

Annual Report

2018



(MEMBERS OWN)
HEALTH FUND



Our vision

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

Our purpose

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

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Financial snapshot

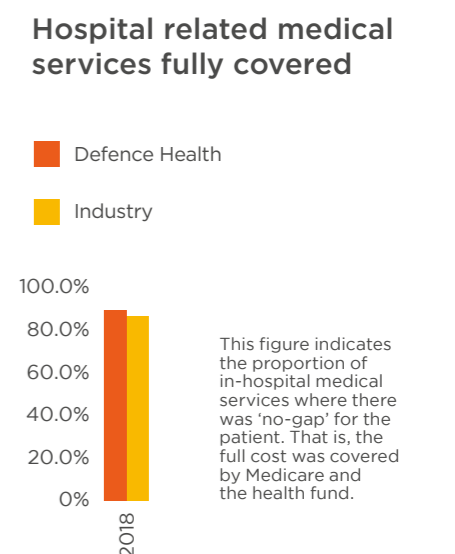
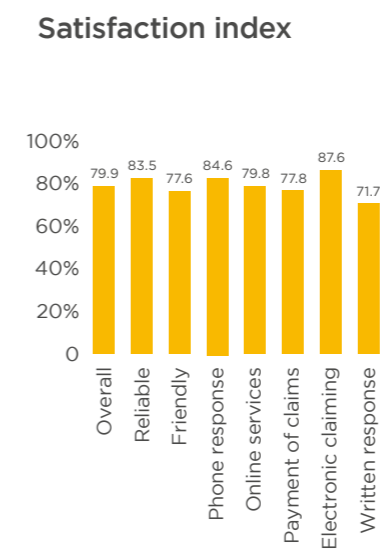
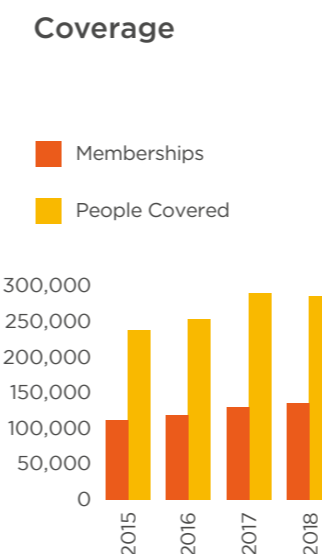
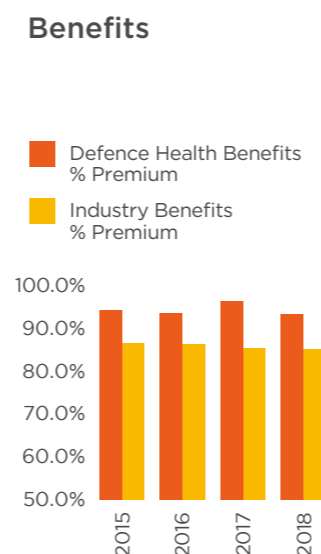
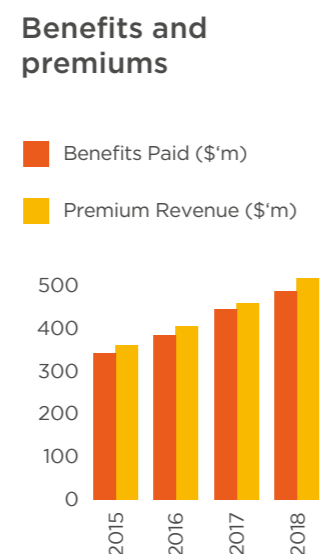
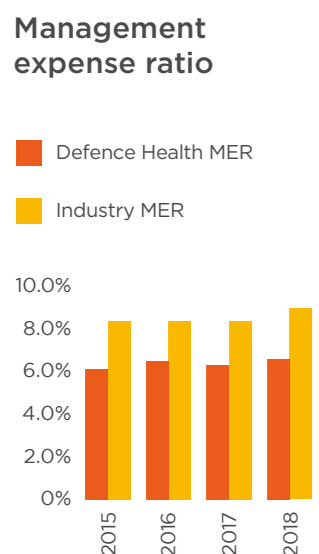
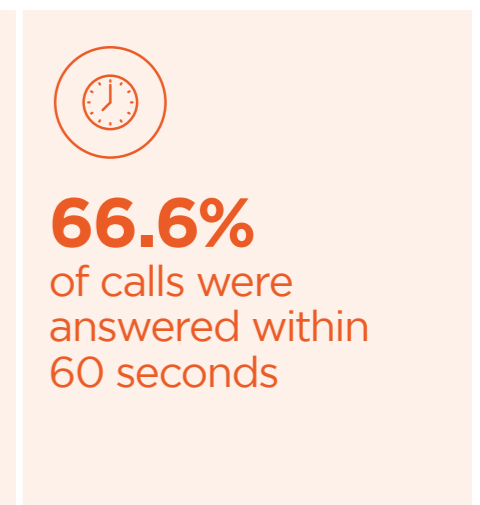
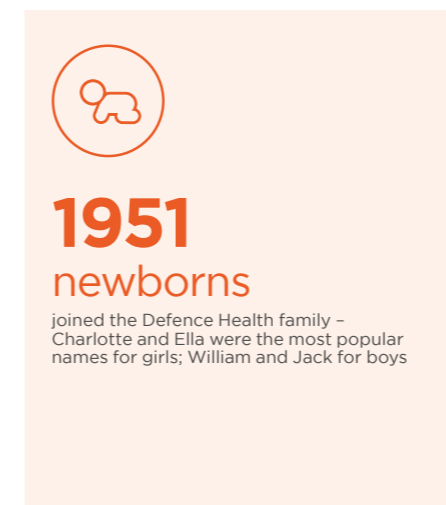
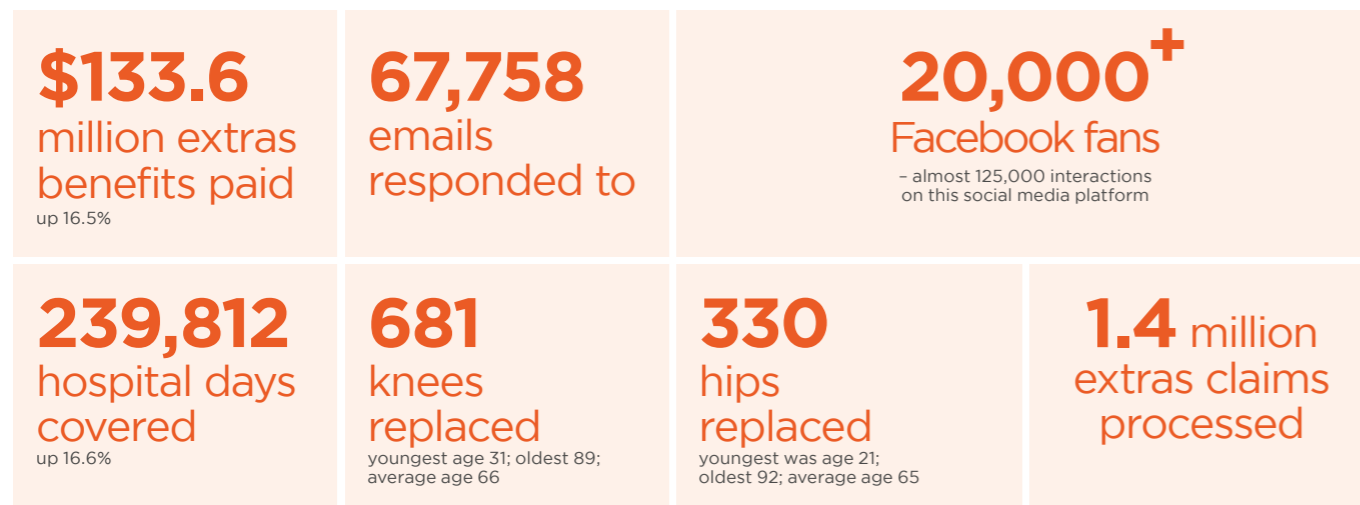
\$'000	2018	2017	Change	Change %
Premium revenue	528,189	468,336	59,853	12.8%
Gross margin	30,857	13,214	17,643	133.5%
Management expense	(35,324)	(30,146)	5,178	17.2%
Management expense ratio	6.7%	6.4%		0.3%
Net margin	(4,467)	(16,932)	12,465	73.6%
Investment income and other revenue and expenses	22,222	20,873	1,349	6.5%
Operating surplus	17,755	3,941	14,632	350.5%
Total assets	426,255	407,787	19,286	4.5%
Total liabilities	127,814	127,101	(713)	0.6%
Total capital reserves	298,441	280,686	17,755	6.3%
Number of policies	138,383	131,733	6,650	5.0%
Market share	2%	1.85%		

Performance highlights

For Defence Health, family is everything. That's why we've been here – since 1953 – supporting the families of those who defend our country. Through the very best of times and some difficult days, we have a strong and genuine commitment to our community.



- Dental 47%
- Optical 16%
- Physiotherapy 9%
- Chiropractic and osteo 8%
- Alternative therapies 5%
- Other 15%



Chairman's statement

Ours is an unwavering commitment to the health and wellbeing of the Defence community.



The financial statements for 2017-18 demonstrate the continuing focus within the fund on the management of costs in a volatile environment.

Despite the heightened awareness of affordability issues in the private health sector, Defence Health has recorded strong membership growth. Defence families, Reservists and eligible Defence community members continue to find that Defence Health offers them the best value cover and service in the market.

At 30 June 2018, we had 291,221 people covered by 138,383 policies. While many larger funds are experiencing a loss of membership, the number of policies held by Defence Health increased by 5% over the year.

The inflow of new members boosted our premium revenue by 12.8% to \$528.2 million. The average Defence Health premium increased by 5.97% on 1 April 2018 and this also contributed to this revenue growth.

The fund's products and premiums are highly competitive against like-for-like products in the market. Defence Health continues to offer a comprehensive product range, and updates its products to optimise value to members and families.

A new comprehensive hospital product with some higher benefits was launched on 1 December and a range of hospital and extras product changes took effect from 1 April 2018.

The Board regularly reviews the adequacy of the capital reserves held by the fund on behalf of all members. As a not-for-profit company, the Board's only interest is to maximise value to members. Defence Health does not distribute any dividends to shareholders.

The fund paid a total of \$497.3 million in benefits during the year - an increase of 9.3% on the prior year.

Management expenses grew by \$5.2 million to \$35.3 million, primarily due to an increase in staff required to maintain service levels for the growing membership and professional IT expenses to strengthen the business' core software platform.

Although slightly higher this year, our management expenses represent just 6.7% of premium revenue, with \$0.94 for every \$1.00 of premiums returned in benefits to members. Our management expense ratio continues to be significantly lower than the industry average of 9.1%.

The fund produced an underwriting loss (after management expenses) of \$4.5 million. After investment income of \$16.8 million and other revenue and expenses, the fund had a surplus of \$17.8 million at balance date.

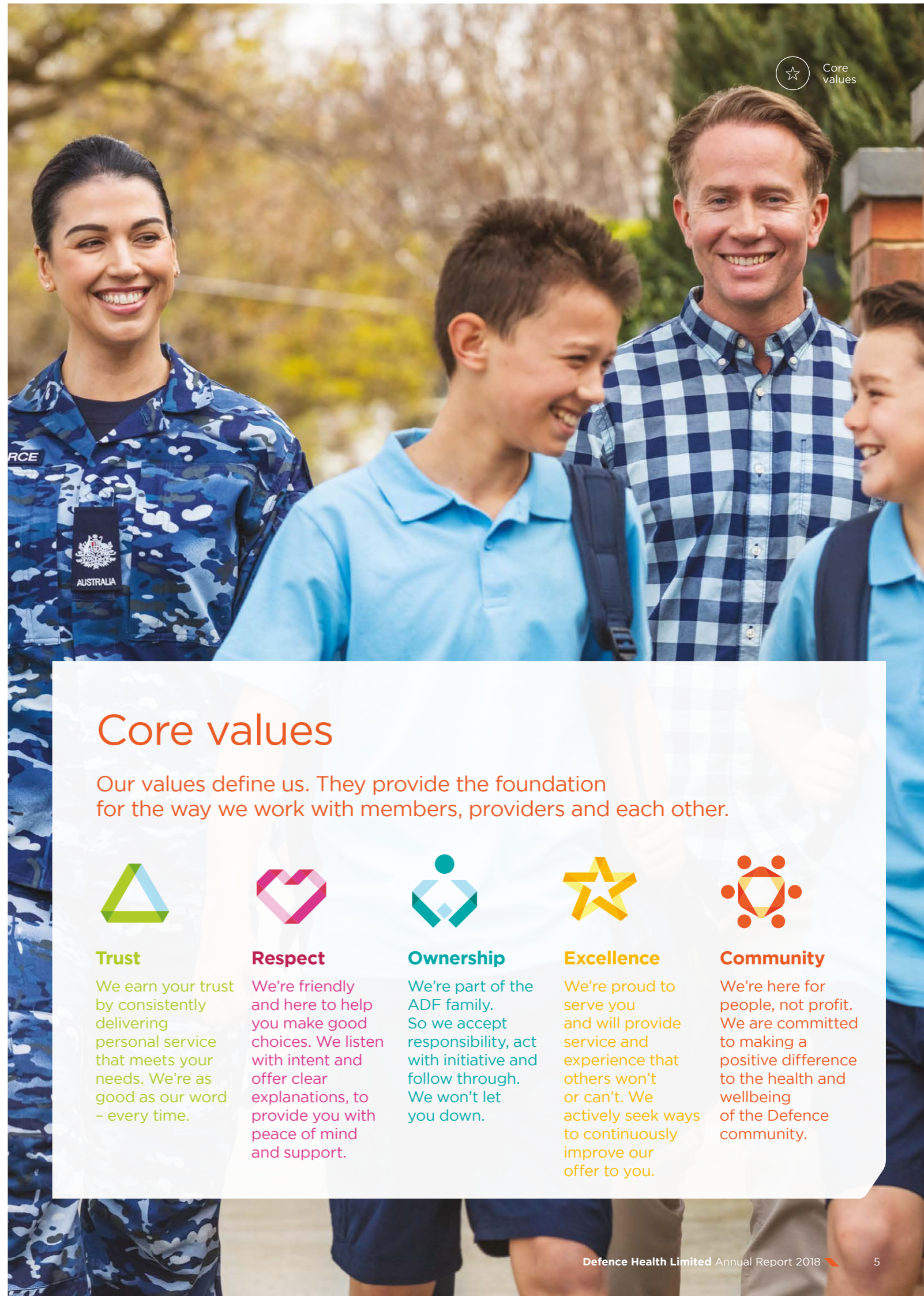
While managing the fund for a sustainable future using best-practice risk management and governance, we are also delivering life-changing benefits and health programs for members. The Healthy Weight For Life programs launched in April are an example of our commitment to make a positive difference to the health of members with chronic conditions.

These programs improve lives and may avoid the need for invasive medical procedures - and they are delivered at no cost to the member.

Our industry will continue to face headwinds in the coming years. Political uncertainty exacerbates our challenges. However, Defence Health has a strong reputation and substantial capital base, and will continue to provide its unique brand of customer service and outstanding quality products.

Our staff and leaders are committed to the goal of being health insurer of choice for Defence families. The company has the agility and strength to respond to changing circumstances. The Board of Directors and I have complete confidence in our CEO, Gerard Fogarty and the Executive Management Team to lead us through the economic, commercial and political challenges that lie ahead.

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



Core values

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.



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.



Ownership

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



Excellence

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



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

Keeping costs and premiums down.



Premiums increase every year because we're paying *more* for our members' health care and because our ageing membership needs *more* health treatment. Rising costs are impacting affordability and growth across the entire sector.

The federal Health Minister, Greg Hunt, announced some important health reforms in October 2017 that aim to increase affordability and transparency of private health insurance. Many of these reforms are set for implementation in 2019.

I remain positive that with further focused reform, we can restore the health sector to a more sustainable and affordable position. Both private and public patients must demand an effective reform agenda because private health is of public benefit.

As part of this reform agenda, extensive work is underway to improve the transparency of health insurance products for consumers. Across the entire industry, products will be categorised as gold, silver, bronze or basic in 2019.

The treatment covered in each category and the terminology will be consistent across all funds. Like-for-like comparisons will be easier for everyone.

Although affordability is a real concern across the sector, the membership of Defence Health continues to grow. That's because people recognise the value we represent and our genuine commitment to the Defence community.

They also appreciate the outstanding service they receive from our dedicated and motivated staff. The annual member satisfaction ratings (96% in the latest survey) demonstrate the effort we put into our service and the respect we have for our members.

At Defence Health we seek to empower our members to have conversations with their doctors about medical fees. Members should not need to incur high out-of-pocket costs after discharge from hospital. Access Gap is a valuable feature of our hospital cover as it helps cap or eliminate out-of-pocket medical charges. And our Healthshare digital directory helps members to find a doctor who is willing to use Access Gap.

I'm grateful to the Chairman and the Board of Directors for their prudent oversight of the company's affairs. We have a diverse and skilled Board and it provides the Executive Team and me with a rigorous appraisal of our management proposals and clear strategic direction.

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

About us

Defence Health - a small player punching above our weight

Defence Health is a private health insurer, providing hospital and general treatment (extras) insurance for Australian Defence Force (ADF) families and the wider Defence community.

In the years following World War II, public hospitals were struggling to cope with the increase in demand for health care. The *National Health Act 1953* was established and private health insurers started entering the sector to help meet demand. In September 1953, Defence Health was registered with £27,000 in financial backing from the Army Canteens Service.

Fast-forward 65 years and we're still here providing valuable benefits to members and enabling their timely access to medical treatment.

The health landscape has changed, but the services provided by the private health sector remain a vital element of Australia's overall health system. Without private health insurance, the public sector would be crippled under the demand for services.

Today, more than 60% of elective surgery in Australia is funded by the 37 registered private health insurers. Instead of joining the lengthy public hospital waiting list, patients with private health

insurance can have their surgery performed almost immediately in a private hospital.

Along with 19 other not-for-profit health funds, Defence Health is part of the group known as Members Own Health Funds. These funds have been independently audited and found to collectively give more back to their members in benefits; to provide better service; and have more satisfied customers than the large for-profit funds.

As at 30 June 2018, 254,939 people were covered by Defence Health hospital cover (81% also held extras cover) and 36,282 had extras-only cover.



2017-2018 Strategic achievements

Our five-pronged strategic plan continues to move us closer to our ultimate vision to be the:

Preferred, trusted, active provider of health insurance and health services for the Defence community.

- ▶ The Defence Health **dental network** continues to provide members with more affordable access to quality dental care. In June 2018, 18.6% of all dental claims were at a network dentist. The network has almost 1700 dentists nationally and delivers savings to members through lower fees and no-gap for a check-up or clean (on most extras cover). On average, Defence Health members are charged 21% less for preventative treatment at a network dentist (compared with a non-network dentist).

I was put straight into hospital and got my hip fixed. It's truly amazing what my cover has done for me - it has made my life so much better. I'm walking around without crutches and even cleaning the windows again!

Luisa



- ▶ **Health Nav** continues to help serving and ex-serving families in navigating health care, health resources and service providers. Health Nav can also guide ex-serving members in accessing Non-Liability Health Care and other entitlements from the Department of Veterans' Affairs.

- ▶ We've added another communication channel with the launch of webchat interaction for our sales team.

- ▶ Our staff remain highly engaged at work and committed to delivering excellent service that has a tangible impact for members. In October 2017, Defence Health was one of five category finalists in the **Australian Service Excellence Awards** and recent survey results reveal industry-leading levels of staff engagement.

- ▶ A new comprehensive hospital product, with some higher benefits, was launched on 1 December 2017.

- ▶ This year we launched a digital directory of medical specialists - **Healthshare** - which identifies specialists who are willing to cap out-of-pocket expenses for their patients. This powerful tool helps members talk to their doctors about using Access Gap and cutting or eliminating unnecessary costs from their treatment.

- ▶ **Healthy Weight For Life** complements our other health programs and is helping members with chronic conditions such as type 2 diabetes, chronic heart disease, and osteoarthritis to lose weight and better manage their condition.

- ▶ We implemented government reform to allow immediate upgrade for members needing mental health treatment.

In all my dealings over the years with other organisations, I can honestly say that this has been the best experience I have had with customer service staff. They very much made me feel like I was a part of the Defence Health family.

Marilyn

Thank you for your assistance with changing my lifestyle habits. I have already had a follow up appointment with my specialist and he stated that my progress was impressive and there was now no need to have a knee operation.

Healthy Weight For Life graduate

It's very rare that you receive customer service like that these days.

Emily



Defence Health staff are delighted to be among the 'best of the best' in the 2017 Australian Service Excellence Awards

Hospital cover

Private hospital cover ensures you can access day-surgery or overnight medical treatment as soon as you need it. The alternative is the public system, where it can take almost a year just to see a specialist, before being placed on a lengthy waiting list for public hospital treatment.

With the appropriate level of cover, private hospital insurance will pay the private hospital accommodation charges and theatre fees, as well as meals, medication and nursing care while in hospital.

Hospital cover also contributes towards the fees charged by your medical practitioners for your in-hospital treatment. By using our Healthshare medical search engine, members can find a doctor (or ask their GP to refer them to one) who will use Access Gap to cap or eliminate their out-of-pocket medical expenses.

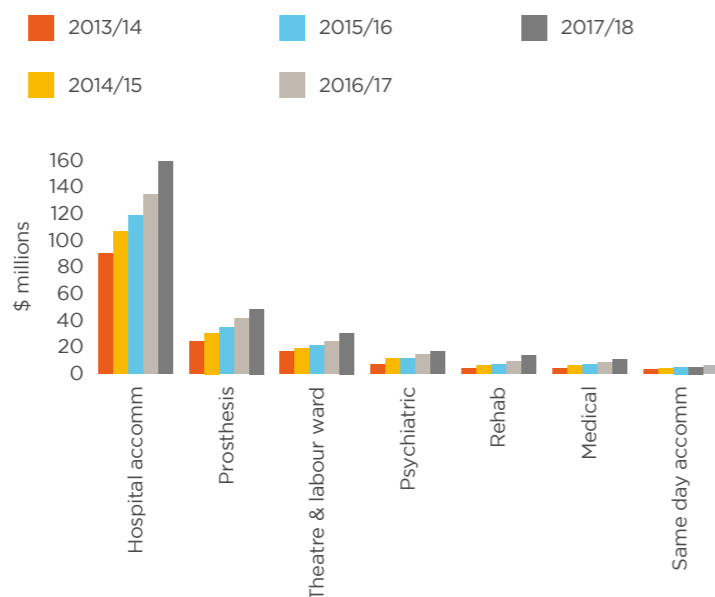
Defence Health negotiates competitive service and fee agreements with hospitals and we encourage all doctors to use Access Gap to help maximise the value of health insurance to our members.

- ▶ In 2017-18, we fully covered 90.6% of all hospital related medical services provided to our members (compared with the 88.1% industry average).
- ▶ In the same period we provided funding for 239,812 days of hospital treatment - up 16.6%. The hospital and medical charges totalled \$363.7 million.

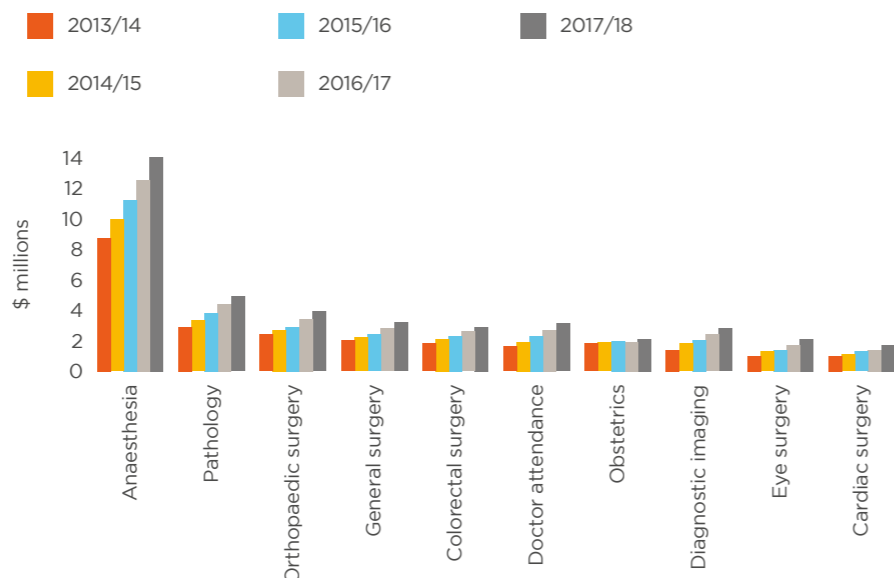
The payment of hospital benefits for the treatment of psychiatric conditions has almost doubled since 2013-14. And the benefits paid are typically for younger people requiring multiple hospital visits. For many families, they need their hospital cover when they least expect it.

Thank God for my health insurance. My teenage daughter developed a serious and chronic mental health condition and was hospitalised for a month at a time on several occasions. Without our private hospital cover, my daughter would likely have been in a mixed gender ward with drug-addicted adult patients.
Dianne

Breakdown of hospital benefits paid



Breakdown of medical benefits paid



Extras cover

Dental treatment, optical care, physiotherapy, audiology, podiatry, speech and occupational therapy are all examples of the general treatment that is included under extras cover. Unless part of an extended care plan, Medicare does not provide benefits for these services - but extras cover does make a valuable contribution.

Defence Health extras members also receive 100% cover for all state-appointed air, sea and road ambulance services nationally.

Extras benefits paid this year increased by 16.5% to \$133.6 million.

Other insurances

Life insurance

Life insurance provides a lump sum payment on the death of the insured. Defence Health offers the ClearView Life Solutions product because of the special benefits it includes for permanent and Reserve members of the ADF.

The unique advantage over other products is that serving members (who have a policy in force before notice of deployment) can be covered if they are later deployed to a war zone. They can also continue their cover when they discharge from the ADF.

Life, trauma, total and permanent disability cover, accident and income protection insurance products are also available for our civilian members. Reservists may purchase income replacement and total and permanent disability insurance to cover their civilian employment.

In 2017-18, claims paid by Asteron on Defence Health life, terminal illness and trauma insurance policies totalled \$6.4 million (up 36% on the prior year). The average age of claimants was 57.7 years. There were no claims against the ClearView products.

Accident insurance

The D-Pax Accident Insurance sold by Defence Health is closed to new applicants but existing policy holders continue to be supported by Defence Health. The product is specially tailored for members of the ADF. It is underwritten by AIG Australia Limited and provides benefits for high risk locations (including war zones). This extended cover can be turned on or off as required. An additional premium is payable for a high-risk location and benefits are reduced by half when this feature is activated.

Travel insurance

Defence Health Travel Insurance is competitively priced and is available to travellers of all ages. Cover for emergency medical or hospital expenses when travelling overseas is unlimited. In addition, both the international and domestic travel plans provide an extensive schedule of benefits to cover a range of potentially costly and inconvenient events while travelling.

The cover is underwritten by Allianz Australia and includes special features for ADF members who may need to commence their travel from a location outside Australia. Both the international and domestic plans can also be extended to include snow, golf, cruise and adventure holidays.

Members of Defence Health or the ADF pay a lower premium for Defence Health Travel Insurance

Defence Health was proud to provide the travel insurance for a group of Australian Bomber Command veterans (and their carers) who travelled to London in April for a commemorative memorial service.

Extras benefits paid to June 2018 increased 16.5% to **\$133.6 million**

Important information:

ClearView LifeSolutions issued by ClearView Life Assurance Limited (ABN 12 000 0021 581 AFSL 227682). ClearView LifeSolutions Super issued by ClearView Nominees Pty Ltd (ABN 37 003 682 175 AFSL 227683), as trustee of ClearView Retirement Plan (ABN 45 828 721 007). AGA Assistance Australia Pty Ltd (ABN 52 097 227 177 AFSL 245631) trading as Allianz Global Assistance issues and managed Defence Health Travel Insurance for the insurer Allianz Australia Insurance Ltd (ABN 15 000 122 850 AFSL 234708). Suncorp Life & Superannuation Ltd (ABN 87 073 979 530 AFSL 229880) is the issuer of Defence Health Term Life Insurance. D-Pax insurance is issued and underwritten by AIG Australia Ltd (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 premium you pay to the insurer (excluding GST). The information on Travel, Life and D-Pax insurance 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

Defence Health is in the fortunate position of maintaining strong membership growth. An additional 6650 policies (5%) and a premium increase in April of 5.97% contributed to a 12.8% increase in premium revenue to \$528.2 million.

Our pricing philosophy is to keep premiums as low as possible. The premium on our exclusive ADF Total Package achieves our objective of being the best offer in market for serving ADF families and Reservists.

Being a not-for-profit fund, Defence Health can deliver maximum premium value for members, with no margin necessary for shareholder dividends.

Benefits

In 2017-18, the value of benefits paid to or on behalf of members increased by 9.3% to \$497.3 million. A high number of 'switchers' have been attracted to Defence Health for not only the competitive hospital and extras premiums, but also the generous extras benefits payable (extras benefits totalled \$133.6 million, an increase of 16.5%).

Management expenses

Management expenses include all the costs of running the business, such as salaries, office space, heat, light, power, depreciation and equipment repairs. These expenses increased by \$5.2 million to \$35.3 million, but are still just 6.7% of premium revenue (compared with 6.4% last year). The main drivers of the increase are the recruitment of a significant number of additional staff in the contact centre and substantial IT expenditure required to strengthen the core software platform that manages our membership data and transactions.

Surplus

For 2017-18 the fund had a net loss of \$4.5 million on the private health insurance business and an operating surplus of \$17.8 million (largely due to the impact of investments and other income). The operating environment is extremely competitive, with intense claims cost pressure from an ageing population.

Investments, other income and capital

The fund's investment portfolio returned income of \$16.8 million over the year, \$2.6 million lower than the prior year. The earnings represent a 4.3% return (last year 5.2%), largely due to lower performance from the growth assets in the portfolio.

Other income of \$6.2 million is primarily the result of a legal settlement of \$4.7 million.

Defence Health holds capital reserves within the prudential requirements. Total capital reserves at balance date were \$298.4 million, or \$2157 per policy.

Member services

The contact centre in our Melbourne office is the engine room of our private health insurance business. It's where we engage with our members who are spread right around Australia. Our members rely on the expertise, empathy and knowledge of our Member Services team - especially our ADF members who are often on the move and in remote locations.

Members can engage with us over the phone, through the post or email, or online. Whatever channel of communication they choose, we ensure it's a personal experience and that members feel like they're part of the family.

Member satisfaction

Defence Health is renowned for its industry-leading member satisfaction ratings. Satisfaction is measured independently each year by Discovery Research. Around 15 other insurers participate in the research which gathers the responses of approximately 20,000 members collectively.

The survey measures key service variables, such as telephone service, payment of claims, online services, reliability and friendliness, which are weighted and reported as an index. In 2018, our Customer Satisfaction Index was 79.9 with 96% of members saying they are satisfied with their membership.

We look at every conversation, letter, email and direct payment of health benefits as an opportunity to delight our members.

Defence Health is also seen as a highly trustworthy private health insurer. In the latest Roy Morgan Net Trust Score industry survey (March 2018), Defence Health ranked fourth in terms of the net trust the respondents had in the fund.

As reported by the Commonwealth Ombudsman, the percentage of complaints made about Defence Health is very low, relative to other funds. In 2017-18, the Ombudsman received 52 complaints from Defence Health members. That represents 1.3% of the complaints about all health insurers and is lower than our share of the market (2%).

In October 2017, Defence Health was recognised by the Customer Service Institute of Australia as a finalist in the Australian Service Excellence Awards.

we feel secure with our health cover

I phoned Defence Health today to follow up on a claim that was delayed because of administrative errors from my specialist. Kim took the time to listen, followed up and resolved my query in a very positive and helpful way. I think it is really important she be acknowledged for her outstanding customer service.

Lisa

level of cover is awesome

so easy to make a claim

I'm surprised how much I got back

personal service continues to impress

immensely happy with your prompt service

I recently phoned Defence Health for a quote and today I signed up. Both times I was lucky enough to speak with Lauren who was extremely helpful, friendly and answered my questions in a way I could understand. This is what good customer service should be. Thanks.

Claire



Our people

They're a passionate and committed bunch. And they know their stuff. Government regulation of health insurance demands a high level of expertise and attention to detail from the customer-facing staff. Given they are often dealing with people at vulnerable times of their lives, they must also demonstrate their empathy and knowledge of how the health system works. So it's vital that we attract and retain highly skilled people who can deal with the detail and earn our members' trust.

Culture

Defence Health has a genuine commitment to maintaining its highly engaged, inclusive and diverse workplace. There is a culture of respect and excellence which is nurtured from the first day someone joins the company.

The cultural value proposition extends beyond posters on the walls and the badges of honour worn by staff. It is a thoroughly embedded culture which extends from the top down.

Staff engagement is also prominent within the workplace culture. A more engaged and motivated workforce is happier about coming to work – and in a good headspace to deliver excellent customer service.

Formal assessment of staff engagement is undertaken annually and the externally managed survey receives a high rate of participation – 93% in 2018. Overall staff engagement scored 73% in the 2018 survey.

Employment

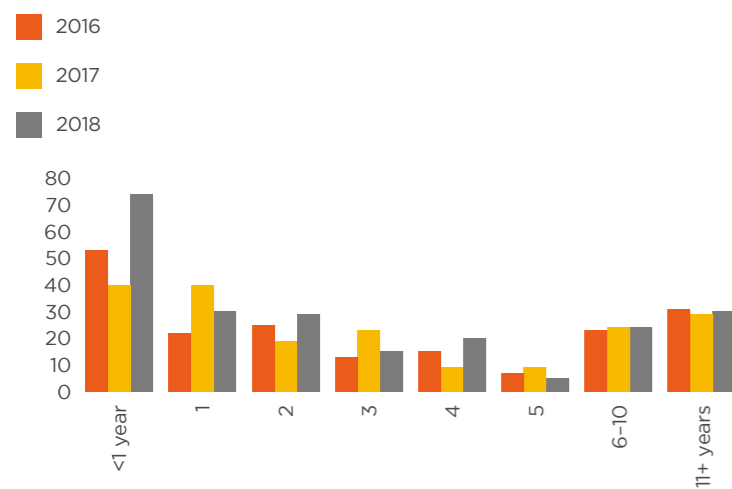
At 30 June, our workforce of 227 had grown by 19% on the prior year. This figure is made up of 138 full-time staff (where most of the growth occurred), 48 part-time, 32 casuals and 9 directors on the Board. Overall, the gender composition of the workplace is 65% women and of all promotions during the year, 89% were awarded to women. Our Board of Directors has also met its target, with 50% of directors being women and its Associate Director Traineeship program targeting women.

During the year there were 69 employee departures, representing a turnover rate of 30%. Retention remains strong with 26% of staff at 30 June having worked with us for five years or more.

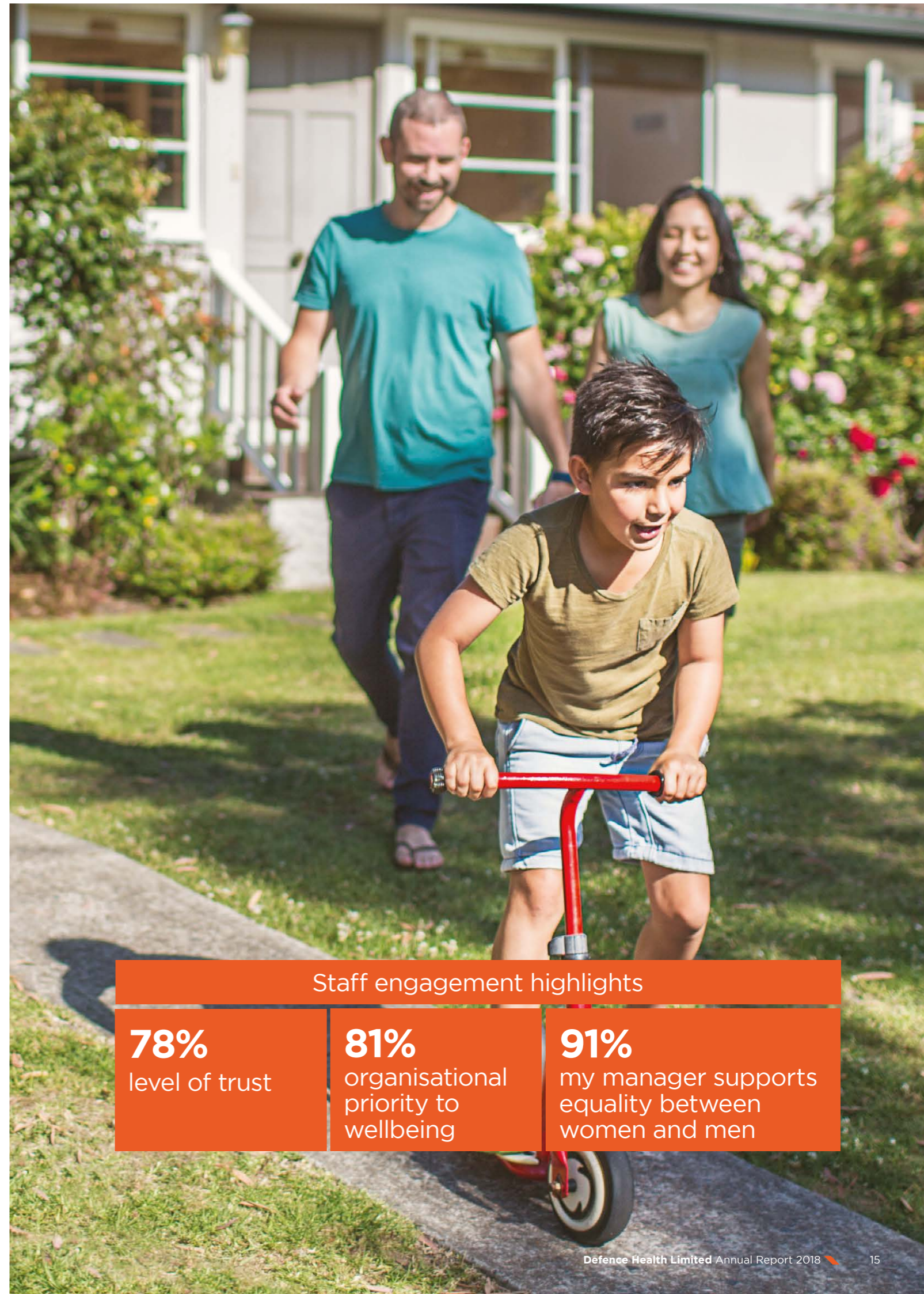
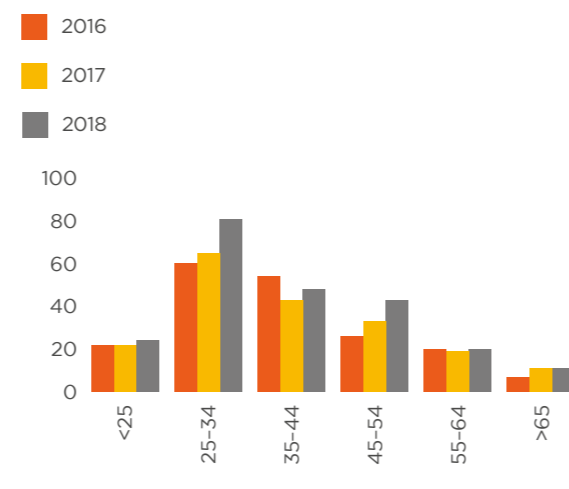
Our recruitment, performance, training and remuneration policies all support our diversity and gender equality. Staff are specifically questioned on the issue of gender equality in the engagement survey, and all staff received equal opportunity and anti-harassment training in November 2017.

We report annually to the Workplace Gender Equality Agency and our report is available from the Agency website.

Number of staff by length of service



Number of staff by age



Staff engagement highlights

78%
level of trust

81%
organisational
priority to
wellbeing

91%
my manager supports
equality between
women and men

Health and wellbeing

The holistic wellbeing strategy at Defence Health focuses on total health through five key pillars: emotional, physical, financial, social and career health. During the year staff engaged in activities and initiatives to support the strategy, such as after-work sporting teams, financial counselling seminars, cooking demonstrations by trained dietitians, and free in-office skin checks, health checks and flu shots.

Additional wellness modules have been incorporated in the online learning platform, Learn Connect, and staff continue to take advantage of the Mindfulness At Work online resilience training.

Staff can also access flexible working arrangements to help them achieve work, life and family balance. The policy allows for flexibility in how working hours are structured, and also for ad hoc or ongoing work-from-home arrangements.

We're extremely confident about our progress and performance in the wellbeing space. At year end we were awaiting the outcome of a submission to the Australian Business Awards to be formally recognised as an Employer of Choice

Defence community relationships and support

Our network of regional representatives is on the ground in all major Defence locations in Australia. Apart from promoting Defence Health to eligible members of the Defence community, the team builds relationships with members and provides support to Defence organisation and community events.

Wherever we go, we continue to reinforce the message that 'Defence community' includes the extended family of a serving member. Parents, brothers, sisters and even grandchildren of a serving member are all pleasantly surprised when they learn they are eligible to join the fund.

This year we have engaged with the Defence community through:

- connection with key Commanders and Defence stakeholders to ensure we truly understand and can respond to the needs of ADF members and families
- our ongoing partnership with Defence Community Organisation to align our support to best meet Defence community needs

- support to regional family rooms and community centres, and the activities hosted in these facilities to foster a strong sense of belonging and support
- re-investment in ADF members through unit, formation and family activities aligned with health and wellbeing
- support to base family fun days, Christmas, Easter and ANZAC Day to foster local inclusion
- 'welcome' events for Defence families posted to a new location
- ongoing investment to support the Defence Special Needs Support Group and the families it supports
- leading engagement with the Reserve community at all levels
- authentic connection with our members to listen to their needs and inform them about our products and private health care.

I just want to send a quick 'thank you' for attending our centre today and providing morning tea. I love that we could introduce you to our Defence families, who you have provided such wonderful support to in the past. I would like to acknowledge the professional, yet casual way you show that Defence Health is part of our community."

Stephanie - Coordinator, Robertson Barracks Family Group, Northern Territory

Defence Health Foundation

The Defence Health Foundation was established eight years ago, with the purpose of funding medical research that would specifically benefit serving and ex-serving members of the ADF and their immediate family.

Recent research grants are focussing on contemporary veterans' issues such as treatment for PTSD, diagnosis and follow-up of concussion after mild traumatic brain injury, and longitudinal pathways in the development of physical and psychological disorders in military personnel and veterans.

The Foundation encourages research that will address the physical and mental health issues that impact current and ex-serving ADF members and of equal importance, the impact on their families.

As an example of funded research, N-acetylcysteine, a precursor to antioxidant glutathione and common antidote to paracetamol overdose, shows great promise as a treatment for PTSD. It offers the hope of a truly

effective treatment to the many thousands of current and former service personnel who are still suffering with PTSD. The Foundation is providing a significant booster grant to continue the research over the next three years.

Prevention, treatment and rehabilitation are especially important to the Foundation. So too, is the ability for new research findings to complement existing therapies or programs.

The Foundation funds establishment grants of between \$25,000 and \$50,000 to assist new research to the proof-of-principle stage. Booster grants of up to \$300,000 can be made to help established research expand in scope or duration.

The Foundation is wholly funded by Defence Health and is further evidence of our commitment to the health and wellbeing of Defence families. In 2017-18, Defence Health Foundation committed to funding three medical research grants totalling \$306,448.

Governance

Defence Health is a registered company, limited by guarantee, under the *Corporations Act 2007*. 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 Board exposure and it has been recognised by senior leadership in the Australian Defence Organisation.

The Chief Executive Officer is appointed by the Board.



**Garry Richardson
FAICD**

Director since February 2011

- › Member - Risk, Compliance and Audit Committee
- › Member - Investment Committee
- › Director - Calvary Ministries Ltd
- › Member - Private Health Ministerial Advisory Committee

**Julie Blackburn
BNurs GradDip
Midwifery GAICD**

Director since December 2011

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

**Michael Bassingthwaite
AM FAICD**

Director since July 2001
Chairman January 2004 - October 2011

- › Member - Nomination and Remuneration Committee
- › Director - Illawarra Retirement Trust
- › Director - Coordinaire Ltd

**WGCDR Amy Beck
BE (Hons) LLB
GAICD MIEAust**

Associate Director since October 2017

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

**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
- › Hon Justice - Supreme Court of Victoria
- › Member - Defence Force Discipline Appeals Tribunal

**GPCAPT Susan Stothart CSC B Bus
M Mgt, M Def Stud,
Grad Dip Applied
Finance, GAICD**

Director since November 2016

- › Member - Nomination and Remuneration Committee
- › Member - Risk, Compliance and Audit Committee
- › Appointed Director - Chief of Air Force
- › Member - RAAF Active Reserve
- › Director - Trigea Pty 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 - Dept. Defence Audit and Risk Committee
- › Independent Member - Audit Committee of Note Printing Australia
- › Director - Meat and Livestock Australia
- › Director - Integrity Systems Company Ltd
- › Director - MLA Donor Company 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 - Victorian Funds Management Corporation
- › Director - Cooper Energy Ltd
- › Director - Barristers Chambers 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
- › Director - Defence Health Foundation
- › Member - Standby Army Reserve
- › Appointed Director - Chief of Army

Pictured left to right:
Garry Richardson, Julie Blackburn, Michael Bassingthwaite, Amy Beck, Gregory Garde, Susan Stothart, Alan Beckett, Alice Williams, Anthony Hambleton.

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.



The Executive consists of:

- Chief Financial Officer – Peter Papamihail BBus (Acct)/BBus(IS) CPA
- Head of Human Resources – Kelly Dickson AssDip HRM
- Head of Strategy and Actuarial Services – Barry Leung BCom(Hons) FIAA CERA
- Chief Operating Officer – Joanne Kadlecik AssDip BusMgmt
- Chief Executive Officer – MAJGEN Gerard Fogarty AO (Ret'd) BBus GradDipMgmt MBA MSS(USA) GAICD
- Chief Risk Officer – Tanya Haines Dip Tchg AssDip BusMktg GradCertBusMgt
- Company Secretary and General Counsel – Andrew Guerin LLB BEc FGIA FCIS DipFS(FinPlan)
- Head of Marketing – Tiffany Conway BA AdvDIP BusMgmt

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.

Consolidated Concise Financial Statements

for the year ended 30 June 2018

Extract from the Financial Statements signed on 19 September 2018

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

Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Financial Statements

for the year ended 30 June 2018

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Pictured left to right:

Peter Papamihail, Kelly Dickson, Barry Leung, Joanne Kadlecik, Gerard Fogarty, Tanya Haines, Andrew Guerin, Tiffany Conway.

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 Australian Prudential Regulation Authority (APRA) which regulates and monitors the private health insurance industry. 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.

Directors’ Report for the year ended 30 June 2018

The Directors herewith submit the Financial Statements of Defence Health Limited for the financial year ended 30 June 2018.

Members

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

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

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

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

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 2019.

Mr Michael John Bassingthwaighte AM FAICD Appointed to the Board in July 2001. Current term expires at the Annual General Meeting to be held in 2018. Mr Bassingthwaighte 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 2020.

Ms Julie Anne Blackburn BNurs GradDip Midwifery GAICD Appointed to the Board in November 2011. Current term expires at the Annual General Meeting to be held in 2019.

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.

Mr Garry Albert Richardson FAICD Appointed to the Board in February 2011. Current term expires at the Annual General Meeting to be held in 2018.

Group Captain Susan Stothart CSC BBus, Mmg, 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 is a Director of Trigea Pty Ltd.

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.

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

Ms Catherine Walsh MMgt MAICD The Board appointed an Associate Director, Ms Catherine Walsh, in October 2015. Retired as Associate Director on 10 September 2017.

Ms Amy Beck WGCDR The Board appointed an Associate Director, Ms Amy Beck in October 2017. Whilst Ms Beck is not a Director, she attended five Board Meetings and three Risk, Compliance & Audit Committee Meetings.

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. Mr Guerin is the Chief Executive Officer of Trigea Pty Ltd.

Directors' meetings

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

	Board of Directors' Meetings	Investment Committee Meetings	Risk, Compliance and Audit Committee Meetings	Nomination and Remuneration Committee Meetings
Chair	G Garde	A J M Williams	A I Beckett	A Hambleton
Meetings held	7	4	4	4
	Attended	Attended	Attended	Attended
G H Garde	7	3		4
M J Bassingthwaighe	7			4
A I Beckett	7	4	4	
J Blackburn	7		3	
A Hambleton	6			4
G Richardson	6	2	3	
S Stothart	6		4	3
A J M Williams	6	4		

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 (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 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:

- ▶ 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 Risk Manager 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);
- ▶ 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 \$17.8 million in the 12 months to 30 June 2018, an increase of \$13.8 million on the prior year.

During the year the number of health insurance policies increased by 5.0%. Defence Health has 138,383 policies at 30 June 2018. During the year, premium revenue increased by 12.8% to \$528.2 million and net benefits expenses increased by 12.8% to \$506.2 million. The industry continues to experience significant upward pressure on benefits both from increased utilisation and underlying cost.

Total management expenses of \$35.3 million were contained at 6.7% of premium income. The Company continues to have one of the lowest management expense ratios in the industry. Investment income decreased by 13.3% from \$19.4 million in the previous year to \$16.8 million due to our equity portfolio. The total return on the investment portfolio was 4.3%.

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 2018 was \$6.2 million, an increase of \$4.8 million compared to prior year which was related to a legal settlement in favour of Defence Health.

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

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 materially exposed to any environmental regulations.

Directors' benefits

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. Directors' fees are disclosed in Note 20 and related party transactions disclosed in Note 19 to the full set of Financial Statements.

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.

Rounding of amounts

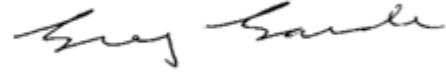
The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with the Class Order amounts in the Directors' Report and the Financial Report are rounded to the nearest thousand dollars, unless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



Mr Alan I Beckett

Director

2 October 2018



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

Director

2 October 2018

Deloitte.

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2 October 2018

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

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 2018, 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

Peter A. Caldwell
Partner
Chartered Accountants

Consolidated income statement and other comprehensive income

for the financial year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Premium revenue	4	528,189	468,336
Direct benefits expense		(471,855)	(405,253)
Risk Equalisation Trust Fund expense		(30,051)	(39,574)
State ambulance levies		(4,311)	(3,903)
Net benefits expense		(506,217)	(448,730)
Unexpired risk reserve		8,885	(6,392)
Underwriting result		30,857	13,214
Employee expenses		(20,542)	(18,260)
Marketing expenses		(2,208)	(2,254)
IT and computing expenses		(2,895)	(2,585)
Transaction processing costs		(1,814)	(1,576)
Professional fees		(2,320)	(969)
Depreciation and amortisation expenses		(1,286)	(903)
Occupancy expenses		(1,079)	(921)
Industry subscriptions		(873)	(835)
Commissions		(370)	(212)
Agency legal costs		(297)	(290)
Other management expenses		(1,640)	(1,341)
Total expenses		(35,324)	(30,146)
Underwriting result after operating expenses		(4,467)	(16,932)
Investment income	4	16,831	19,417
Other revenues	4	6,209	1,456
Other expenses		(818)	-
Surplus for the year		17,755	3,941
Other comprehensive income		-	-
Total comprehensive income for the year		17,755	3,941

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

Consolidated statement of financial position

as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents		22,505	20,942
Trade and other receivables		16,941	16,236
Financial assets	5	381,424	365,245
Total current assets		420,870	402,423
Non-current assets			
Property, plant and equipment		3,063	2,743
Intangible assets		1,376	1,468
Deferred acquisition costs		946	1,153
Total non-current assets		5,385	5,364
Total assets		426,255	407,787
Current liabilities			
Trade and other payables		55,352	55,088
Claims liabilities	6	63,665	54,896
Provisions		5,722	14,219
Total current liabilities		124,739	124,203
Non-current liabilities			
Trade and other payables		283	335
Provisions		2,792	2,563
Total non-current liabilities		3,075	2,898
Total liabilities		127,814	127,101
Net assets		298,441	280,686
Equity			
Contributed equity		43,346	43,346
Retained earnings		255,095	237,340
Total equity		298,441	280,686

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

Consolidated statement of changes in equity

for the financial year ended 30 June 2018

	Contributed Equity	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
Balance at 1 July 2016	43,346	233,399	276,745
Total comprehensive income for the year	-	3,941	3,941
Balance at 30 June 2017	43,346	237,340	280,686
Total comprehensive income for the year	-	17,755	17,755
Balance at 30 June 2018	43,346	255,095	298,441

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 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Premium receipts	1	531,046	474,377
Benefits paid to and on behalf of fund members		(461,673)	(396,330)
Government and other levies paid		(4,280)	(3,859)
Payments to Risk Equalisation Trust Fund		(34,087)	(39,461)
Payments to suppliers and employees		(34,774)	(29,178)
Payments for deferred acquisition costs		(165)	(1,365)
Commission received		1,552	1,449
Settlement of legal claims		3,954	291
Net cash from operating activities		1,573	5,924
Cash flows from investing activities			
Purchase of investment securities		(328,225)	(401,482)
Proceeds on sale of investment securities		314,906	381,772
Interest and dividends received		14,823	10,743
Purchase of property, plant and equipment		(1,514)	(1,828)
Proceeds from disposal of property, plant and equipment		-	7
Net cash used in investing activities		(10)	(10,788)
Net increase/ (decrease) in cash and cash equivalents		1,563	(4,864)
Cash and cash equivalents at the beginning of the financial year		20,942	25,806
Cash and cash equivalents at the end of the financial year		22,505	20,942

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

Note 1 – Summary of significant accounting policies

Defence Health Limited (referred to as “Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company and its subsidiary, the Defence Health Foundation Pty Ltd, together are referred to as the “Group”. The paid up capital of Defence Health Foundation Pty Ltd is one dollar. Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation. The Company is a not-for-profit entity. The address of its registered office and principal place of business is Level 4, 380 St Kilda Road Melbourne Victoria 3004.

1.1 Statement of compliance

The consolidated general purpose financial statements of the Group for the year ended 30 June 2018 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 15 September 2018.

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 Group’s accounting policies which are disclosed in note 2.

1.4 Revenue recognition

Revenue is recognised for the major income streams as follows:

- i) Premium revenue consists of contributions from policy holders, inclusive of the government rebate. This is measured at fair value through the consolidated income statement from the attachment date in accordance with the pattern of the incidence of risk expected over the term of the contract. 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 and is
- iv) recognised when a submission is lodged by the Company with the underwriter of the insurance policies. All other revenue is measured at the fair value of the consideration received or receivable.

1.5 Receivables

Unclosed business premiums – earned (contributions in arrears) represent amounts owing by policy holders 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.

1.6 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

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

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

1.8 Provision for Risk Equalisation

Under the provisions of the Private Health Insurance Act 2007, all 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.

1.9 Investments and other financial assets

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

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

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

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

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

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

Net gains or losses recognised in the statement of profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 16 to the full financial statements.

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.

1.10 Assets backing insurance liabilities

Financial assets held by the Group 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.

1.11 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.

1.12 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 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.

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 immediately in the statement of profit or loss and recorded in the statement of financial position as an unexpired risk liability.

1.13 Deferred acquisition costs

Direct acquisition costs in obtaining health insurance contracts, are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to future premium revenue. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The company has identified the amortisation period to be 4 years based on average tenure of membership.

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 to the full financial statements) 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.

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 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; 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% (2017: 4.5%) and determined to give at least a 75% probability of adequacy.

The unexpired risk reserve in Note 12 to the full financial statements was adopted on the advice of the Appointed Actuary and is determined with a risk margin of 2.7% (2017: 2.7%), and a 75% probability of adequacy.

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

b) Financial risks arising from insurance contracts

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

c) Capital and regulatory risks

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

d) Sensitivities

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

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

Note 4 – Revenue

	2018 \$'000	2017 \$'000
Continuing Operations		
Premium revenue pursuant to a contract of private health insurance	528,189	468,336
Investment revenue		
Interest revenue		
Bank deposits	503	445
Term deposits	4,941	5,258
Interest bearing securities	658	235
	6,102	5,938
Dividends		
Unlisted fixed income trusts	1,949	3,125
Unlisted equity trusts	5,919	3,973
	7,868	7,098
Realised gains/(losses) on disposal		
Unlisted fixed income trusts	(209)	(657)
Unlisted equity trusts	169	36
	(40)	(621)
Unrealised gains/(losses) of		
Unlisted fixed income trusts	(132)	(1,071)
Unlisted equity trusts	3,033	8,073
	2,901	7,002
Total Investment Revenue	16,831	19,417
Other revenue		
Life insurance revenue	1,021	1,038
Travel insurance revenue	400	400
Accident insurance revenue	6	11
Other revenue	4,782	7
	6,209	1,456
	551,229	489,209

Note 5 – Financial assets

	2018 \$'000	2017 \$'000
Current		
Term deposits (i)	192,462	203,339
Interest bearing securities (ii)	19,940	10,048
Units in fixed income trusts (ii)	72,942	65,504
Units in unlisted equity trusts (ii)	96,080	86,354
Total investments	381,424	365,245

(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

Note 6 – Claims liabilities

	2018 \$'000	2017 \$'000
Gross outstanding claims	58,603	49,438
Risk equalisation cost	2,651	3,609
Claims handling costs	435	467
Risk margin	1,976	1,382
Gross outstanding claims liability	63,665	54,896
Changes in the gross outstanding claims liabilities can be analysed as follows:		
Opening balance	54,896	45,175
Benefits incurred during the year	466,759	403,530
Benefits utilised during the year	(462,085)	(396,400)
Unused provision from prior year	4,491	1,381
Risk equalisation cost	(958)	784
Claims handling costs	(32)	31
Risk margin	594	395
Closing balance	63,665	54,896

The risk margin of 6.0% (2017: 4.5%) has been estimated to equate to at least 75% probability of adequacy (2017: 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

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:

- 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;
- the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- 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*.

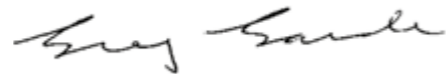
On behalf of the Board of Directors.



Mr Alan I Beckett

Director

2 October 2018



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

Director

2 October 2018



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Independent Auditor's Report to the Members of Defence Health Limited on the Concise Financial Statements

We have audited the accompanying concise financial statements of Defence Health Limited which comprises the statement of financial position as at 30 June 2018, the income statement 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 statements of Defence Health Limited for the year ended 30 June 2018 and the discussion and analysis as set out on pages 25 to 35. The concise financial statements do not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial statements is not a substitute for reading the audited financial statements.

Directors' Responsibility for the Concise Financial Statements

The Directors are responsible for the preparation of the concise financial statements 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 statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial statements 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 statements of Defence Health Limited for the year ended 30 June 2018. We expressed an unmodified audit opinion on that financial statements in our report dated 19 September 2018. 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 statements for the year are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial statements, 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 statements 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 statements is derived from, and is consistent with, the financial statements 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 statements for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial statements comply 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 statements, of Defence Health Limited for the year ended 30 June 2018 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Deitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 2 October 2018



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