad range of health care that does not attract a benefit from Medicare. Dental treatment, optical care, physiotherapy and podiatry are just a few popular examples.

All Defence Health extras policies also include the highest level of uncapped, unrestricted ambulance cover. Our members are covered Australia-wide for state-appointed ambulance transport in the air, on the sea or across the land.

We continue to invest in health and wellness initiatives that enhance general health, help manage chronic diseases and potentially avoid the need for hospital treatment. During the year we introduced new benefits for:

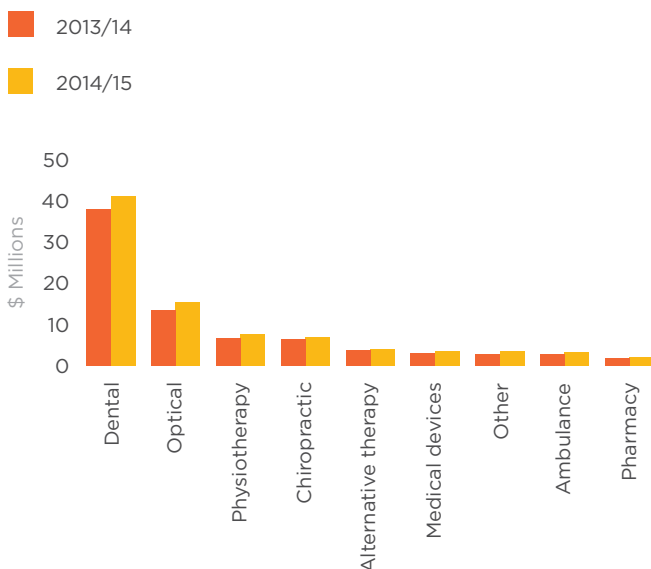
- a free, custom-fitted mouth guard for children on our top three extras covers
- Quit smoking programs and nicotine replacement therapies (when our most popular extras covers are combined with hospital cover)
- joint fluid replacement injections (for members on our highest extras cover).

We also maintained our focus on maximising value for families. The last remaining 'policy limits' were removed from all extras treatment categories in favour of 'person limits'. That means every member of a family can claim up to their own personal limit for extras treatment.

The patronage of our optical network of VSP Vision Care and Specsavers continued to grow. The network provides members with convenient access to optometrists and an extensive range of no-gap glasses.

Total extras benefits paid to June 2015 were \$88 million, an increase of 10.8% on the previous year.

Extras benefits - where do they go?



Other insurances

Life insurance and accident insurance

The Defence Health offering of Term Life and Accident insurance is specifically designed to meet the needs of serving Defence personnel. Term Life is issued by Suncorp Life & Superannuation Limited. The D-Pax Personal Accident Insurance is underwritten by AIG Australia Limited.

In 2014-15, we paid out life insurance, critical conditions benefits and terminal illness claims to a total of \$6.7 million. The average age across all claims was 54 years and the average sum insured was \$223,166.

Travel insurance

We launched a new comprehensive travel insurance in September 2014, underwritten by Allianz Australia Insurance Limited. With the new insurance came a steady increase in applications. It is competitively priced, is available to all ages and, while available to the general public, for the first time we provide a discount for the ADF and Defence Health members.

We are pleased to see the ratio of discounted sales of our travel insurance being enjoyed by our members, as well as members of the ADF.

- 80% Defence Health and ADF members
- 20% other applicants



Important information:

AGA Assistance Australia Pty Ltd (ABN 52 097 227 177 AFSL 245631) trading as Allianz Global Assistance issues and manages Defence Health Travel Insurance for the insurer Allianz Australia Insurance Limited (ABN 15 000 122 850 AFSL 234708). Suncorp Life & Superannuation Limited (ABN 87 073 979 530, AFSL 229880) is the issuer of Defence Health Term Life insurance. D-Pax insurance is issued and underwritten by AIG Australia Limited (ABN 93 004 727 753, AFSL 381686) trading in Australia as AIG. Defence Health receives commission payments from the product issuers of Defence Health and other insurance products in the range of 10% to 20% of the premiums you pay to the insurer (excluding GST). The information on Travel, Term Life and D-Pax insurance in this brochure 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

In 2014-15, contributions revenue grew by 11.2% to \$367.7 million.

Being a not-for-profit fund, our pricing policy reflects our commitment to optimise the benefits payable to our members, while maintaining prudential and sustainable capital reserves.

In addition, we support the community rating principle (legislated under the *Private Health Insurance Act 2007*). As such, we offer the same premium to all members (for the same level of cover).

Administrative expenses

Defence Health has one of the lowest management expenses, as a percentage of contribution revenue, in the industry. This year, our total administrative management expense was \$22.9 million (18.7% increase on the previous year). This represents a ratio of 6.2% of premium revenue.

Surplus

The demand for, and cost of medical treatment is increasing at a rate greater than contribution revenue growth. However, due to our operational efficiencies and investment income, our surplus of \$22.5 million is \$1 million higher than the prior year.

Investments and capital

The investment performance of the fund was favourable, with investment and other revenue increasing to \$21.9 million.

Defence Health is in a sound financial position with healthy capital reserves. The fund currently holds assets valued at more than twice the prudential requirements. In 2015, total assets increased by \$34.7 million to \$359.9 million. Total liabilities increased by \$12.1 million to \$94.7 million. Total capital reserves as at 30 June 2015 were \$265.1 million, or \$2,340 per policy.



Member services

From the one office located in Melbourne, our members receive outstanding customer service that is independently recognised as among the best in the industry.

Communication channels

Our customer service staff are empowered and skilled to meet our members' needs. Over several years we have built our capacity to offer members more timely communication through more convenient and contemporary means.

Our communication channels include:

- telephone
- in writing via email, letters and our Member Update
- a secure online member site where members can claim, download important documents and maintain personal information
- social media
- mobile claiming app for fast and efficient claims.

Complaints from members are low and more often than not are resolved directly by our customer service staff with the member. The Private Health Insurance Ombudsman received 23 complaints from Defence Health members in the 2014-15 financial year. That represents 0.6% of all the complaints made to the Ombudsman and compares favourably with our market share of 1.8%. As a comparison, some funds are over-represented in the percentage of complaints compared to their market share.

Customer satisfaction results

Defence Health members have one of the highest levels of customer satisfaction in the industry. Annual industry research quantifies our service performance across a number of variables such as written and verbal communication, claims process, benefits received and value for money.

The year-on-year measurement of customer satisfaction is closely monitored and feedback received feeds into product and service improvements.



Our people

Our workforce is dedicated to the Defence community and actively lives and breathes our service culture. This year we've substantially increased our number of employees. In many cases, this growth has occurred from existing staff referring like-minded friends and family to our employ.

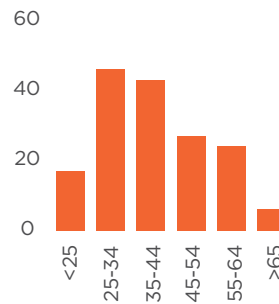
It's very pleasing to receive such endorsement from employees. And it helps to further cement our organisational values of community, trust, respect, ownership and excellence.

As at 30 June, our workforce consisted of 96 full time staff, 33 part-timers, 26 casuals and 8 Board members – 163 in total. The rate of voluntary departures during the year was 14.5%. We also celebrated several significant length-of-service anniversaries. Four employees had their 10-year anniversary; two reached 15 years; one reached 20 years; and Elizabeth in Office Services was recognised for her 40 years of service to Defence Health!

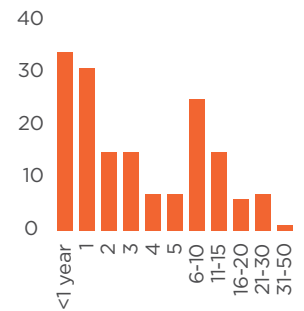
Many of our staff come from families of serving or ex-serving ADF members; or are themselves members of the Reserve and ex-serving communities. This gives them added insight and first-hand experience of the needs of our members.

Independent research by the WHO Group indicates extremely high levels of staff engagement and trust in the workplace. The WHO Group data is collected from a sample of 558 organisations across the country. The respondents are from different industries, various levels of responsibility and performing different functions.

Headcount by age



Headcount by length of service



Gender equity

Over the past year, we've initiated a number of policy changes to ensure greater gender equality in our workplace.

After comprehensive analysis, we can report there are no significant gender-based variations in what we pay our staff. And we've introduced flexible working arrangements to support families and carers. These include working from an alternative location; the option of a condensed working week; availability of part-time employment; and flexible rostering for appointments.

Our new Enterprise Agreement also gives staff the ability to 'purchase' additional annual leave.

Defence Health reports to the Workplace Gender Equality Agency annually and the report is available to the public from the [Agency website](#).

Community support and sponsorship

Community participation is an integral element to promoting health and wellness. Defence Health is proud to sponsor many Defence organisations and community groups that support families and physical activity.

This year we have provided funds to bring Defence communities together. Examples include Easter and Christmas celebrations, recreational events, veterans' health week activities and cultural exhibitions such as Army Art, carols and Children's Week outings.

We have also provided resources or support to groups such as Defence Special Needs Support Group and regional parent groups.

We were delighted to support budding young author, Jessica Love, to publish her first book. At age 13, Jessica wrote and illustrated the picture book, *Soon*. Written from her personal experience, the story recognises the difficulties and initial sadness many ADF children face when a parent is deployed.

Defence Health Foundation

It is now five years since we established the Defence Health Foundation. The purpose of the Foundation is to fund medical research into conditions affecting serving and ex-serving members of the ADF and their immediate family.

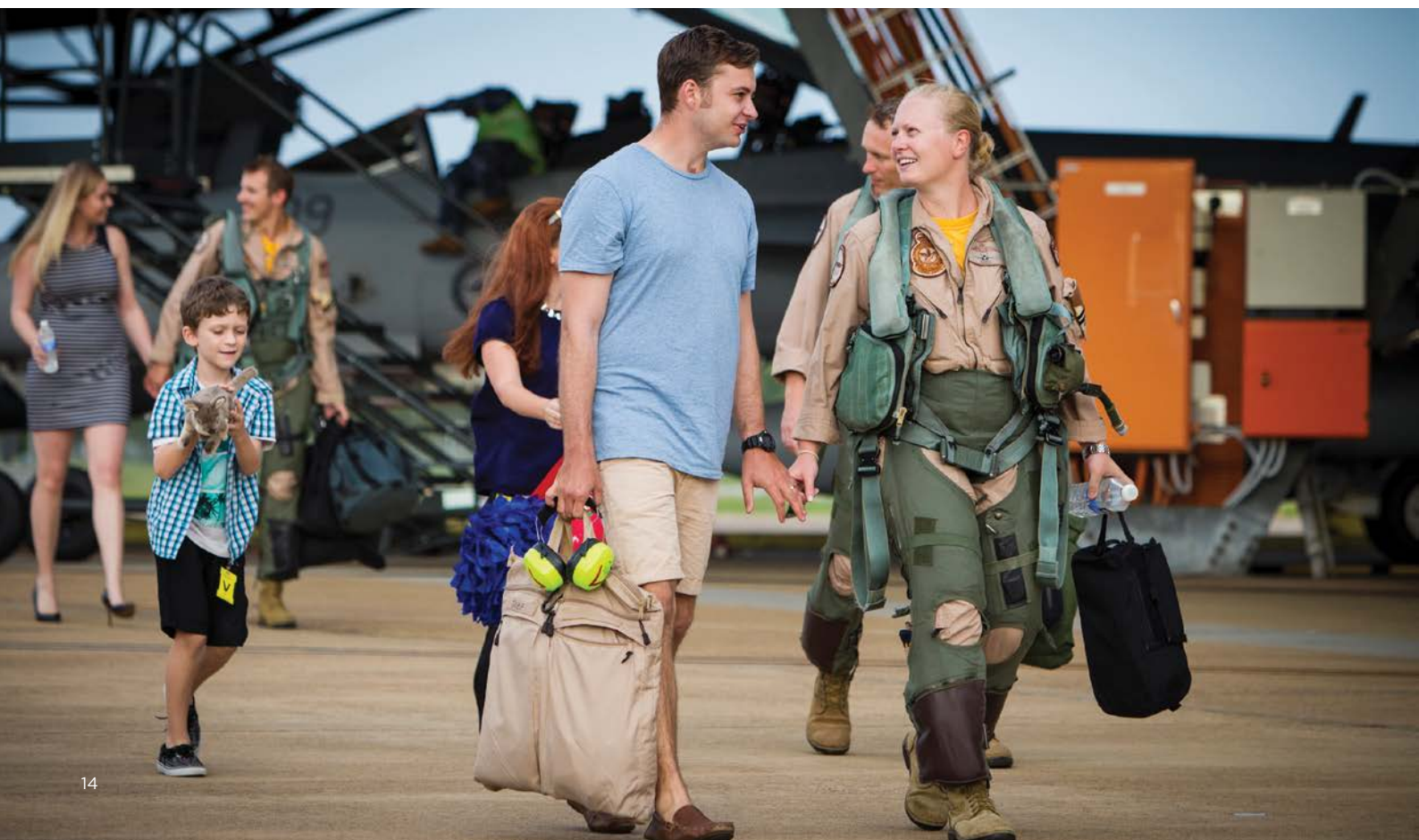
Past research has covered a number of areas, including acute knee injuries, chronic pain, and the repair of skin damaged from explosions and burns.

This year, the Foundation's focus moved away from laboratory-based scientific research to more clinical, translational research.

The Foundation encourages research that will directly benefit contemporary serving or ex-serving ADF members and help them deal with the physical and mental health issues that affect their lives. Researchers should look at prevention, treatment, rehabilitation or intervention and how they can complement existing therapies or programs.

The Foundation makes one-year establishment grants of between \$25,000 and \$50,000 to assist new research to the proof-of-principle stage. One-year booster grants of between \$25,000 and \$100,000 are made to help established research expand in scope or duration.

The Foundation is wholly funded by Defence Health and is a tangible commitment by us to enhance the health and wellbeing of Defence families. In 2014-15 Defence Health Foundation awarded five medical research grants totalling \$224,477.



Governance

Defence Health Limited is a not-for-profit company, limited by guarantee under the Corporations Act 2001. The Board of Directors is responsible for the governance and performance of the fund. For the full Corporate Governance Statement, please refer to the Concise Financial Report.

The company has no shareholders and its Statutory Members are the Chief of Army, Chief of Air Force and the Board of Directors.

Defence Health provides regular reports to the Private Health Insurance Administration Council (PHIAC), which has been the independent statutory authority responsible for monitoring and regulating the private health insurance industry.

Following the federal government decision to disband PHIAC, regulatory responsibility transferred to the Australian Prudential Regulation Authority from 1 July 2015.

Board of Directors

The Board is comprised of eight non-executive, independent directors. The Board appoints the Chief Executive Officer.



Pictured: Michael Bassingthwaite, Alan Beckett, Julie Blackburn, Gregory Garde, Anthony Hambleton, Garry Richardson, Alice Williams, Philip Byrne

Michael Bassingthwaite AM FAICD

Director since July 2001
Chairman January 2004
– October 2011

- Chairman – Business Strategy Committee
- Member – Nomination and Remuneration Committee
- Chairman – Hospital and Medical Benefits Systems Ltd
- Director – Australian Health Service Alliance Ltd
- Director – Members Own Health Funds Ltd
- Director – Illawarra Business Chamber Ltd
- Director – Illawarra Health and Medical Research Ltd
- Director – Coordinare Ltd
- CEO – Lysaght Peoplecare Ltd
- CEO – National Health Benefits Australia Pty Ltd
- CEO – Reserve Bank Health Society Ltd

Alan Beckett BEC FCA GAICD

Director since
January 2006

- Chairman – Risk, Compliance and Audit Committee
- Member – Investment Committee
- Director – Westbourne Capital Pty Ltd
- Director – Westbourne Credit Management Ltd
- Deputy Chair – Defence Audit and Risk Committee
- Independent Member – Audit and Risk Committee of Note Printing Australia
- Director – Meat and Livestock Australia
- Member – Very Special Kids Foundation

Julie Blackburn BNurs GradDip Midwifery GAICD

Director since
December 2011

- Member – Business Strategy Committee
- Member – Risk, Compliance and Audit Committee
- Director – Karralika Program Inc
- Chairman – Defence Health Foundation

MAJGEN Gregory Garde AO RFD (Ret'd) BA (Hons) LLM – Chairman

Director since
April 2004
Chairman since
October 2011

- Member – Investment Committee
- Member – Nomination and Remuneration Committee
- Justice – Supreme Court of Victoria
- President – Victorian Civil and Administrative Tribunal
- Director – Judicial College of Victoria
- President – Council of Australasian Tribunals (Victorian Chapter)
- Member – Courts Council, Court Services Victoria



**COL Anthony Hambleton
AM CSC GAICD**

Director since February 2014

- Member – Nomination and Remuneration Committee
- Member – Business Strategy Committee
- Director – Defence Health Foundation
- Member – Army Reserve
- Appointee Director – Chief of Army

**Garry Richardson
FAICD**

Director since February 2011

- Member – Risk, Compliance and Audit Committee
- Member – Investment Committee
- Director – Calvary Ministries Ltd

**Alice Williams
BComm FCPA
FAICD CFA ISFA AIF**

Director since February 2010

- Chairman – Investment Committee
- Member – Risk, Compliance and Audit Committee
- Director – Equity Trustees Ltd
- Director – Guild Group
- Director – Djerriwarrh Investments Ltd
- Member – Cancer Council of Victoria
- Director – Port of Melbourne Corporation
- Director – Cooper Energy Ltd
- Director – Barristers Chambers Pty Ltd
- Director – Foreign Investment Review Board
- Member – Felton Bequest Committee

**AIRCDRE Philip Byrne
BA FACDSS MAICD**

Director since April 2005

- Chairman – Nomination and Remuneration Committee
- Member – Business Strategy Committee
- Director – Defence Health Foundation
- Appointee Director – Chief of Air Force

Executive Management Team

The Chief Executive Officer is responsible to the Board for the overall management and performance of the company. He is supported in this task by an Executive Management Team.



Pictured: Joanne Kadlecik, Kathryn Woolridge, Barry Leung, Alison Teale, Gerard Fogarty, Tiffany Conway, Catherine Mulcare, Andrew Guerin.

The Executive consists of:

- ▶ Chief Executive Officer – MAJGEN Gerard Fogarty AO (Ret'd)
- ▶ Chief Finance Officer – Catherine Mulcare
- ▶ Company Secretary, General Counsel and Compliance Manager – Andrew Guerin
- ▶ Chief Operating Officer – Joanne Kadlecik
- ▶ Head of Strategy and Actuarial Services – Barry Leung
- ▶ Head of Human Resources – Kathryn Woolridge
- ▶ Head of Marketing – Tiffany Conway (from 6 July 2015)

Also pictured is the Defence Health Foundation CEO, Alison Teale.

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 of these 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.

Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Consolidated Concise Financial Statements

for the year ended 30 June 2015

Extract from the Financial Statements signed as at 16 September 2015

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

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Registered Office & Principal Place of Business

Level 4 380 St Kilda Road
Melbourne VICTORIA 3004

Corporate Governance Statement

Defence Health Limited (referred to as “Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company provides regular reports to the Private Health Insurance Administration Council (PHIAC) which regulates and monitors the private health insurance industry. From 1 July 2015, this regulatory responsibility has transferred to the Australian Prudential Regulation Authority (APRA).

The Company and its subsidiary, Defence Health Foundation Pty Ltd, together are referred to as the “Group”. Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation.

Members

The Members of Defence Health are the Directors and the persons who hold the offices of the Chief of Army and Chief of Air Force.

The Members are briefed on the Company’s performance on a regular basis and on significant financial, operational and strategic issues as they arise.

Directors' Report for the year ended 30 June 2015

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2015.

Members

Defence Health Limited has one class of Member. Each Member is entitled to one vote on matters determined by Members' votes and is eligible to be appointed as a Director of the Company. 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 names and detail of the Directors of Defence Health Limited who held office during the financial year are:

Name	Particulars
Major General Gregory Howard Garde AO RFD (Ret'd) BA(Hons) LLM	Appointed to the Board in April 2004 and appointed Chairman in October 2011. Current term expires at the Annual General Meeting to be held in 2015.
Mr Michael John Bassingthwaighe AM FAICD	Appointed to the Board in July 2001. Current term expires at the Annual General Meeting to be held in 2018. Mr Bassingthwaighe was appointed Chairman in January 2004 and retired as Chairman in October 2011.
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 2016.
Ms Julie Anne Blackburn BNurs GradDip Midwifery GAICD	Appointed to the Board in December 2011. Current term expires at the Annual General Meeting to be held in 2015.
Air Commodore Philip Darcy Byrne BA FACDSS MAICD	Appointed to the Board in April 2005. Current term expires at the end of the Annual General Meeting to be held in 2016.
Colonel Anthony 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 2017.
Mr Garry Richardson FAICD	Appointed to the Board in February 2011. Current term expires at the Annual General Meeting to be held in 2018.
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 2017.

The above named Directors held office during the whole of the financial year.

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

During the financial year, 24 meetings were held: 8 Board meetings, 5 Investment Committee meetings, 4 Risk, Compliance and Audit Committee meetings, 6 Nomination and Remuneration Committee meetings and 1 Business Strategy Committee meeting.

The number of Board and Committee meetings held during the financial year and the number of meetings attended by each Director (while they were a Director or a committee member), are shown below.

	Board of Directors		Investment Committee		Risk Compliance and Audit Committee		Nomination and Remuneration Committee		Business Strategy Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
G H Garde*	8	8	5	5			6	4		
M J Bassingthwaighte	8	7					6	6	1	1
A I Beckett	8	7	5	5	4	4				
J Blackburn	8	8			4	4			1	1
P D Byrne	8	8					6	6	1	1
A Hambleton	8	8					6	6	1	1
G Richardson	8	7	5	5	4	4				
A J M Williams	8	8	5	5	4	4				

* Chairman

Principal activities

The principal activity of Defence Health during the financial year was to operate a registered health benefits fund in accordance with the Private Health Insurance Act 2007. The Company provided health insurance and complementary products to members and families of the Australian Defence Force and the wider Defence community. There were no significant changes in the nature of the Company's activities during the financial year.

Strategy

The Company's core purpose is to support members of the ADF and wider Defence community to manage their personal and family health care. The objectives for achieving this outcome over the period were:

- refresh the "Defence Health" brand;
- provide products and services that fit the needs of our chosen segments;
- deliver exceptional support and service (relevant, high quality, timely, in forms and via channels suited to members' needs);
- leverage technology to improve products and services, reduce costs and improve management understanding and decision making;
- develop, equip and empower our people and attract, recognise and retain talent; and
- be alert to opportunities and challenges and agile in responding to those which serve or threaten the vision.

The Company measures its performance against the strategic objectives. In particular, meeting the needs of the Australian Defence Force segment, members' perceptions, staff commitment, capital management and performance against underwriting objectives.

Strategic Plan 2015 and Beyond is the culmination of significant preparation and positioning in successive strategic plans. The repositioning of DHL products and its rebranding, coupled with significant capability development delivered through strategic initiatives over recent years, has laid the foundation needed to implement throughout 2016 tailored services and to broaden our integrated care offerings.

The strategy for 2015 and beyond seeks to drive and support these tailored product and service offerings in order to position the company over the next decade to be the preferred, trusted and active provider of health insurance and health services to the Defence Community.

Review of operations

Defence Health recorded a surplus of \$22.49 million in the 12 months to 30 June 2015, an increase of \$1 million on the prior year.

During the year the number of health insurance policies increased by 6%. Defence Health has 113,327 policies at 30 June 2015. During the year, premium revenue increased by 11.2% to \$367.7 million and net benefits expenses increased by 12% to \$346.9 million. The industry is experiencing significant upward pressure on benefits both in utilisation and underlying cost.

Total management expenses of \$22.95 million were contained at 6.2% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income increased by 21.2% from \$18.09 million in the previous year to \$21.92 million due to strong growth in the equity market and the fall in the Australian dollar increasing the market value of international investments. The return on the investment portfolio was 6.7%.

The Company invested in technology, facilities 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 2015 was \$5.93 million, an increase of \$4.37 million compared to prior year. Other revenue includes commission on life, accident and travel insurance products. \$4.5 million was recognised relating to a liquidation distribution.

During the year the Company pledged a donation of \$220,000 to the Defence Health Foundation.

Dividends

Defence Health Limited is a company limited by guarantee and is prohibited by its constitution from paying dividends.

Significant changes in the state of affairs

The Company revised the product suite in 2014 and closed the previous product suite to new members.

Future developments

Building on the significant brand and product changes implemented over this reporting period, the company intends to continue to build capability to tailor its product and service offerings to meet the needs of the Defence Community. Directors expect operating conditions in the immediate future to remain substantially unchanged.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of financial year that has significantly affected, or may significantly affect, the operations of the Group.

Environmental regulation

The Company's operations are not significantly impacted by any environmental regulation under a law of the Commonwealth, a State or a Territory.

Directors' benefits

During the year, no Director received or became entitled to receive any benefit by reason of a contract made by the Company with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, other than for Directors' fees disclosed in Note 20 and related party transactions disclosed in Note 19 to the Financial Statements.

Indemnification of Directors and Officers

During the year, the Company paid a premium in respect of insurance covering each of the Directors and executive officers of Defence Health against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307 of the Corporations Act 2001 is set out on page 25.

Rounding-off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with the Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.


.....

Mr Alan I Beckett

Director

24 October 2015


.....

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

Director

24 October 2015

The Board of Directors
Defence Health Limited
380 St Kilda Road
MELBOURNE VIC 3000

24 October 2015

Dear Board Members

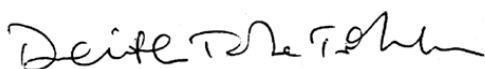
Defence Health Limited

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 2015, 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



Peter A Caldwell
Partner
Chartered Accountants

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Revenue			
Premium revenue	4	367,746	330,784
Benefits expense			
Direct benefits expense		(308,296)	(267,072)
Health Benefits Reinsurance Trust Fund expense		(35,318)	(39,687)
Ambulance Levies		(3,258)	(3,000)
Net benefits expense		(346,872)	(309,759)
Unexpired risk reserve		(3,064)	267
Underwriting Result		17,810	21,292
Expenses			
Employee benefits expenses		(13,250)	(10,862)
Marketing expenses		(2,108)	(1,301)
IT & Computing expenses		(1,836)	(1,430)
Transaction processing costs		(1,352)	(1,260)
Professional fees		(1,005)	(1,258)
Occupancy expenses		(888)	(881)
Industry subscriptions		(761)	(735)
Depreciation and amortisation expenses		(417)	(246)
Agency legal costs		(267)	(253)
Other management expenses		(1,064)	(1,058)
Total expenses		(22,948)	(19,284)
Underwriting Result after operating expenses		(5,138)	2,008
Other revenue / (expense)			
Investment income	4	21,920	18,090
Other revenues	4	5,926	1,558
Other expenses			
Donation to / pledge to Defence Health Foundation		(220)	(200)
Surplus for the year		22,488	21,456
Other comprehensive income		-	-
Total comprehensive income for the year		22,488	21,456

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

The Group's premium revenue of \$367.746m increased by 11.2% on prior year, of which 94% was provided to members as Benefits of \$346.872m an increase of 12%. Number of policies increased by 6%. Management expense ratio of 6.2% continues to remain one of the lowest management expense ratios within the industry. The investment portfolio generated an annual return of 6.7% or \$21.920m for the year.

Consolidated statement of financial position

as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Current assets			
Cash and cash equivalents		14,038	9,382
Trade and other receivables		17,790	12,998
Other financial assets	5	326,124	302,258
Total current assets		357,952	324,638
Non-current assets			
Property, plant and equipment		1,398	596
Intangible assets		520	4
Total non-current assets		1,918	600
Total assets		359,870	325,238
Current liabilities			
Trade and other payables		41,718	38,186
Claim liabilities	6	41,124	35,774
Provisions		9,244	6,312
Total current liabilities		92,086	80,272
Non-current liabilities			
Trade and other payables		486	529
Provisions		2,150	1,777
Total non-current liabilities		2,636	2,306
Total liabilities		94,722	82,578
Net assets		265,148	242,660
Equity			
Contributed equity		43,346	43,346
Retained earnings		221,802	199,314
Total equity		265,148	242,660

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

The Group's financial position continues to remain strong with assets exceeding liabilities by \$265.148m an increase of 9.3% on prior year, a surplus of \$22.488m for the period. There are no significant changes in the composition of assets and liabilities in the financial year.

Consolidated statement of changes in equity

for the financial year ended 30 June 2015

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
Balance at 30 June 2013	43,346	177,858	221,204
Total comprehensive income for the year	-	21,456	21,456
Balance at 30 June 2014	43,346	199,314	242,660
Total comprehensive income for the year	-	22,488	22,488
Balance at 30 June 2015	43,346	221,802	265,148

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

The Group's changes in equity continue to increase consistently year on year at \$21.456m (2014) and \$22.488m (2015) primarily driven by investment income. The Group's equity is limited by guarantee.

Consolidated statement of cash flows

for the financial year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Premium receipts		371,685	333,004
Benefits paid to and on behalf of health fund contributors		(302,507)	(263,262)
Government and other levies paid		(3,217)	(2,976)
Payments to Risk Equalisation Trust Fund		(37,527)	(39,183)
Payments to suppliers and employees		(21,814)	(19,184)
Commission received		1,426	1,558
Donations Paid		-	(200)
Net cash generated by operating activities		8,046	9,757
Cash flows from investing activities			
Purchase of investment securities		(310,130)	(310,904)
Proceeds on sale of investment securities		292,320	292,698
Interest and dividends received		16,156	9,639
Purchase of plant and equipment		(1,201)	(304)
Payment for intangible assets		(535)	(4)
Net cash used in investing activities		(3,390)	(8,875)
Net increase in cash and cash equivalents		4,656	882
Cash and cash equivalents at the beginning of the financial year		9,382	8,500
Cash and cash equivalents at the end of the financial year		14,038	9,382

Net cash generated by operating activities of \$8.046m decreased by 17.5% on prior year, driven by an increase in benefits paid to and on behalf of members of \$302.507m representing a 14.9% increase. The net cash used in investing activities has increased, primarily due to higher interest and dividends received for the period.

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 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 concise financial statements have been prepared in accordance with the *Corporations Act 2001* and Accounting Standard AASB 1039 ‘Concise Financial Reports’. The concise financial statements are an extract from the full financial statements. The concise financial statements and specific disclosures included in the concise financial statements have been derived from the full financial statements of Defence Health Limited.

The full financial statements were approved by the board and authorised for issue by the Directors on 16 September 2015.

1.2 Basis of preparation

These concise financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments which are measured at fair value. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

1.3 Critical accounting judgements and key source of estimation uncertainty

In the application of the Group’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The critical judgments that management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements are disclosed in note 2.

1.4 Revenue recognition

Revenue is recognised for the major income streams as follows:

i) Premium revenue

Premium revenue is recognised in the consolidated statement of profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of premiums received or receivable not earned at the reporting date is recognised as an unearned premium liability.

ii) Life, Travel and Accident insurance commissions

Commission revenue is recognised when a submission is lodged by the Company with the underwriter or agent of the insurance policies.

iii) Dividend and interest revenue

Dividend revenue from investments is recognised when the Company’s right to receive payment has been 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.

iv) Other

All other revenue is measured at the fair value of the consideration received or receivable.

1.5 Receivables

- i) Unclosed business premiums – earned (contributions in arrears) represent amounts owing by contributors in relation to health insurance policies. Contributions in arrears are recognised when they become receivable. After 63 days the policy is cancelled.
- ii) Interest receivables represent an accrual calculation of interest income receivable from interest bearing securities as at balance date.
- iii) Health insurance rebates receivable represents the amount claimed by the Company from Medicare Australia for the Government Private Health Insurance Rebate.
- iv) Other receivables represent prepaid expenses and commissions due to the Company for sales of life insurance, travel and accident insurance and other amounts owing where the Company has a contractual and enforceable right to receive the amounts recognised at balance date.

1.6 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.

1.7 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of an item 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 included in the Statement of cash flows on a gross basis. 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.

1.8 Provision for Risk Equalisation

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

The amounts payable to and receivable from the Health Benefits Risk Equalisation Trust Fund are determined by APRA (previously PHIAC) after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

1.9 Investments and other financial assets

As part of its Capital Management Plan and investment strategy, the Company manages its investment portfolio to ensure that adequate liquidity exists within the portfolio to match the expected pattern of future cash flows arising from health insurance liabilities, having regard to regular cash flows from operations. 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.

Financial assets are classified into the following specified categories: financial assets 'at fair value through the statement of profit or loss (held for trading)', 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through the statement of 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 a 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.

Financial assets at fair value through the statement of profit or loss are stated at fair value, with any resultant gain or loss recognised in the statement of profit or loss. The net gain or loss 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

Financial assets with fixed or determinable payments and fixed maturity dates where the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. 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

The Company has investments in fixed income and equity trusts that are not traded in an active market and are classified as available for sale financial assets and 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

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment.

1.10 Assets backing insurance liabilities

Financial assets held by the Group have been determined to be assets backing insurance liabilities and accordingly are designated as "at fair value through the statement of profit or loss". These are initially recorded at cost and subsequently re-measured at fair value. Fair value has been assessed based on independent valuation for all assets held for which a secondary market exists. Cash at bank and deposit products held have been 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.

1.11 Product classification

Insurance contracts means a contract under which one party (the insurer) accepts significant insurance 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 a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during this period.

The Company has determined that all current contracts with policyholders are insurance contracts.

1.12 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 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 connection with 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.

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 future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate 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 immediately in the statement of profit or loss and recorded in the statement of financial position as an unexpired risk liability.

Note 2 – Critical accounting estimates and judgements

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

The provision for outstanding claims 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.

Because 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 zero discount rate 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 in respect of the foregoing; and costs, including claims handling costs, which the Company expects to incur in settling the incurred claims.

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

The critical estimates and judgements are:

i) Central estimate

The central estimate is the mean of all the possible values of expected future payments.

ii) Risk margin

The risk margin reflects 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 in respect to the provision for outstanding claims, acting on the advice of the Appointed Actuary, is 4% (2014: 2.5%) and was set so as to give at least a 75% probability that the provision will be adequate.

The Unexpired risk reserve adopted by the Company, acting on the advice of the Appointed Actuary, is determined with a risk margin of 2.7%, and a 75% probability that the provision will be adequate.

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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Company's obligation to participant employers is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. In the prior period the discount rate had been determined by long-term government bonds. The change in this estimate has resulted in a decrease of the obligation to participant employers by \$121,000. The impact of this change in estimate in future periods has not been able to be determined.

Management has estimated other income and other receivables of \$4.5million relating to a distribution from the liquidator of Lehman Ltd after successful proof of debt. The amount recognised is based on a best estimate of distribution of liquidated assets of which \$1.445m interim distribution was received subsequent to year end.

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

Risk selection and pricing

The Company is prohibited by the *Private Health Insurance Act 2007* from taking any actions which discriminate against an existing or prospective contributor on the basis of medical condition, gender, age or any other characteristic that is likely to result in an increased requirement for services. Prohibited discriminatory actions include selecting the amount of contributions payable by the contributor, whether benefits are payable, the amount of benefits payable and whether a contributor can move between products.

Although the Company is not able to be selective in accepting individual risks and in charging risk related premiums, the individual risks are absorbed within the total portfolio which presents a relatively consistent and predictable total risk.

Concentration risk

Legislation prohibits the Company from adjusting the terms and premium of a health insurance policy in accordance with the assessed risk of the person or persons insured. The Company therefore has an exposure to a possible concentration of insured persons 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 of the type in respect of which the concentration risk exists. The effectiveness of the predictive models are regularly reviewed by comparing past predictions with actual experience. The risk of a concentration of high cost claims is mitigated by the Company having access to the "high cost claims pool" administered by the Private Health Insurance Administration Council, whereby high cost claims are partially funded by all insurers.

Claims management and claims provisioning risks

The Company's approach to determining the outstanding claims provision is set out in Note 2. The Company seeks to ensure the adequacy of its provision for outstanding claims by reference to the following controls:

- Regular reviews of incurrence and payment patterns to ensure that the timeliness of claims notification and payment remains within the assumed twelve 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 the effectiveness of forecasts to ensure the factors considered in making forecasts remain appropriate.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to uncertainty for the reasons outlined in Note 2.

b) Financial risks arising from insurance contracts

The Company is exposed to the risk that inflation within the medical services industry may be greater than that expected by the Company in setting its contribution rates and schedule of benefits. This risk is substantially reduced, however, by the existence of contracts between the Company and the majority of hospitals and medical practitioners which establish fixed charges for hospital and medical services.

c) Capital and regulatory risks

The Company is subject to prudential regulations designed to protect contributors, primarily by ensuring the maintenance of adequate capital reserves having regard to the risks assumed by the Company. 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 regulators and monitors regulatory developments to assess their potential impact on the prudential management of the Company. From 1 July 2015 APRA has assumed regulatory responsibility from PHIAC. The Board does not expect that this will give rise to a significant change in regulatory risk or the capital management requirements in the coming year.

d) Sensitivities

The interval between the provision of an insured service and the presentation of a claim is generally less than one year. Analysis of historical patterns indicates that in excess of 95% of claims for all claim types are settled within 90 days. Moreover, the nature of health insurance claims is that, once lodged and assessed, they are generally subject to little variation.

The consequence is that processed health insurance claims are not sensitive to factors such as inflation, changes in official interest rates or other time-value of money factors. Accordingly, no sensitivity analysis has been presented.

Note 4 – Revenue

	2015 \$'000	2014 \$'000
Continuing Operations		
Premium revenue pursuant to a contract of private health insurance	367,746	330,784
Investment revenue		
Interest revenue		
Bank deposits	302	293
Term deposits	6,434	6,588
Floating rate notes	5	41
	6,741	6,922
Dividends		
Unlisted cash trusts	3,616	2,406
Unlisted equity trusts	5,507	1,486
	9,123	3,892
Realised gains/(losses) on disposal		
Fixed income trusts	(154)	713
Unlisted equity trusts	(320)	555
	(474)	1,268
Unrealised gains/(losses) of		
Unlisted cash trusts	(745)	949
Unlisted equity trusts	7,275	5,059
	6,530	6,008
Total Investment Revenue	21,920	18,090
Other revenue		
Commission pursuant to the sale of life and trauma insurance	1,036	1,014
Commission pursuant to the sale of travel insurance	380	530
Commission pursuant to the sale of accident insurance	10	14
Other revenue	4,500	-
	5,926	1,558
	395,592	350,432

Note 5 – Other financial assets

	2015 \$'000	2014 \$'000
Current		
Term deposits (i)	192,339	176,539
Units in fixed income trusts (ii)	56,972	54,815
Units in unlisted equity trusts (ii)	76,813	70,904
Total investments	326,124	302,258

(i) Investments held to maturity and carried at amortised cost

(ii) Investments held for trading and carried at fair value through the statement of profit or loss

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

Note 6 – Claims liabilities

	2015 \$'000	2014 \$'000
Gross outstanding claims	37,235	31,372
Risk equalisation cost	2,681	3,470
Claims handling costs	384	370
Risk margin	824	562
Gross outstanding claims liability	41,124	35,774

Changes in the gross outstanding claim liabilities can be analysed as follows:

	2015 \$'000	2014 \$'000
Opening balance	35,774	32,434
Benefits incurred during the year	308,303	268,036
Benefits utilised during the year	(302,198)	(263,494)
Unused provision from prior year	(242)	(1,083)
Risk equalisation cost	(789)	(270)
Claims handling costs	14	38
Risk margin	262	113
Closing balance	41,124	35,774

The risk margin of 4% (2014: 2.5%) has been estimated to equate to a probability of adequacy of at least 75% (2014: 75%). The risk margin has been based on an analysis of the past experience of the Company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past unexplained volatility has been assumed to be indicative of future volatility.

Note 7 – Contingent liabilities and contingent assets

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

Note 8 – Subsequent events

There have not been any matters or circumstances occurring subsequent to the end of financial year that have significantly affected, or may significantly affect, the operations of the company.

Directors' Declaration

The Directors of Defence Health Limited declare that:

- a) in the Directors' opinion, there are reasonable grounds to believe that 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 thereto 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*.

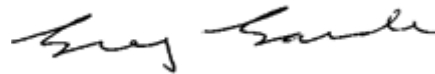
On behalf of the Board of Directors.


.....

Mr Alan I Beckett

Director

24 October 2015


.....

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

Director

24 October 2015

Report of the Independent Auditor on the concise financial report to the members of Defence Health Limited

We have audited the accompanying concise financial report of Defence Health Limited which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Defence Health Limited for the year ended 30 June 2015 and discussion and analysis as set out on pages 26 to 38. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' Responsibility for the Concise Financial Report

The Directors 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 the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Defence Health Limited for the year ended 30 June 2015. We expressed an unmodified audit opinion on that financial report in our report dated 16 September 2015. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report 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 entity's internal control.

Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts discussion and analysis and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039 *Concise Financial Reports*.

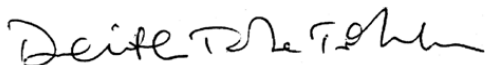
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of The Defence Health Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the concise financial report, of Defence Health Limited for the year ended 30 June 2015 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.



DELOITTE TOUCHE TOHMATSU



Peter A Caldwell
Partner
Melbourne
24 October 2015

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