Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Financial Statements
for the year ended 30 June 2020

Contents

Registered Office and Principal Place of Business

Level 4 380 St Kilda Road
Melbourne VICTORIA 3004

Directors' Report

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

Members

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

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

Directors

The ten non-executive Directors and one associate Director who held office during the financial year are as follows. The interests of the Director shown below are as at 30th June 2020:

Mr Alan Ian Beckett
BEc FCA, GAICD
Appointed to the Board in January 2006. Current term expires at the Annual General Meeting to be held in 2020. Mr Beckett was appointed as the Chair of the Board in November 2019 and is a member of the Nomination and Remuneration Committee. He was Chairman of the Risk and Audit Committees and a member of the Investment Committee until he retired from these committees in November 2019. Mr Beckett is a Chairman of Meat and Livestock Australia Ltd, a Director of Westbourne Capital Pty Ltd and Westbourne Credit Management Ltd, Director of Integrity Systems Company Ltd and a Director of MLA Donor Company Ltd.

Colonel Anthony Gerard Hambleton AM
GAICD
Appointed to the Board in February 2014. Current term expires at the end of the Annual General Meeting to be held in 2021. Colonel Hambleton was the Chair of the Nomination and Remuneration Committee for the entire year. Colonel Hambleton is a Director and was appointed Chair of Defence Health Foundation Pty Ltd in November 2019. Colonel Hambleton is a member of the Army Standby Reserve and the appointed Director of Chief of Army.

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

Group Captain Susan Stothart CSC
BBus, Mmgt, M Def Stud, Grad Dip Applied Finance, GAICD
Appointed to the Board in November 2016. Current term expires at the Annual General Meeting to be held in 2020. Group Captain Stothart was a member of the Risk and Audit Committees for the entire year. She retired as a member of the Nomination and Remuneration Committee in November 2019 and then became a member of the Investment Committee in December 2019. Group Captain Stothart is a member of the RAAF active reserve and is the appointed Director of Chief of Air Force.

Ms Alice Joan Morrice Williams
BComm FCPA FAICD CFA ISFA AIF
Appointed to the Board in February 2010. Current term expires at the Annual General Meeting to be held in 2021. Ms Williams was Chair of the Investment Committee for the entire year. Ms Williams is a Director of Equity Trustees Limited, Director of Djerriwarrah Investments Ltd, Director of Cooper Energy Ltd, Director of the Foreign Investment Review Board, Director Tobacco Free Portfolios and Member of the Felton Bequest Committee.

Mr Robin Buick Orr Burns
FAICD
Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022. Mr Burns was a member of the Risk, Audit and Investment Committees for the whole year.
Mr Burns was also appointed Chair of the Risk and Audit Committees in December 2019. Mr Burns is a Director of Indue Ltd, a Director of 8IP Emerging Companies Ltd, Director of BT Funds Management Ltd, a Director BT Funds Management No 2 Ltd and a Director of Westpac Securities Administration Ltd and a member of the External Compliance Committee of PIMCO Australia Management Ltd.

Ms Carolyn Ireland
MBA (Executive), CA, GAICD
Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022. Ms Ireland was a member of the Investment Committee for the whole year. Ms Ireland is also a Director of International Women's Development Agency and Xavier College Foundation.

Ms. Rebecca Davies AO
LLB (Hons), Bec, FAICD
Appointed to the Board in November 2019. Current term expires at the Annual General Meeting to be held in 2023. Ms Davies was appointed a member of the Nomination and Remuneration, Risk and Audit Committees in December 2019. Ms Davies is also a Director of Catholic Healthcare Ltd, Transparency International Australia, The Actuator Operations Ltd, Lifehouse Australia, Committee Member, National Health and Medical Research Council Health Innovations Advisory Committee and the Community and Consumer Committee, Strategic Research Committee member, National Heart Foundation of Australia and Member Advisory Committee, UNSW Centre for Big Data in Health.

Major General Gregory Howard Garde AO RFD (Ret'd)
BA(Hons) LLM
Appointed to the Board in April 2004 and appointed Chair in October 2011 whose term expired at the Annual General Meeting held in 2019. Major General Garde was a member of the Investment Committee and a member of the Nomination and Remuneration Committee until his retirement in November 2019. Major General Garde is a Reserve Justice of the Supreme Court of Victoria.

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

Ms Amy Beck
WGCDR
The Board appointed an Associate Director, Ms Amy Beck in October 2017. Whilst Ms Beck is not a Director, she attended seven Board Meetings, one Risk and Audit Committee Meeting and 4 Investment Committee Meetings. Ms Beck is a serving member of the Royal Australian Airforce.

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

Company Secretary

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

Directors' meetings

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

	Board of Directors' Meetings		Investment Committee Meetings		Risk Committee Meetings		Audit Committee Meetings		Nomination and Remuneration Committee Meetings	
Chair	A I Beckett		A J M Williams		R Burns		R Burns		A Hambleton	
Meetings held	8		6		4		4		6	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A I Beckett	8	8	1	1	2	2	2	2	6	6
R Davies	8	8			2	2	2	2	2	1
A Hambleton	8	8							6	6
G Richardson	8	8			4	4	4	4	2	2
S Stothart	8	8	4	4	4	4	4	4	4	4
A J M Williams	8	7	6	6						
R Burns	8	7	6	6	4	4	4	4		
C Ireland	8	8	6	6						
G H Garde	3	3	1	0					3	2
J Blackburn	3	3			2	2	2	2		

Principal activities

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

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

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

Objectives of the Company

The core purpose is to support members of the ADF and the wider Defence community to manage their personal and family health care. The Company seeks to be the preferred, trusted and active provider of health insurance and health services to the Defence community. The goals for achieving this outcome are to:

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

Achievement of objectives

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

The Company measures its performance against the strategic goals by:

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

Review of operations

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

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

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

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

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

Dividends

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

Significant changes in the state of affairs

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

Subsequent events

Since 30 June 2020 the state of Victoria and other parts of Australia are facing a second wave of COVID-19, with some locations in lockdown. This has resulted in elective surgery being partially deferred in Victoria. This has the potential to affect claims expenses and liabilities in the new year again.

Environmental regulation

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

Directors' benefits

Directors' fees are disclosed in Note 20 and related party transactions disclosed in Note 19 to the Financial Statements. No Director received any benefit as a result of a contract made by the Company with the Director, or with a firm associated with the Director or in which the Director has a substantial financial interest.

Indemnification of Directors and Officers

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

Auditor's independence declaration

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

Rounding of amounts

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

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Mr Robin Buick Orr Burns	Mr Alan Ian Beckett
Director	Director
16 September 2020	16 September 2020

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16 September 2020

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

Dear Board Members

Auditor's Independence Declaration to Defence Health Limited

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

As lead audit partner for the audit of the financial report of Defence Health Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Consolidated income statement and other comprehensive income

for the financial year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Premium revenue	4	595,228	571,697
Direct benefits expense	5	(501,866)	(485,516)
Risk Equalisation Trust Fund expense		(31,420)	(31,861)
State ambulance levies		(4,559)	(4,501)
Net benefits expense		(537,845)	(521,878)
Unexpired risk reserve	5	(10,036)	3,939
Underwriting result		**47,347**	**53,758**
Employee expenses	5	(22,164)	(21,455)
Marketing expenses		(1,801)	(1,774)
IT and computing expenses		(4,550)	(4,198)
Transaction processing costs		(1,963)	(2,039)
Professional fees		(1,377)	(1,205)
Depreciation and amortisation expenses	5	(2,875)	(1,337)
Occupancy expenses		(1,158)	(1,157)
Industry subscriptions		(905)	(916)
Commissions		(739)	(404)
Agency legal costs		(309)	(304)
Interest expense		(44)	0
Other management expenses		(1,335)	(1,397)
Total expenses		(39,220)	(36,186)
Underwriting result after operating expenses		**8,127**	**17,572**
Investment income	4	8,674	20,257
Other revenues	4	293	625
Surplus for the year		**17,094**	**38,454**
Other comprehensive income		**0**	**0**
Total comprehensive income for the year		**17,094**	**38,454**

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

Consolidated statement of financial position
as at 30 June 2020

	Notes	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	6	63,451	21,167
Trade and other receivables	7(a)	16,544	18,940
Contract assets	7(b)	893	990
Financial assets	8	410,471	418,332
Total current assets		**491,359**	**459,429**
Non-current assets			
Contract assets	7(b)	3,385	4,278
Property, plant and equipment	9(a)	1,033	1,963
Intangible assets	9(b)	22,493	6,405
Deferred acquisition costs	9(c)	0	726
Right of use asset	9(d)	4,767	0
Total non-current assets		**31,678**	**13,372**
Total assets		**523,037**	**472,801**
Current liabilities			
Trade and other payables	10(a)	56,617	58,145
Lease Liability	13	231	0
Claims liabilities	11	87,306	66,757
Provisions	12(a)	11,402	2,133
Total current liabilities		**155,556**	**127,035**
Non-current liabilities			
Trade and other payables	10(b)	0	101
Lease Liability	13	5,041	0
Provisions	12(b)	2,193	2,512
Total non-current liabilities		**7,234**	**2,613**
Total liabilities		**162,790**	**129,648**
Net assets		**360,247**	**343,153**
Equity			
Contributed equity	14	43,346	43,346
Retained earnings	15	316,901	299,807
Total equity		**360,247**	**343,153**

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

Consolidated statement of changes in equity
for the financial year ended 30 June 2020

	Contributed Equity	Retained Earnings	Total Equity
	$'000	$'000	$'000
Balance at 1 July 2018	**43,346**	**255,095**	**298,441**
Adjustment to opening balance due to adopting AASB 15	0	6,258	6,258
Total comprehensive income for the year	0	38,454	38,454
Balance at 30 June 2019	**43,346**	**299,807**	**343,153**
Total comprehensive income for the year	0	17,094	17,094
Balance at 30 June 2020	**43,346**	**316,901**	**360,247**

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

Consolidated statement of cash flows
for the financial year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Premium receipts		595,666	572,954
Benefits paid to and on behalf of fund members		(482,427)	(483,534)
Government and other levies paid		(4,543)	(4,488)
Payments to Risk Equalisation Trust Fund		(32,685)	(30,715)
Payments to suppliers and employees		(34,847)	(34,725)
Payments for deferred acquisition costs		(13)	(183)
Commission received		1,282	1,615
Net cash from operating activities	**16**	**42,433**	**20,294**
Cash flows from investing activities			
Purchase of investment securities		(328,551)	(262,214)
Proceeds on sale of investment securities		331,725	231,255
Interest and dividends received		14,474	13,964
Purchase of property, plant and equipment		(357)	(147)
Purchase of intangible assets		(17,312)	(5,120)
Repayment of lease liability		(84)	0
Interest paid on lease liability		(44)	0
Net cash used in investing activities		**(149)**	**(22,262)**
Net increase/ (decrease) in cash and cash equivalents		42,284	(1,338)
Cash and cash equivalents at the beginning of the financial year		21,167	22,505
Cash and cash equivalents at the end of the financial year	**6**	**63,451**	**21,167**

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

Note 1 – Summary of significant accounting policies

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

1.1 Statement of compliance

The general purpose financial statements of the Company for the year ended 30 June 2020 have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, International Financial Reporting Standards and comply with other requirements of law.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 16 September 2020.

1.2 Basis of preparation

The general purpose financial statements have been prepared:

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

1.3 Key judgements and estimates

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

1.4 Basis of consolidation

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

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

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

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

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

1.5 Revenue recognition

Revenue is recognised for the major income streams as follows:

(i) Premium revenue consists of contributions from policyholders, inclusive of the government rebate. This is recognised in the income statement when it has been earned evenly over the period of contract commencing from the attachment date. The earning of premium approximates the pattern of the incidence of risk expected over the term of the contract period. The proportion of premiums not earned at the reporting date is recognised as an unearned premium liability.

1.5 Revenue recognition (cont'd)

(ii) Dividend and interest revenue from investments is recognised when the right to receive income is established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, through the expected life of the financial asset to that asset's net carrying amount.

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

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

Variable consideration

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

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

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

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

The company has used the following assumptions:

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

1.6 Receivables

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

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

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

1.7 Property, plant and equipment

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

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

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

Office equipment and fittings	5 years
Motor vehicles	5 years
Computer equipment	2 - 5 years
Leasehold improvements	1 - 10 years

1.8 Intangible assets

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

Licenses	5 years
Core IT platform	7 years
Trademark	10 years

1.9 Leases

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

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

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

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

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

1.10 Payables

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

1.11 Maintenance and repairs

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

1.12 Employee benefits

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

Superannuation
The Group makes contributions to superannuation funds for the benefit of employees at a rate of 9.5% of each employee's salary in accordance with statutory requirements.

Annual leave and long service leave
Provisions are made for employee annual and long service leave, based on the present value of estimated future payments and service records up to the balance sheet date. Expected future payments are discounted by rates attached to corporate bonds at the balance sheet date, which most closely match the terms to maturity of the related liabilities.
In determining the liability for employee benefits, consideration has been given to future increases in wage and salary rates, together with the Group's experience with staff departures. Related on-costs have also been included in the liability.

1.13 Cash and cash equivalents

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

1.14 Income tax

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

1.15 Goods and Services Tax

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

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

1.16 Provision for Risk Equalisation

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

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

1.17 Investments and other financial assets

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

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

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

1.17 Investments and other financial assets (cont'd)

Financial assets at fair value through profit or loss (held for trading)
Financial assets are classified as financial assets at fair value through the statement of profit or loss where the financial asset:

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

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

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

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

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

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

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

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

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

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

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

1.18 Assets backing insurance liabilities

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

1.19 Product classification

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

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

1.20 Insurance contract liabilities

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

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

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

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

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

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

If the present value of the expected cash flows relating to future claims, plus the additional risk margin, exceeds the unearned premium liability (less related intangible assets and related deferred acquisition costs) then the unearned premium liability is deemed to be deficient.

The entire deficiency is recognised in the statement of profit or loss and other comprehensive income and recorded in the statement of financial position as an unexpired risk liability.

1.21 Deferred acquisition costs

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

1.22 Accounting standards issued but not yet effective

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

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

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

The Group is in the process of assessing the impact of the adoption of AASB 9 and AASB 17, which could be significant upon adoption.

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

The Group has adopted all new and revised standards, interpretations and amendments to AASB effective during the year in the preparation of the financial statements. The adoption of these standards has not affected the amounts reported but has impacted the level of disclosure included in the notes to the financial statements. The following revised standards, interpretations and amendments to AASB that are mandatorily effective for an accounting period that begins on or after 1 July 2019, and therefore relevant for the current year end.

Standards affecting presentation and disclosure:

- AASB 16 Leases. The company's adoption date is 1 July 2019

Definition of a lease
Previously, the company has determined at contract inception whether an arrangement is or contains a lease under AASB 117. Under AASB 16, the company assesses whether a contract contains a lease based on the definition of a lease.

On transition to AASB 16, the company elected to apply AASB 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee
As a lessee, the company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the company recognises right-of-use assets and lease liabilities for most leases.

The company decided to apply recognition exemptions to short-term leases of office space. For leases of other assets, which were classified as operating under AASB 117, the company recognised right-of-use assets and lease liabilities.

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

Leases classified as operating leases under AASB 117
At transition, lease liabilities are measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at 1 January 2019. As these were due to expire during the year the new lease was subsequently set up as right-of-use assets and lease liabilities. As a result of this no adjustments were required to retained earnings.

Financial impact of initial application of AASB 16 Leases
The weighted average leases incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position on 1 July 2019 is 0%. As the lease at this time was due to expire the company didn't need to recognise a lease liability on transition. When the new lease came into effect in February 2020 the weighted average leases incremental borrowing rate applied used at this time was 2%.

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the consolidated statement of financial position at the date of initial application:

Impact on retained earnings as at 1 July 2019

	$'000
Operating lease commitments at 30 June 2019	252
Short-term leases and leases of low-value assets	(252)
Effect of discounting the above numbers	0
Lease liability recognised at 1 July 2019	0

The group has recognised $0 right of use assets and $0 lease liabilities upon transition to AASB 16. As the lease at this time was due to expire the company didn't need to recognise a lease liability on transition. When the new lease came into effect in February 2020 a right of use asset of $5.1M and lease liability of the weighted average leases incremental borrowing rate applied used at this time was 2%.

1.24 Contract assets

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

1.25 Costs of contract assets

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

Note 2 – Key judgements and estimates

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

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

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

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

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

The key judgements and estimates are the:

(i) Central estimate which is the mean of all the possible values of expected future payments.

(ii) Risk margins which reflect the variability of the underlying insurance risk, the reliability and volume of data available and the robustness of the valuation models.

The risk margin adopted by the Company for outstanding claims, on the advice of the Appointed Actuary, is 6.0% (2019: 6.0%) and determined to give at least a 75% probability of adequacy.

The unexpired risk reserve in Note 12 was adopted on the advice of the Appointed Actuary and is determined with a risk margin of 3.3% (2019: 2.7%), and a 75% probability of adequacy.

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

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

Note 3 – Insurance contracts; risk and risk management

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

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

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

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

Concentration risk

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

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

Claims management and claims provisioning risks

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

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

b) Financial risks arising from insurance contracts

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

c) Capital and regulatory risks

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

d) Sensitivities

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

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

Note 4 – Revenue

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

Note 5 – Surplus for the year

	2020 $'000	2019 $'000
Surplus has been arrived at after charging the following expenses attributable to continuing operations:		
Direct benefits expense		
Benefits incurred this financial year	473,784	488,774
(Over)/under provision of prior year claims	(2,410)	(3,201)
COVID-19 deferred claims provision (exc CHE and risk equalisation cost)	30,843	0
Risk margin	(351)	(57)
	501,866	485,516
Change in provision for unexpired risk reserve (Note12)	10,036	(3,939)
Depreciation and amortisation of non-current assets	2,875	1,337
	2,875	1,337
Employee benefits	20,592	19,852
Post-employment benefits – Superannuation contributions	1,572	1,603
	22,164	21,455

Note 6 – Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and on hand	63,451	21,167
Total cash and cash equivalents	**63,451**	**21,167**

Note 7(a) – Trade and other receivables

	2020 $'000	2019 $'000
Trade receivables	14,463	15,936
Unclosed business premiums - earned	496	724
Allowance for doubtful debts	(103)	(112)
Unclosed business premiums – unearned	588	1,292
Other receivables	1,100	1,100
Total trade and other receivables	**16,544**	**18,940**
Allowance for doubtful debts summary:		
Balance at beginning of the year	112	136
(Decrease)/ increase in allowance recognised in the statement of profit or loss	(9)	(24)
Balance as at 30 June	**103**	**112**

Note 7(b) – Contract Assets

	2020 $'000	2019 $'000
a) Current		
Life Insurance Revenue	893	990
Total Contract Assets – current	**893**	**990**
b) Non-current		
Life Insurance Revenue	3,385	4,278
Total Contract Assets – non-current	**3,385**	**4,278**

Note 8 – Financial assets

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

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

(i) The company has granted the lessor of the property a bank guarantee to support the lease obligations of $0.7M (2019:$0.5M)

Note 9(a) – Property, plant and equipment

	Leasehold improvements $'000	Plant & equipment $'000	Total $'000
Gross carrying amount			
Balance at 30 June 2018	**315**	**2,748**	**3,063**
Additions	0	191	191
Disposals	0	(42)	(42)
Depreciation	(130)	(1,119)	(1,249)
Balance at 30 June 2019	**185**	**1,778**	**1,963**
Additions	214	144	358
Disposals	0	(1)	(1)
Depreciation	(164)	(1,123)	(1,287)
Balance at 30 June 2020	**235**	**798**	**1,033**

Note 9(b) – Intangible assets

	Capital Projects (i) $'000	Licenses $'000	Trademarks $'000	Total $'000
Carrying amount				
Balance at 30 June 2018	**0**	**1,365**	**11**	**1,376**
Additions	5,120	0	0	5,120
Disposals	0	0	0	0
Amortisation	0	(89)	(2)	(91)
Balance at 30 June 2019	**5,120**	**1,276**	**9**	**6,405**
Additions	17,312	0	0	17,312
Disposals	0	0	0	0
Amortisation	0	(1,222)	(2)	(1,224)
Balance at 30 June 2020	**22,432**	**54**	**7**	**22,493**

(i) Capital projects relates to the implementation of the new IT platform, depreciation will commence on completion of the project.

Note 9(c) – Deferred acquisition costs

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

	Deferred Acquisition Costs $'000	Total $'000
Carrying Amount **Balance at 30 June 2018**	**946**	**946**
Additions	180	180
Disposals	0	0
Amortisation	(400)	(400)
Balance at 30 June 2019	**726**	**726**
Additions	0	0
Disposals	0	0
Amortisation	(726)	(726)
Balance at 30 June 2020	**0**	**0**

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

Note 9 (d) Right of use asset

	Property	Total
	$'000	$'000
Balance at 1 July 2019	**0**	**0**
Additions	5,131	5,130
Disposals	0	0
Depreciation	(364)	(364)
Balance at 30 June 2020	**4,767**	**4,767**

Note 10 – Trade and other payables

	2020	2019
	$'000	$'000
a) Current		
Trade payables	2,467	2,194
Premiums in advance	48,453	47,919
Risk equalisation payable	5,697	8,032
Total trade and other payables – current	56,617	58,145
b) Non-Current		
Lease incentive	0	101
Total trade and other payables – non-current	0	101
Total trade and other payables	**56,617**	**58,246**

Note 11 – Claims liabilities

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

The risk margin of 6.0% (2019: 6.0%) has been estimated to equate to at least 75% probability of adequacy (2019: 75%) refer to Note 2.

Note 12 - Provisions

	2020 $'000	2019 $'000
a) Current		
Employee benefits	769	831
Unearned premium liability	588	1,293
Unexpired risk reserve	10,045	9
Total provisions – current	**11,402**	**2,133**

	2020 $'000	2019 $'000
b) Non-current		
Employee benefits	2,193	2,287
Make good of lease premises	0	225
Total provisions – non-current	**2,193**	**2,512**

Note 13 – Lease Liability

	2020 $'000	2019 $'000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	335	0
One to five years	3,743	0
More than five years	1,594	0
Total undiscounted lease liability 30 June	**5,672**	**0**
Lease Liabilities included in the Statement of Financial Position at 30 June		
Current	231	0
Non -current	5,041	0
Total provisions	**5,272**	**0**

Amounts recognised in profit and loss

	2020 $'000	2019 $'000
Interest on lease liabilities	(44)	0
Expenses related to short term leases	(225)	0

Amounts recognised in the statement of cash flows

Total cash outflow for leases	128	0

Note 14 – Contributed equity

	2020 $'000	2019 $'000
Contributed equity	**43,346**	**43,346**

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

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

Note 15 – Reserves and retained earnings

	2020 $'000	2019 $'000
Retained earnings		
Opening balance at 1 July	299,807	255,095
Adjustment to opening balance due to adopting AASB 15	0	6,258
Surplus for the year	17,094	38,454
Retained earnings at 30 June	**316,901**	**299,807**

Note 16 – Notes to the statement of cash flows

	2020 $'000	2019 $'000
Reconciliation of surplus for the period to net cash flows from operating activities		
Net surplus for the year	17,094	38,454
Depreciation and amortisation expense	2,875	1,337
Realised/ Unrealised (gain) on revaluation of fair value through the profit or loss financial assets	4,688	(5,948)
Investment income	(13,363)	(14,309)
Interest paid on lease incentive	44	0
Changes in operating assets and liabilities:		
(Increase) / Decrease in trade and other receivables	582	(1,360)
Decrease in contract assets	990	990
Increase / (Decrease) in current provisions	30,446	(780)
Increase / (Decrease) in trade and other payables	(1,555)	2,781
(Decrease) in operating lease incentive deferred	0	(181)
(Decrease) non-current provisions	(94)	(280)
Increase in deferred acquisition costs	726	220
Net cash generated from operating activities	**42,433**	**20,924**

Note 17 – Financial instruments

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

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

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

(a) Categories of financial instruments

	2020 $'000	2019 $'000
Financial assets		
Cash assets	63,451	21,167
Term deposits	188,710	211,962
Interest bearing securities	19,339	19,836
Units in fixed income trusts	99,804	78,852
Units in unlisted equity trusts	89,118	107,682
Alternatives	13,500	0

(b) Capital risk management

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

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

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

(c) Market risk

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

(i) Interest rate risk

Interest rate risk arises from interest rate changes that could impact the future value of cash flows or principal of a financial instrument. At reporting date, if interest rates changed by 50 basis points and all other variables were held constant for variable and fixed interest rate investments, the Company's surplus would change by $0.37 million (2019: $0.53 million).

Note 17 – Financial instruments (cont'd)

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

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

2019	Weighted average effective rate	Variable interest rate	Fixed interest maturity dates Less than 1 year	Non interest bearing	Total
	%	$'000	$'000	$'000	$'000
Financial assets					
Cash assets	2.60	21,167	-	-	21,167
Trade and other receivables	-	-	-	18,940	18,940
Term deposits	2.42	-	211,962	-	211,962
Interest bearing securities	2.70	19,836	-	-	19,836
Units in fixed income trusts	2.94	78,852	-	-	78,852
Units in unlisted equity trusts	-	-	-	107,682	107,682
		119,855	**211,962**	**126,622**	**458,439**
Financial liabilities					
Trade payables	-	-	-	2,194	2,194
Premiums in advance/unearned	-	-	-	49,212	49,212
Risk equalisation payable	-	-	-	8,032	8,032
		-	**-**	**59,438**	**59,438**

(ii) Foreign currency risk

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

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

Note 17 – Financial instruments (cont'd)

At reporting date, the Company's exposure to foreign currency risk was $11.1 million in unhedged overseas managed funds (2019: $32.2 million).

The Company's sensitivity to an average increase or decrease of 10% in foreign currencies with all other variables held constant, the surplus would change by $1.1 million (2019 $3.2 million).

(iii) Market price risk

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

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

As at reporting date, if unit prices change by 10% the Company's surplus would change by $18.9 million (2019: $18.1 million).

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

(d) Credit risk management

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

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

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

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

2020 Rating	**AAA**	**AA**	**A**	**BBB**	**Below BBB or Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash assets	-	63,451	-	-	-	63,421
Trade and other receivables	10,987	-	-	-	5,557	16,544
Term deposits	-	101,210	87,500	-	-	188,710
Interest bearing securities	-	-	19,339	-	-	19,339
Units in fixed income trusts	36,732	12,693	20,429	26,201	3,749	99,804
Units in unlisted equity trusts^	-	-	-	-	89,118	89,118
Alternatives	-	-	-	-	13,500	13,500
	47,719	**177,354**	**125,768**	**26,201**	**111,924**	**490,466**

2019 Rating	**AAA**	**AA**	**A**	**BBB**	**Below BBB or Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash assets	-	21,167	-	-	-	21,167
Trade and other receivables	10,659	-	-	-	8,281	18,940
Term deposits	-	133,962	78,000	-	-	211,962
Interest bearing securities	-	-	19,836	-	-	19,836
Units in fixed income trusts	31,628	13,830	16,606	16,399	389	78,852
Units in unlisted equity trusts^	-	-	-	-	107,682	107,682
	42,287	**168,959**	**114,442**	**16,399**	**116,352**	**458,439**

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

Note 17 – Financial instruments (cont'd)

(e) Liquidity risk management

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

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

The following table details the company's liquidity based on maturity date, including financial assets held for trading (Note 16 (a)).

2020	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	$'000	$'000	$'000	$'000	$'000	
Financial assets						
Cash assets	63,451	-	-	-	-	63,451
Trade and other receivables	15,671	362	511	-	-	16,544
Term deposits	24,500	29,225	134,985	-	-	188,710
Interest bearing securities	-	19,339	-	-	-	19,339
Units in fixed income trusts	99,804	-	-	-	-	99,804
Units in unlisted equity trusts	89,118	-	-	-	-	89,118
Alternatives	13,500	-	-	-	-	13,500
	306,044	**48,926**	**135,496**	**-**	**-**	**490,466**
Financial liabilities						
Trade payables	2,467	-	-	-	-	2,467
Risk equalisation payable	-	5,697	-	-	-	5,697
	2,469	**5,697**	**-**	**-**	**-**	**8,166**

2019	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	$'000	$'000	$'000	$'000	$'000	
Financial assets						
Cash assets	21,167	-	-	-	-	21,167
Trade and other receivables	17,141	576	1,223	-	-	18,940
Term deposits	16,000	33,123	162,839	-	-	211,962
Interest bearing securities	-	19,836	-	-	-	19,836
Units in fixed income trusts	78,852	-	-	-	-	78,852
Units in unlisted equity trusts	107,682	-	-	-	-	107,682
	240,842	**53,535**	**164,062**	**-**	**-**	**458,439**
Financial liabilities						
Trade payables	2,195	-	-	-	-	2,195
Risk equalisation payable	-	8,032	-	-	-	8,032
	2,195	**8,032**	**-**	**-**	**-**	**10,227**

(f) Fair value of financial instruments

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

- the fair value of financial assets traded on active liquid markets are determined with reference to quoted market prices; and

Note 17 – Financial instruments (cont'd)

- the fair value of other financial assets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Transaction costs are not included in the determination of net fair value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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

2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value through profit or loss				
Term deposits	211,962	-	-	211,962
Interest bearing securities	-	19,836	-	19,836
Units in fixed income trusts (i)	-	78,852	-	78,852
Units in unlisted equity trusts (i)	-	107,682	-	107,682
Total	**211,962**	**206,370**	**-**	**418,332**

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

Note 18 – Auditors remuneration

	2020 $	**2019 $**
Remuneration for audit of the financial reports and regulatory reporting	113,955	85,000
	113,955	**85,000**

The auditor is Deloitte Touche Tohmatsu, who was also the auditor in the prior year.

Note 19 – Commitments for expenditure

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

2019	Within one year	Later than one year but not later than five years	Later than five years	Total
	$'000	$'000	$'000	$'000
Non-cancellable operating lease	195	57	-	252
Capital expenditure core IT platform	16,576	-	-	16,576
Total	16,771	57		16,828

These commitments relate to property leases, motor vehicle leases and contracts related to capital expenditure for the new IT platform. The company has granted the lessor of the property a bank guarantee to support the lease obligations. At report date, the property leases have a remaining term of less than one year, motor vehicle leases have a remaining term of up to three years and the new IT platform is expected to be implemented within one year.

Liabilities recognised in respect of non-cancellable operating leases	**2020**	**2019**
Lease incentives	0	101
Make good of lease premises	0	225
	0	**326**

Note 20 – Related party transactions

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

	2020	**2019**
	$'000	**$'000**
Australian Health Services Alliance (i)	633	609
Defence Health Foundation (ii)	113	123
Members Own Health Funds (iii)	155	606
Private Healthcare Australia (iv)	120	120
	1,021	**1,458**

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

Note 20 – Related party transactions (cont'd)

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

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

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

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

Note 21 – Remuneration of key management personnel

	2020 $'000	**2019 $'000**
Short-term employee benefits	3,533	3,869
Post-employment benefits	249	231
Termination benefits	198	77
	3,980	**4,177**

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

The specified Directors for 2020:
Mr A I Beckett
Ms J A Blackburn (Retired November 2019)
Mr R Burns
Major General G H Garde AO RFD (Ret'd) (Retired November 2019)
COL A Hambleton AM
Ms C Ireland
Mr G Richardson
Ms A M Williams
Ms S Stothart
Ms Rebecca Davies (appointed November 2019)
Ms A Beck (Associate Director)

The specified executives for 2020:
Major General G P Fogarty AO (Ret'd) – Chief Executive Officer
Ms J M Kadlecik – Chief Operating Officer
Mr P Papamihail – Chief Financial Officer (until 31 March 2020)
Ms T Haines – Chief Risk Officer
Mr A N Guerin – Chief Legal Officer
Ms Candice Liew – Chief Marketing Officer (from 22 July 2019)
Mr B C Leung – Chief Financial Officer (from 01 April 2020), previously Head of Strategy and Actuarial Services
Ms K A Dickson – Chief People Officer
Mr Bryan Dunne – Transformation Director

Note 22 – Contingent liabilities and contingent assets

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

Note 23 – Subsequent events

Since 30 June 2020 the state of Victoria and other parts of Australia are facing a second wave of COVID-19, with some locations in lockdown. This has resulted in elective surgery being partially deferred in Victoria. This has the potential to affect claims expenses and liabilities in the new year again.

Directors' Declaration

The Directors of Defence Health Limited declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe the Group is able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and

(c) in the Directors' opinion, the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Board of Directors.

…………………………………………..

Mr Robin Buick Orr Burns
Director

16 September 2020

…………………………………………..

Mr Alan Ian Beckett
Director

16 September 2020

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

Opinion

We have audited the financial report of Defence Health Limited (the "Entity") and its subsidiary (the Group) which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 16 September 2020