

Annual Report 2022



Health insurance you can depend on



Contents

Performance Highlights	2	About Us	8	Governance	17
Chairman's Statement	4	Hospital cover	8	Board of Directors	18
CEO Statement	6	Core Values	9	Executive Management Team	20
		Extras cover	9	Code of conduct	20
		Other insurances	9		
		2021-22 Strategic achievements	10		
		Financial Performance	12		
		Member Services	13		
		Our People	14		
		Support for the Defence Community	16		

Purpose

Our core purpose is to protect the health of those who protect our country.

Vision

Our vision is to be your preferred and trusted health partner.

Financial Snapshot

\$'000	2022	2021	Change	Change %
Premium revenue	651,240	618,480	32,760	5.3%
Gross margin	86,131	60,032	26,099	43.5%
Management exp	(67,727)	(56,279)	(11,448)	20.3%
Management exp ratio	10.3%	9.1%		1.20%
Net margin	18,404	3,753	14,651	390.4%
Investment and other income	(9,718)	36,507	(46,225)	-126.6%
Operating surplus	8,686	35,195	(26,509)	-75.3%
Total assets	634,406	580,850	53,556	9.2%
Total liabilities	252,710	207,840	44,870	21.6%
Total capital reserves	381,696	373,010	8,686	2.3%
Number of policies	144,724	146,324	(1,600)	-1.1%
Market share	2.05%	2.12%		

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. In good times and tough times, we have a genuine commitment to our community.



84% of members are satisfied with their membership (Dec 2021)



237,777 calls handled, with 71.6% of calls from members answered within 60 seconds



As at 30 June 2022, 127,660 Defence Health members held hospital cover (90% with combined extras cover) and 17,064 held extras-only cover



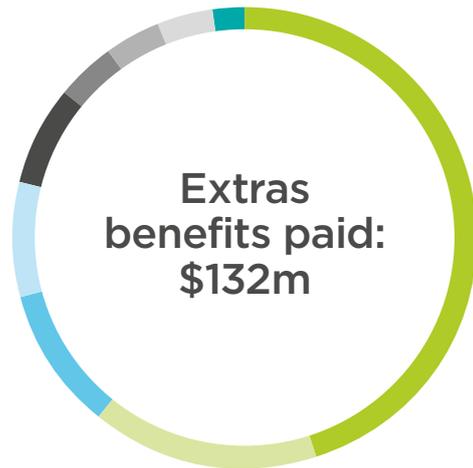
98% of claims processed within 96 hours



305,437 people covered



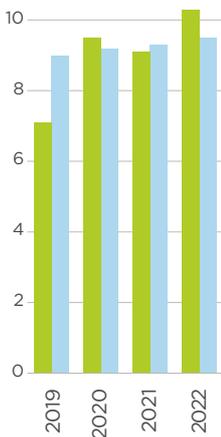
- Hospital accom 31%
- Extras 23%
- Psych & outreach 3%
- Prostheses 9%
- Rehab programs 2%
- Theatre, surgery & obstetrics 11%
- Anaesthesia 3%
- Pathology & imaging 2%
- Other 16%



- Dental 45%
- Optical 16%
- Physio 8%
- Chiro & osteo 7%
- Ambulance 4%
- Alternative therapies 4%
- Devices 4%
- Pharmacy & vaccinations 2%
- Other 10%

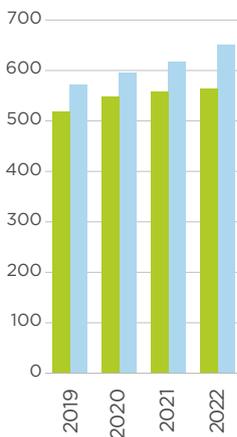
Management expense ratio (%)

- Defence Health
- Industry



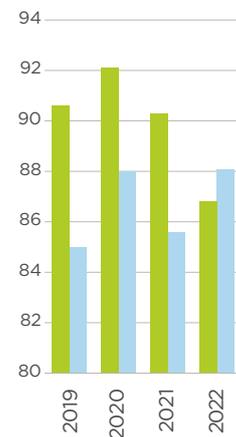
Benefits and premiums (\$'m)

- Benefits paid
- Premium revenue



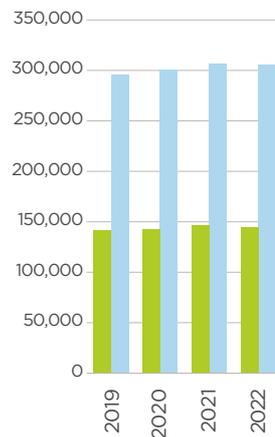
Benefits paid as % of premium (%)

- Defence Health
- Industry



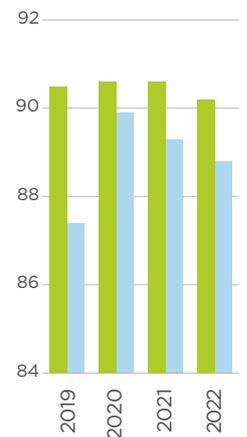
Memberships and people covered ('000)

- Memberships
- People covered



Hospital related medical services fully covered (%)

- Defence Health
- Industry



Chairman's Statement

The Board of Directors is committed to the long-term, prudent governance of the fund. We have a clear strategy to succeed in our quest to be your preferred and trusted health partner.

The financial accounts for 2021-22 reflect the ongoing impact the coronavirus pandemic is having on the health sector in general, and privately insured patients in particular.

Business operations continued to be caught in the stop-start hiatus of rolling lockdowns in 2021. And we observed the flow-on effects of interruptions to health care through surges and ebbs in benefit payments to members.

The fund continued to provide financial relief through the COVID-19 Member Support Program. The Board approved a freeze on premiums in December 2021, with 2021 premiums to be maintained until October 2022.

The freeze on premiums delivered more than \$12 million in savings to members. This surplus was the direct result of members being unable to claim for health care benefits during repeated lockdowns and delays in the health system. Our commitment was – and remains – that the fund will not retain such profits from these disruptions.

Defence Health members can be confident that we continue to closely monitor claims activity. Any further COVID-19-related savings due to members' inability to use their benefits will not be consolidated by the fund.

Financial relief was also offered to members who were affected by the devastating Queensland and New South Wales floods in March 2022. The waiver offer on premiums was extended for members who suffered a second round of flooding in June 2022.

At 30 June 2022, we had 305,437 members covered by 144,724 policies. The slight decrease in policies on the prior year is due to structural changes to the product offer for families insuring under-25-year-old dependants.

Premium revenue increased by 5.3% to \$651,240 million.

Extensive human and financial resources continued in the DELTA technology transformation. The work with Oracle Health Insurance to build the new operating platform is the first of its type in Australia and will provide a major uplift in our capacity to deliver proactive and personalised service for our members. DELTA will be vital to our future stability, capability and ongoing growth.

The project was further hindered by widespread infections of COVID-19 in early 2022.

As a not-for-profit company, the Directors of Defence Health have a keen interest in maximising the value we can deliver to every one of our members.

This value proposition is founded on our commitment to keep premiums affordable, to deliver meaningful health care benefits for members, and to cut waste and unnecessary cost from our operations.

The fund paid \$565.1 million in benefits during the year, representing an increase of 1.2% on the previous year. For every \$1.00 of premiums, \$0.87 was provided for benefits.

Management expenses are always tightly managed by the fund. The ongoing expenditure on Project DELTA has impacted the management expense ratio this year. Management expenses were \$67.7 million. The management expense ratio (MER) increased to 10.3% of premium revenue, but is expected to lower again in future years.

The fund achieved a surplus of \$8.7 million in 2021-22.



5.3%
Premium revenue increase



\$8.7m

Surplus in 2021-22

I would like to acknowledge the agility and adaptability of Defence Health employees during another long and unpredictable pandemic year. It goes without saying that everyone would like the disruption in our lives to end. The staff of Defence Health have maintained their engagement with each other, and their outstanding service to our members, for a second year.

A company-wide return to the Melbourne office was interrupted several times due to outbreaks of COVID-19. Celebrations in the refurbished office and an indigenous welcome to country were enjoyed in April 2022. I attended the 'welcome back' event in the office on 8 April and it was evident how happy people were to be seeing their colleagues face-to-face again.

Even with all the challenges of working remotely, Defence Health was again named Major Private Health Insurer of the Year (not-for-profit and restricted category) in the 2021 Roy Morgan Customer Satisfaction Awards. This year the fund also took out the overall award category as Private Health Insurer of the Year.

These awards are testament to the outstanding service culture of Defence Health. That culture is demonstrated and led from the top, by the CEO, Gerard Fogarty, and his Executive Team. I thank them for the dedication they have for fostering a high performing and productive workplace.

Gerard will retire from the position of CEO in November 2022, after nine years in the role. He is a much admired and respected leader who leaves an enduring legacy at Defence Health.

He has driven a member-centric focus and has continuously revised the product and service offering to better meet the needs of the community we serve.

Members can have confidence in the prudent, ethical and responsible management of their health fund. The Board of Directors has broad experience, skill and insight to the needs of our members, and I thank them for their commitment to the long-term financial sustainability of the fund.

Alan Beckett
Chairman

\$565.1m

Paid benefits during the year.
A 1.2% increase on the previous year.

CEO Statement

The importance and value of private health insurance, as an integral element in the Australian health system, has been further highlighted during the pandemic.

The private health system was called on to bolster delivery of health services and ensure capacity of hospital beds during significant surges of COVID-19.

Public hospital waiting lists have been battered and will take years to recover to pre-COVID-19 levels. More people are turning to private health care for the peace-of-mind it provides in such uncertain times.

At Defence Health we remain focused on the sustainability and affordability of our product offering. We've been investing in our DELTA project to materially lift the way we service our members and the way they experience our evolving products and services. The project has been hampered with technical challenges and high COVID-19 infection rates and is due to launch next financial year.

Most of our employees continued to work from home during 2021-22. Extensive planning and preparations were made for a return to the office in July 2021. The return was interrupted by the 'short, sharp, circuit-breaker' lockdown #5 (16-27 July) which was closely followed by the hard-hitting lockdown #6 from 5 August to 21 October 2021.

This final strict lockdown and the summer surge of the Omicron variant delayed our return to the office until April 2022.

It is fair to say there were feelings of hopelessness in the community during the three months of lockdown #6. The business went to great lengths to support the mental health and wellbeing of our people. They showed resilience, compassion, empathy and good humour to maintain a positive outlook while delivering high quality service to our members.

The fund continued to provide valuable support to members through the COVID-19 Member Support Program.

The 2021 lockdowns further impacted members' ability to use their benefits - particularly in Victoria. As a result the fund has approximately \$45 million in COVID-19-related savings due to unclaimed benefits. We are finalising plans to return these savings to our members.

In addition to the customer satisfaction awards mentioned by the Chairman, for the fourth year in a row, Defence Health was named an Employer of Choice in the Australian Business Awards.

The awards are great recognition of the outstanding effort that every individual at Defence Health makes for our members, each and every day.

As the health sector returns to a more normal operating rhythm after the intense strain of COVID-19, we will continue to advocate on behalf of our members for more affordable medical device pricing and competitive hospital contracts. Data from the Australian Prudential Regulation Authority confirms that overpriced medical devices are the driving force on private health insurance premiums. Reducing the inflated costs imposed on us by foreign-owned med-tech companies must be a priority for the new federal government.

\$45m

In COVID-19-related savings. We are finalising plans to return these savings to our members



Finally, I was proud to attend the Shrine of Remembrance in Melbourne on 20 April to announce Defence Health is the naming rights partner of the Legacy Centenary Torch Relay in 2023. The relay will celebrate 100 years of support for the families of those who have given their all for their country. We must never lose sight of the significant sacrifices made by our veterans and their families. Our support for the Legacy Torch Relay will help raise awareness of the Legacy cause and ensure it is sustainably resourced for the future. The torch will make its way around Australia between May and October next year.

This is my final report as Chief Executive Officer before I retire from the office in November 2022. I'm grateful for the nine years I've had in the role and confident about the future of the fund. I'd like to thank the Chairman and the Board of Directors for their encouragement, insight and support during what has been a period of significant change – and our wonderful staff who deliver industry-leading customer service.

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



About Us

We're a small health fund with a giant-size dedication to our members.

Defence Health was established in 1953 to ensure families of serving ADF and the wider Defence community could get timely and affordable access to health care.

Medicare did not exist back then. People who needed hospital care had to personally pay for all their hospital and medical charges. With the entry of private health insurers, private hospitals were built which boosted overall capacity and made access to care more affordable.

Private health also had a benefit for public patients as it relieved the demand on elective surgery waiting lists and enabled faster public treatment.

Defence Health operates on a not-for-profit basis. Being not-for-profit means we're in a position to provide greater value for members, rather than dividends to shareholders or foreign owners. Our purpose is to look after our members. We manage the fund responsibly for the long term, with any surplus remaining in the fund for the benefit of all members.

Private health in Australia **Hospital cover**

The private health sector is vital to the overall operation of the Australian health system. Around two thirds of all elective surgery takes place in private hospitals. Without private health insurance, the public sector would be crippled under the demand for services.

The government recognises the importance of the private sector and provides legislative incentives to encourage people to take out private hospital insurance.

- ▶ An age-based discount is available to young people who take out an eligible hospital policy before turning 30.
- ▶ Lifetime Health Cover penalises people who take out hospital cover later in life (a 2% loading is added to the premium each year they delay after turning 31).
- ▶ The Medicare Levy Surcharge imposes an additional tax on higher income earners who do not take out private hospital cover. The surcharge ranges from an extra 1% to 1.5% in tax, depending on income.
- ▶ The Private Health Insurance Rebate helps reduce the cost of premiums. The rebate is means tested by the government, and a higher rate of rebate is payable to older Australians (from age 65 and higher again from age 70).

Private hospital cover gives people almost immediate access to high quality health care. Now, more than ever, the dependability of private cover is clear. With public hospital waiting lists growing longer, greater numbers of people are turning to private health insurance for timely treatment.

Gold, silver, bronze and basic hospital cover is standardised across all health insurers. While the different tiers may include more than the minimum, they may not exclude a clinical category from the standard cover.

With an appropriate level of cover for the treatment required, private hospital insurance covers the cost of the hospital accommodation charges and theatre fees, meals and medication, and nursing care while in hospital.

Hospital cover also contributes to the fees charged by the medical specialists who treat the hospital patient.

- ▶ In 2021–22, Defence Health fully covered 90.2% of all hospital related medical services for our members (compared with the industry average of 88.8%).
- ▶ In the same year, we funded 234,350 days of hospital treatment totalling \$358.7 million in hospital and medical benefits (down 8.2%).

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.



Ownership

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



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.



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.



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.

Extras cover

Extras cover provides benefits for a range of allied health care services. The type of treatment includes dental and optical care, physiotherapy, psychology, speech and occupational therapy, and podiatry.

Medicare does not provide benefits towards this general treatment unless it's part of an extended care plan. So the benefits available from extras

cover make a valuable contribution to this every-day health care.

Defence Health extras policies also include comprehensive ambulance cover. Members are covered Australia-wide for state-appointed ambulance services on the road, in the air, or on the sea.

Other insurances

Defence Health no longer offers term life, accident or other insurances. However, we continue to support existing policy holders of these products.

Defence Health Travel Insurance was relaunched in March 2022 (after sales were suspended in March 2020 due to pandemic travel restrictions). Our travel insurance is underwritten by Allianz Australia Insurance Limited (Allianz).

Important information:

Defence Health Limited ABN 80 008 629 481 AFSL 313890 arranges this insurance as agent for AWP Australia Pty Ltd ABN 52 097 227 177 AFSL 245631 trading as Allianz Global Assistance (AGA). AGA issues and manages travel insurance as agent for the insurer Allianz Australia Insurance Limited ABN 15 000 122 850 AFSL 234708 (Allianz). Terms, conditions, limits and exclusions apply. Defence Health, Allianz and AGA do not provide any advice on this insurance based on any consideration of your objectives, financial situation or needs. Therefore, you should consider whether the advice is appropriate for you. Before making a decision please consider the Product Disclosure Statement which you can view online at <https://allianzassistancetravel.com.au/onex/api/document/pds/defenceHealthcf/>. The Target Market Determination is available at www.allianzpartners.com.au/policies/. Defence Health, and AGA receive a commission which is a percentage of the premium you pay for a policy – refer to our Financial Services Guide, which is available online at <https://allianzassistancetravel.com.au/onex/api/document/fsg/defenceHealthcf> for details or ask us for more information prior to purchasing.

2021-22 Strategic achievements

The second year of the pandemic created further uncertainty and interruptions to health care. But our resolve to support our members was steadfast.





1. Health insurer of choice for the ADF and ex-serving

- ▶ Serving and ex-serving veterans are our heroes. We are a leading insurer for this community and they comprise 42% of the people we cover.
- ▶ For the third year running, Defence Health was named Major Private Health Insurer of the Year (not-for-profit or restricted category) in the 2021 Roy Morgan Customer Satisfaction Awards. And for the first time we took out the overall category as Private Health Insurer of the Year.
- ▶ In conjunction with strategic design company 'Future Friendly', we designed a smart and supportive claims experience for members eligible for extended mental health and cancer benefits from the Department of Veterans' Affairs. The new service was recognised as a Good Design Award Gold Winner.
- ▶ Trialled two initiatives for out-of-hospital mental health support for eligible members. Mind Australia provides specialised psychosocial services, and TMS Clinics Australia delivers repetitive Transcranial Magnetic Stimulation (rTMS).
- ▶ We maintained high levels of member satisfaction during the year: August 83%; December 84%.
- ▶ We continued with significant work on project DELTA.



2. Strengthen our business

- ▶ We invested in new local area marketing activities to raise awareness of our brand in key locations.
- ▶ Our payment integrity team ensures benefits are paid correctly. Through more robust systems we increased our savings to \$4.7 million (or 0.9% of benefits paid).
- ▶ We launched the industry leading Genesys cloud telephony platform to enable better contact centre service to our members.
- ▶ Capital per policy increased to \$2637.



3. Deliver strategic growth

- ▶ Family+ was launched as an affordable option for families to maintain hospital and extras cover for their 21-24 year-old kids who are no longer full-time students.
- ▶ Private hospital treatment for COVID-19 was made available to all hospital policy members, regardless of their level of hospital cover.
- ▶ We relaunched Defence Health Travel Insurance in March 2022.
- ▶ We announced our naming rights partnership with Legacy Australia to celebrate the organisation's centenary in 2023.



Financial Performance

Premium revenue

In 2021-22, the revenue from premium contributions grew by 5.3% to \$651.2 million. The increase is partially due to the impact of the prior year rise which averaged 3.71%. Premiums were frozen throughout this financial year and we saw policies that were suspended in the first year of the pandemic being reactivated. The number of health insurance policies grew by 1.7% compared to prior year, when excluding the impact of the movement of adult dependants from stand-alone extras policies back into family cover.

1.2%

increase in value of benefits paid to members

Benefits

The value of benefits paid to, or on behalf of members, increased by 1.2% to \$565.1 million. The pandemic continued to cause disruption to health services with COVID-19 outbreaks and lockdowns experienced across Australia during the first half of the financial year. As vaccination rates rose and formal restriction relaxed, staff shortages in the health sector resulted in a slower resurgence of claims. We continue to accrue for the likely claims that would be delayed into the 2022-23 financial year.

Within our benefits expense we have recognised a provision of \$42 million to return to our eligible members as part of our continued commitment to not profit from COVID-19.

Management expenses

Management expenses include the cost of doing business, such as salaries, rent, heat, light, power and depreciation. Defence Health always focuses on keeping these expenses as low as possible. This year the management expense was \$67.7 million, up \$11.4 million on the prior year. This is due to additional costs associated with Project DELTA. As a percentage of premium revenue, the management expense ratio of 10.3% has moved above the industry average of 9.5% - but is expected to move lower again in future years.

Investment income and capital

The stellar performance of global share markets ended in 2021 as interest rates and inflation began to rise. In stark contrast to prior years, our investment portfolio made a \$10 million loss in 2021-22. Our investment portfolio is diversified and at times, downturns are expected to occur. Despite the loss, the fund's capital reserves closed at \$381.7 million or \$2637 per policy.

Surplus

Due to lower-than-expected benefit outlays, partly offset by the loss made on our investments, the fund produced a surplus of \$8.7 million. This is after accounting for COVID-19-related claims savings which will be returned as a cashback payment to eligible members in late 2022. We promised we would not profit from our members' inability to claim benefits during the pandemic.

\$8.7m

Surplus



Member Services

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

The team continued to predominantly work from home for most of the year. Some of the team had access to the office (when COVID-19 restrictions permitted). But most did not make their return to the St Kilda Road office until April 2022.

Member satisfaction

We pride ourselves on our outstanding levels of customer service and the way we treat members like they are part of the family. We support them in good times and bad – and we always take the time to listen. If a member has a problem with our service, we aim to resolve it immediately.

Our promise to members is that we look after our own. And we go to great lengths to ensure we exceed member expectations.

Member satisfaction is measured quarterly. In August 2021, member satisfaction was recorded at 83% and in December 2021 it was 84%.

This year Defence Health was again named Major Private Health Insurer of the Year (restricted and not-for-profit category) in the Roy Morgan 2021 Customer Satisfaction Awards. The fund won all 12 months of the independently conducted research. And we were the overall category winner as Private Health Insurer of the Year.

The Commonwealth Ombudsman is available to consumers who have complaints about their health insurer. The Ombudsman receives very few complaints from our members. In 2021–22, the Ombudsman received just 28 complaints from our members. This represents 1.03% of all complaints to the Ombudsman and is lower than our market share of 2.05%.



“Thank you for the wonderful team that make being with Defence Health the best choice of a medical fund.”



“Your team member was lovely, very friendly and professional and was able to answer my questions right away. He went above and beyond. Phone calls are difficult for me due to disability, but this phone call left me feeling good – thanks!”

Our People

Our corporate values are very important to us: trust; excellence; ownership; respect; and community. They are the foundation for our interactions with members, service providers, and each other.



The June 2022 staff engagement survey questions were altered slightly to align with a more contemporary employee experience dashboard, and to include more comprehensive benchmarking data.

The survey received the highest ever participation rate of 94%, with an overall engagement score of 83% (or 86% under the previous survey structure). The Australian average for workplace engagement is 76%.

For the fourth year in a row, Defence Health was named an Employer of Choice in the 2021 Australian Business Awards. The awards celebrate organisations that maximise the potential of their workforce through effective recruitment, engagement, training and retention. It's great to receive this recognition that Defence Health is a rewarding and stimulating place to work.

Employment

Recruitment in 2021-22 continued in a remote capacity and has become a familiar routine now for recruiters, trainers, and team leaders - as well as for job seekers.

At 30 June 2022 we had a workforce of 278 people (steady with the same time last year). This is comprised of 216 full-time staff, 45 part-timers, 9 casuals and 8 directors.

The gender composition of the workforce is 60% women. Managerial roles are split close to even with 49% women and 51% men. The Board is 50% women. The Associate Director Traineeship program further supports women by giving them experience in the function of a corporate Board.

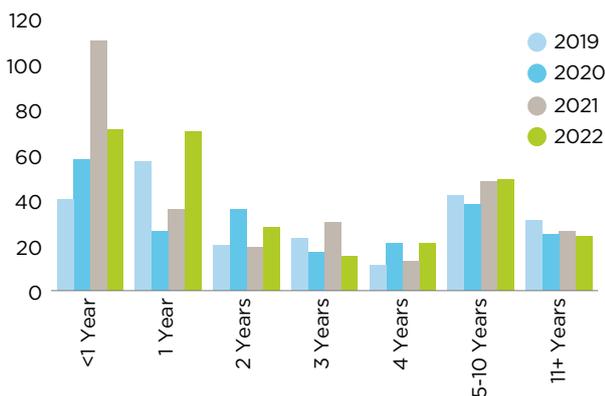
During the year there were 107 employee departures (or 38.5% turnover) - including two directors who retired at the Annual General Meeting in November.

Project DELTA

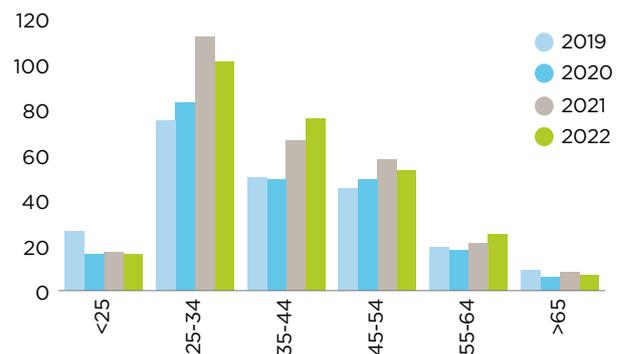
Work continues on the transformational technology project that we call 'DELTA'. We are working with specialists from Oracle Health Insurance and EY to build a new core operating platform that will be supported by digital and data platforms.

End-to-end testing and training has been taking place. The project team (and schedule) was impacted heavily in January and February with COVID-19 illness. Progress has also been adversely affected by recent global software updates that have disrupted the data migration plan. Staff receive weekly project updates and business planning continually adapts to the project road bumps.

Number of staff by length of service



Number of staff by age



Health and wellbeing

After more than two years working remotely, the Defence Health workforce finally returned to the office in April 2022. And there was much to celebrate after such a lengthy absence.

The company's Wellbeing Strategy was in overdrive during the year - especially during Melbourne's sixth lockdown from August to October 2021. The Strategy encompasses the five pillars of health: being financial, career, physical, mental and social.

Staff were supported with online health and social activities. Small team gatherings were enabled in the lead-up to Christmas, and staff were encouraged and provided paid leave to obtain their vaccinations against COVID-19 when the vaccine became available.

After extensive consultation with staff, a hybrid model was agreed for the return to the office. There is recognition of the value flexible work offers - but also acknowledgement of the wellbeing and productivity benefits of face-to-face learning and collaboration. The hybrid model of working balances these considerations, with the majority of work performed in the office.

Benefits of employment with Defence Health include comprehensive health insurance for full-time and part-time staff; all staff have access to the Employee Assistance Program; anyone experiencing domestic violence is supported with additional paid leave; and everyone can dedicate a day to their health with an additional day of 'wellbeing' annual leave.



"It is a very inclusive workplace. Women hold many senior roles. There is also a clear effort to be inclusive of people of different races, sexual orientations, and with flexible work arrangements."



"Defence Health has real integrity as an organisation which makes me proud to work for them."

Engagement highlights:



96%

Agree their manager treats them with respect



94%

Agree that discrimination and harassment is not tolerated



95%

Say Defence Health is a safe place to work



95%

Say their manager cares about their wellbeing



96%

Say we demonstrate ethical behaviour



91%

Are satisfied with the relationship with their manager



100%

Of Defence Health staff say they work well in their team

Support for the Defence Community

Our network of Defence community relationship officers (DCROs) are located in all major Defence locations in Australia. They engage with serving and ex-serving organisations to keep their finger on the pulse of issues impacting the community.

During the year they attended virtual and face-to-face events that focused on the wellbeing of the Defence community.

They collaborated with veteran wellbeing centres, the Defence Special Needs Support Group, Defence Families Australia,

RSL branches, Open Arms, Mates 4 Mates, Soldier On, Defence Member and Family Support, Commonwealth Superannuation Corporation, Buddy Up, Point Assist and veteran peak bodies.

The team hosted 113 pop-up education kiosks, 27 presentations and on-base support at induction training and rehabilitation centres (including Soldier Recovery Centre and military support functions).

The team was delighted to return to face-to-face community events this year.

They supported more than 390 events with the aim of veteran and family wellbeing and social connection.

Connections were rekindled with Defence Industry and the DCROs delivered health care education and support for staff programs.

The team is energised and enthusiastic about the Defence Health sponsorship of the Legacy Centenary Torch Relay 2023. They are supporting Legacy clubs with fundraising activities and events in anticipation of the main event next year.



Governance

Defence Health is a registered company, limited by guarantee, under the *Corporations Act 2001*. It is also registered under the *Private Health Insurance (Prudential Supervision) Act 2015* as a not-for-profit health insurer with no shareholders or borrowings.

The Constitutional 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, compliance, 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

At 30 June 2022, the Board of Directors was comprised of seven non-executive, independent directors and one associate director. The Associate Director Traineeship program was introduced in 2015 as an initiative to improve the representation of women in corporate Australia.

The program gives talented women in the Defence community exposure to governance and board operations.

The Chief Executive Officer is appointed by the Board.

Directors' interests and committee memberships, as at 30 June 2022, are detailed below.



Alan Beckett

BEc FCA GAICD

Chairman since November 2019

Director since January 2006

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



COL Anthony Hambleton

AM CSC GAICD

Director since February 2014

- Chair - Nomination and Remuneration Committee
- Member - Standby Army Reserve
- Appointed Director - Chief of Army



GPCAPT Susan Stohart

**CSC BBus M Def Stud Grad
Dip Applied Finance GAICD**

Director since November 2016

- Member - Risk Committee
- Member - Audit Committee
- Member - Nomination and Remuneration Committee
- Member - RAAF Active Reserve
- Appointed Director - Chief of Air Force



Robin Burns

FAICD

Director since October 2018

- Chair - Risk Committee
- Chair - Audit Committee
- Member - Investment Committee
- Director - BT Funds Management Ltd
- Director - BT Funds Management No 2 Ltd
- Director - Westpac Securities Administration Ltd
- Independent Member - External Compliance Committee, PIMCO Australia Ltd



Carolyn Ireland

MBA (Executive) CA GAICD

Director since October 2018

- Chair - Investment Committee
- Director - International Women's Development Agency
- Director - Xavier College Foundation
- Chair - Finance Committee, Melbourne Archdiocese Catholic Schools Ltd



Rebecca Davies AO

LLB (Hons) BEc FAICD

Director since November 2019

- Member - Nomination and Remuneration Committee
- Member - Risk Committee
- Member - Audit Committee
- Director - Catholic Healthcare Ltd
- Director - Transparency International Australia
- Director - The Actuator Operations Ltd
- Director - Lifehouse Australia
- Director - National Heart Foundation of Australia
- Member - UNSW Centre for Big Data in Health, Advisory Committee
- Member - Medical Research Future Fund: Targeted Translational Research Board
- Nominee Trustee - The University of Notre Dame Australia
- Member - Audit and Risk Committee, Dept of Health Professional Services Review



Matthew Walsh

BAppSc MBA GAICD

Director since November 2021

- Member - Risk Committee
- Member - Audit Committee
- Member - Investment Committee
- Director - Matt Walsh Consulting Pty Ltd



COL Michelle Mason

Associate Director since October 2020

- Full-time serving member of the Australian Army
- Director - Hughes Primary School Board

Executive Management Team

The Chief Executive Officer is responsible to the Board for the overall management and performance of the company. His Executive Management Team supports him in this role.



Chief Executive Officer
MAJGEN Gerard Fogarty, AO (Ret'd)
 BBus Grad Dip Mgt MBA
 MSS(USA) GAICD



Chief Risk Officer
Tanya Haines
 Ass Dip Bus Mktg Grad
 Cert Bus Mgt Cert Gov Prac
 & Risk Mgt



Company Secretary and
 General Counsel
Andrew Guerin
 LLB BEc FGIA FCIS DipFS
 (FinPlan)



Chief Operating Officer
Joanne Kadlecik
 Ass Dip Bus Mgt GAICD



Chief Financial Officer
Matthew Walsh
 BCom CA



Chief People Officer
Kelly Dickson
 Ass Dip HRM



Chief Marketing Officer
 (Acting)
Garry Cregan
 BA (Hons)



Chief Strategy Officer
Christine Smyth
 PhD BA BSc (Hons)

Code of conduct

Our corporate code of conduct conveys clear guidelines on the ethics and behaviour expected of our employees. We are also a signatory to the industry based Private Health Insurance Code of Conduct.

Under both codes, we commit to:

- communicate with members in plain English
- provide relevant information to help members and prospective members in their decision making
- ensure our staff are thoroughly trained and know what they are talking about
- provide members with easy access to an effective dispute resolution process.

The company undertakes a regular audit of our compliance under the industry code.

Consolidated Concise Financial Statements

for the year ended 30 June 2022

Contents

Directors' Report	22
Auditor's Independence Declaration	27
Financial Statements	28
Consolidated income statement and other comprehensive income	28
Consolidated statement of financial position	29
Consolidated statement of changes in equity	30
Consolidated statement of cash flows	31
Notes to the Financial Statements	32
Directors' Declaration	45
Independent Auditor's Report	46

Defence Health Limited

(ABN 80 008 629 481 AFSL 313890)

Registered Office and
Principal Place of Business
Level 7 380 St Kilda Road
Melbourne VICTORIA 3004

Extract from the Financial Statements signed on 19 September 2022.

The Consolidated Concise Financial Report is derived from the full financial report and cannot be expected to provide as full an understanding of the financial position, and financial and investing activities of the Company as the full financial report which is available at defencehealth.com.au.

Directors' Report

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

Members

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

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

Directors

The nine non-executive Directors and one associate Director who held office during the financial year are as follows. The interests of the Directors shown below are as at 30th June 2022:

Mr Alan Ian Beckett

BEc FCA, GAICD

Appointed to the Board in January 2006. Current term expires at the Annual General Meeting to be held in 2023. Mr Beckett was appointed as the Chair of the Board in November 2019 and is a member of the Nomination and Remuneration Committee. Mr Beckett is a Chairman of Meat and Livestock Australia Ltd, a Director of Westbourne Capital Pty Ltd and Westbourne Credit Management Ltd, Director of Integrity Systems Company Ltd and a Director of MLA Donor Company Ltd. He is also an ex-partner of Ernst and Young.

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 elected the Deputy Chair of the Board in June 2022. Mr Burns was the Chair of the Risk and Audit Committees and a member of the Investment Committees for the entire year. Mr Burns was a Director of Indue Ltd and a Director of 8IP Emerging Companies Ltd for part of the year and was a Director of BT Funds Management Ltd, BT Funds Management No 2 Ltd and Westpac Securities Administration Ltd and a member of the External Compliance Committee of PIMCO Australia Management Ltd for the entire year.

COL Anthony Gerard Hambleton AM CSC

GAICD

Appointed to the Board in February 2014. Current term expires at the end of the Annual General Meeting to be held in 2023. COL Hambleton's term has been approved for extension by the Chief of Army for an additional 2 years until the Annual General Meeting in 2023. COL Hambleton was the Chair of the Nomination and Remuneration Committee for the entire year. COL Hambleton was a Director and was appointed Chair of Defence Health Foundation Pty Ltd in November 2019. COL Hambleton is a member of the Army Standby Reserve and the appointed Director of Chief of Army.

GPCAPT Susan Stothart CSC

BBus, Mmgmt, M Def Stud, Grad Dip Applied Finance, GAICD

Appointed to the Board in November 2016. Current term expires at the Annual General Meeting to be held in 2024. GPCAPT Stothart was a member of the Risk, Audit and Nomination and Remuneration Committees for the entire year. GPCAPT Stothart is a member of the RAAF active reserve and is the appointed Director of Chief of Air Force.

Ms Alice Joan Morrice Williams

BComm FCPA FAICD CFA ISFA AIF

Appointed to the Board in February 2010. Ms Williams term expired at the Annual General Meeting held in 2021. Ms Williams was Chair of the Investment Committee until the Annual General Meeting in 2021. Ms Williams was a Director of Equity Trustees Limited, Cooper Energy Ltd, Foreign Investment Review Board, Vocus Group Ltd, Pro Medicus Limited and a Member of the Felton Bequest Committee for part of the year, and Director of Djerriwarrah Investments Ltd, Mercer investments (Australia) Ltd, and Tobacco Free Portfolios for the entire year.

Ms Carolyn Ireland

MBA (Executive), CA, GAICD

Appointed to the Board in October 2018. Current term expires at the Annual General Meeting to be held in 2022. Ms Ireland was a member of the Investment Committee for the entire year. Ms Ireland was the Chair of the Investment Committee from the Annual General Meeting in 2021. Ms Ireland was a Director of International Women's Development Agency and Xavier College Foundation for the entire year and for part of the year was a Director and Chair of the Finance Committee, Melbourne Archdiocese Catholic Schools Ltd.

Ms Rebecca Davies AO

LLB (Hons), 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 a member of the Nomination and Remuneration, Risk and Audit Committees for the entire year. Ms Davies was also a Director of Catholic Healthcare Ltd, Transparency International Australia, The Actuator Operations Ltd, Lifehouse Australia, and Member Advisory Committee, UNSW Centre for Big Data in Health and a Member of the Targeted Translational Research 'Board' - a program funded by the Medical Research Future Fund for the entire year. Ms Davies also held the following positions for part of the year, Member Audit and Risk Committee of the Professional Services Review (part of the Department of Health), Nominee Trustee for the The University of Notre Dame Australia and Director National Heart Foundation of Australia.

Ms Shelly Park

Appointed to the Board on 4 November 2020. Ms Park chose to retire from the Board on 31 March 2022. Ms Park was appointed a member of the Risk and Audit Committees in February 2021. Ms Park is also a Director of Australian Red Cross Lifeblood and Emerge Women & Children Support Network and an Executive Member of Alliance Blood Operators. For part of the year, Ms Park was the Immediate Past Chair of the Asia Pacific Blood Network.

COL Michelle Mason

The Board appointed an Associate Director, COL Mason on 28 October 2021. COL Mason's term is set to expire in October 2022. COL Mason is a full-time serving member of the Australian Army and a Director of Hughes Primary School Board.

Directors' Report continued

Mr Matthew Walsh

The Board appointed Mr Walsh at the 2021 Annual General meeting. Mr Walsh's term will expire at 2025 Annual General Meeting. Mr Walsh is a Director of Matt Walsh Consulting Pty Ltd, and provides strategic advice to Boards and Executives. Mr Walsh's past roles include: Director and CEO, Australian Unity Health Limited; Director, Australian Unity Bank Limited and Director, Lifeplan Australia Friendly Society Limited; Director, Australian Health Service Alliance; Group Executive and Chief Executive Officer, Australian Unity - Retail; Chief Executive, Lifeplan Funds Management; Chair, Strategic Advisory Board of Adelaide University's International Centre for Financial Services, and Management Consultant, Price Waterhouse.

The Directors named above held office during the entire of the financial year, with the exception of Mr Matthew Walsh, Ms Shelly Park and Ms Alice Williams.

Company Secretary

Mr Andrew Guerin LLB, BEc, FGIA was appointed Company Secretary in September 2005. Mr Guerin was 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/ C Ireland		R Burns		R Burns		A Hambleton	
Meetings held	11		7		5		4		3	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A I Beckett	11	11							3	3
R Davies	11	11			5	5	4	4	3	3
A Hambleton	11	11							3	3
M Walsh	5	5	6	6	1	1	1	1		
S Stothart	11	11			5	5	4	4	3	3
A J M Williams	6	5	1	1						
R Burns	11	11	7	7	5	5	4	4		
C Ireland	11	11	7	7						
S Park	8	7			3	3	3	3		

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.

The Company reinstated its travel insurance product this year as international borders reopened. There were no other significant changes in the nature of the Company's activities during the financial year.

Objectives of the Company

The core purpose is to support members of the ADF and the wider Defence community to protect their health. The Company's vision is to be the preferred and trusted health partner of the Defence community. To achieve this vision the company seeks to:

- Be the health insurer of choice for the ADF and ex-serving community.
- Strengthen its PHI business.
- Deliver strategic growth.

Achievement of goals

- The Company will offer differentiated products, propositions and programs tailored to our specific market segments.
- The Company will maintain a strong and sustainable PHI portfolio.
- The Company will extend its scope of business to further embed itself in the Defence community.
- The Company regularly measures, monitors and addresses its performance towards its strategic goals by:
 - its market share, and the level of member advocacy in designated target segments;
 - the financial performance of its PHI business; and
 - and its pipeline of strategic growth opportunities.

Review of operations

Defence Health recorded a surplus of \$8.7 million in the 12 months to 30 June 2022, a decrease of \$26.5 million on the prior year. This decrease was predominantly driven by the investment losses of \$10.0 million (2021: \$31.4 million gain) stemming from market volatility. The total return on the investment portfolio was negative 1.8% (2021: positive 6.2%).

COVID-19 has had an impact on members being able to utilise benefits. Our intention is to return all COVID related claims savings to our members through a combination of deferrals of premium rate rises and via a proposed member give-back program. To date, Defence Health has returned approximately \$25m to members via a combination of the COVID member support program and the deferral of the 2020 & 2022 premium rate rises. Defence Health has also committed to providing a further giveback to members during the FY23 year.

During the year the number of health insurance policies decreased by 1.1% due to the managed transition of dependent policies from stand-alone back into family cover and excluding this factor the number of policies increased by 1.7%. Defence Health has 144,724 policies at 30 June 2022. During the year, premium revenue increased by 5.3% to \$651.2 million and net benefits expenses increased by 1.5% to \$562.6 million.

Total management expenses of \$67.7 million were contained at 10.3% of premium income (2021: 9.1%). The increase compared to prior year management expenses is due to ongoing investment in a new core IT platform that will benefit members in the future. It is expected this expense ratio will decrease in future years.

Defence Health acknowledges the complexities of the various headwinds and the potential impact on the future outlook.

Directors' Report continued

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.

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 Robin Buick Orr Burns
Director

19 September 2022



Mr Alan Ian Beckett
Director

19 September 2022

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

19 September 2022

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 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Financial Statements

Consolidated income statement and other comprehensive income

for the financial year ended 30 June 2022

	Notes	2022 \$'000	2021 \$'000
Premium revenue	4	651,240	618,480
Direct benefits expense		(531,231)	(520,320)
Risk Equalisation Trust Fund expense		(26,256)	(29,358)
State ambulance levies		(5,125)	(4,659)
Net benefits expense		(562,612)	(554,337)
Unexpired risk reserve		(2,497)	(4,111)
Underwriting result		86,131	60,032
Employee expenses		(34,086)	(27,492)
Marketing expenses		(2,089)	(1,689)
IT and computing expenses		(16,995)	(17,265)
Transaction processing costs		(1,919)	(1,915)
Professional fees		(7,683)	(2,682)
Depreciation and amortisation expenses		(1,957)	(2,061)
Occupancy expenses		(489)	(466)
Industry subscriptions		(1,269)	(1,006)
Agency legal costs		(323)	(315)
Interest expense		(159)	(111)
Other management expenses		(758)	(1,277)
Total expenses		(67,727)	(56,279)
Underwriting result after operating expenses		18,404	3,753
Investment income	4	(9,994)	31,418
Other revenues	4	276	5,089
Other expenses		-	(5,065)
Surplus/(deficit) for the year		8,686	35,195
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		8,686	35,195

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 2022

	Notes	2022 \$'000	2021 \$'000
Current assets			
Cash and cash equivalents		58,986	24,694
Trade and other receivables		18,969	16,563
Contract assets		669	779
Financial assets	5	544,367	525,715
Total current assets		622,991	567,751
Non-current assets			
Contract assets		1,937	2,606
Property, plant and equipment		724	684
Intangible assets		39	50
Right of use asset		8,715	9,759
Total non-current assets		11,415	13,099
Total assets		634,406	580,850
Current liabilities			
Trade and other payables		63,727	65,769
Lease Liability		1,157	1,080
Claims liabilities	6	160,731	114,689
Provisions		18,241	15,820
Total current liabilities		243,856	197,358
Non-current liabilities			
Lease Liability		6,251	7,321
Provisions		2,603	3,161
Total non-current liabilities		8,854	10,482
Total liabilities		252,710	207,840
Net assets		381,696	373,010
Equity			
Contributed equity		43,346	43,346
Retained earnings		338,350	329,664
Total equity		381,696	373,010

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

Financial Statements

Consolidated statement of changes in equity for the financial year ended 30 June 2022

	Contributed Equity \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance at 30 June 2020	43,346	294,469	337,815
Total comprehensive income for the year	-	35,195	35,195
Balance at 30 June 2021	43,346	329,664	373,010
Total comprehensive income for the year	-	8,686	8,686
Balance at 30 June 2022	43,346	338,350	381,696

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 2022

Notes	2022 \$'000	2021 \$'000
Cash flows from operating activities		
Premium receipts	649,768	621,575
Benefits paid to and on behalf of fund members	(484,777)	(494,155)
Government and other levies paid	(5,100)	(4,641)
Payments to Risk Equalisation Trust Fund	(27,185)	(27,313)
Payments to suppliers and employees	(67,597)	(48,418)
Commission received	1,054	899
Net cash from operating activities	66,163	47,947
Cash flows from investing activities		
Purchase of investment securities	(398,514)	(455,734)
Proceeds on sale of investment securities	352,035	360,352
Interest and dividends received	16,704	11,125
Purchase of property, plant and equipment	(536)	(1,647)
Purchase of right of use asset	(409)	-
Repayment of lease liability	(992)	(689)
Interest paid on lease liability	(159)	(111)
Net cash used in investing activities	(31,871)	(86,704)
Net increase/(decrease) in cash and cash equivalents	34,292	(38,757)
Cash and cash equivalents at the beginning of the financial year	24,694	63,451
Cash and cash equivalents at the end of the financial year	58,986	24,694

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

Notes to the Financial Statements

Note 1 – Summary of significant accounting policies

Defence Health Limited (referred to as “Defence Health” or the “Company”) is a company limited by guarantee, incorporated and domiciled in Australia. The Company and its subsidiary, the Defence Health Foundation Pty Ltd, together are referred to as the “Group”. The paid up capital of Defence Health Foundation Pty Ltd is one dollar. Defence Health Foundation Pty Ltd is the trustee of Defence Health Foundation. The Company is a not-for-profit entity. The address of its registered office and principal place of business is Level 7, 380 St Kilda Road Melbourne Victoria 3004.

1.1 Statement of compliance

The general purpose financial statements of the Company for the year ended 30 June 2022 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 19 September 2022.

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). In accordance with Board’s agreed strategy, during 2021-22 there was a decision to cease and wind down the state of affairs of Defence Health Foundation Pty Ltd. All remaining liabilities and grant commitments were paid out in line with the conditions of those grants. The balance sheet for the financial year ending 2022 has a zero balance. Accordingly, no separate disclosures of parent entity financial information have been included in the financial statements.

1.5 Revenue recognition

Revenue is recognised for the major income streams as follows:

- (i) Premium revenue consists of contributions from policyholders, inclusive of the government rebate. This is recognised in the income statement when it has been earned evenly over the period of contract commencing from the attachment date. The earning of premium approximates the pattern of the incidence of risk expected over the term of the contract period. The proportion of premiums not earned at the reporting date is recognised as an unearned premium liability.
- (ii) Dividend and interest revenue from investments is recognised when the right to receive income is established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, through the expected life of the financial asset to that asset's net carrying amount.
- (iii) Other revenue includes Life, Travel and Accident insurance commissions.

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

Variable consideration

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

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

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

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

The company has used the following assumptions:

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

1.6 Receivables

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

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

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

1.7 Income tax

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

Notes to the Financial Statements continued

1.8 Goods and Services Tax

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

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

1.9 Provision for Risk Equalisation

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

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

1.10 Investments and other financial assets

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

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

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.

Held-to-maturity investments

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

Available-for-sale financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Impairment of other tangible and intangible assets

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

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

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

1.11 Assets backing insurance liabilities

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

1.12 Product classification

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

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

Notes to the Financial Statements continued

1.13 Insurance contract liabilities

Health insurance outstanding claims liabilities

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

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

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

Due to the deferral of elective surgeries from the effects of the COVID-19 pandemic, potential claims that may have arisen have been included as a deferred claims liability. This provision is in-line with APRA recommendations and guidance from ASIC which recommended the Company 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.

A member giveback provision, relating to the return of permanent COVID-19 savings to members has been recognised. This provision has been recognised within the direct benefits expense in the consolidated income statement and other comprehensive income and is expected to be utilised with a one-time cash payment to eligible members within the next 12 months. This provision is in-line with industry guidance and has been calculated to include benefits from procedures that were not performed and are not expected to be performed later, less any amounts already returned to members.

Provision for unearned premium and unexpired risks

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

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

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

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

1.14 Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of these costs incurred can be for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs, if incurred, can be recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate. At this point the Group has no costs incurred like this.

1.15 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.

AASB 9 Financial Instruments

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

AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* ('AASB 17' or 'the Standard') is a comprehensive new accounting standard for insurance and reinsurance contracts covering recognition, measurement, presentation and disclosure. The Australian Accounting Standards Board ('AASB') issued AASB 17 on 19 July 2017, following the issue of IFRS 17 *Insurance Contracts* (IFRS 17) by the International Accounting Standard Board ('IASB') on 18 May 2017. Various implementation matters were raised by stakeholders and the IASB considered these concerns and issued amendments to the Standard on 10 July 2020.

This was followed by the issue of the amended AASB 17 on 27 July 2020. One of the changes to the Standard was an agreed effective date for periods beginning on or after 1 January 2023, with early adoption permitted. AASB 17 will replace the current AASB 4 *Insurance Contracts* ('AASB 4'), AASB 1023 *General Insurance Contracts* ('AASB 1023') and AASB 1038 *Life Insurance Contracts* ('AASB 1038'). The Company will adopt AASB 17 for the financial year ending 30 June 2024.

Measurement of insurance contracts

Measurement models

AASB 17 introduces a new 'general measurement model' ('GMM') for the recognition and measurement of insurance contracts.

However, AASB 17 permits the use of a simplified measurement model, the Premium Allocation Approach ('PAA'), in certain circumstances. This model is similar to current accounting under AASB 1023. The Company has completed a detailed impact assessment of AASB 17 and has determined that the Company will be eligible to apply the PAA for all its insurance contracts.

The Company has chosen to apply the PAA as set out in AASB 17.53(b), as all contracts issued by the Company have a coverage period of one year or less.

Notes to the Financial Statements continued

Acquisition costs under the PAA

For groups of contracts accounted for under the PAA and that have a coverage period of one year or less, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Company does plan to apply this option and expense any acquisition costs as and when they become incurred.

Risk adjustment

The measurement of insurance contract liabilities will include an explicit risk adjustment, reflecting the compensation that a Company requires for bearing non-financial risk. This replaces the risk margin currently required under AASB 1023. The risk adjustment includes the benefit of diversification to the extent this is included in the compensation the Company requires for bearing non-financial risk.

As AASB 17 does not prescribe a methodology for calculating the risk adjustment, the Company has determined that the percentile technique will likely be used in estimating the risk adjustment for liability for incurred claims (outstanding claims liability), whilst also likely to use the target margin for liability for remaining coverage (premium liability) and onerous contracts, as that is the level of risk the Company needs to take on insurance risk.

This is consistent with how the Company currently calculates the risk margins, as it defines a probability of sufficiency based on uncertainty in past estimates.

As the above approach is well understood and the cost of capital approach isn't likely to be appropriate given the short tail nature of incurred claims within the private health insurance industry (PHI), it is appropriate that the Company adopt the above approach.

AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities. Determination of the compensation the Company requires for bearing non-financial risk requires significant judgement and the industry interpretation of this requirement is still subject to change and therefore the financial impact cannot currently be reasonably estimated.

Discount Rates

AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. However, as the Company has selected to apply the PAA method, the Company has elected to not discount future cash flows on premiums or outstanding claims as all cash flows are expected to be settled within one year of the amounts becoming due.

Onerous Contracts

AASB 17 requires the identification of 'groups' of onerous contracts and recognition of losses arising on these contracts. The Company is currently developing the methodology to be applied to identify and measuring onerous contract losses.

Onerous contract losses are required to be recognised in the Statement of Comprehensive Income on a gross basis when the expected fulfilment cash flows exceed the carrying value of the contract, or group of contracts.

Contracts under the PAA are assumed to not be onerous unless facts and circumstances indicate otherwise. The Company is developing criteria for identifying relevant facts and circumstances that indicate potential onerous contracts by leveraging existing management processes in place to deliver portfolio management, premium sufficiency and profitability analysis. This criteria also includes consideration of the management information provided to the Board of Directors and key management decision makers for planning and performance management purposes, the Financial Condition Report (FCR) prepared by the Appointed Actuary and the overarching pricing philosophy of the Company.

Given the judgemental nature of the measurement of onerous contract losses and evolving industry practice the Company is still determining the financial impact of the onerous contract requirements.

Transition

AASB 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach ('MRA') or the fair value approach ('FVA') may be applied.

Based on an assessment performed by the Company, it has determined that all portfolios will be valued applying the full retrospective application.

Presentation and disclosure

AASB 17 introduces several significant changes to the presentation of and disclosures in insurers' financial statements. These include the introduction of new line items into the Statement of Financial Position and Statement of Comprehensive Income.

Existing insurance line items on the Statement of Financial Position will be replaced and allocated to single line items representing portfolios of insurance contract assets, and separately liabilities. Insurance contract liabilities under AASB 17 include all cash flows that relate to the fulfillment of insurance contracts including direct costs (such as acquisition, claims settlement and policy administration and maintenance costs) and other costs that are attributable to the fulfilment of insurance contract (such as overheads costs). Insurance contract liabilities, and separately assets, include portfolios of direct insurance contracts issued and inward reinsurance contracts issued.

In the Statement of Comprehensive Income, gross earned premium will be replaced by insurance contract revenue reflecting the amount that the Company expects to receive for the services it has provided in the period (premium rebates). Claims incurred, including recoveries (risk equalisation scheme) and attributable operational expenses will be combined into a single line item for the insurance service expenses. The total of insurance contract revenue less the insurance service expense will represent the insurance service result.

Given the significant areas of judgement required to apply AASB 17 and the ongoing development of industry interpretation the financial impact of adopting AASB 17 cannot currently be reasonably estimated.

AASB 17 implementation progress

The Company performed an impact assessment which identified the key areas of expected change. Accounting policy decisions and application methodologies have been developed. Financial reporting systems currently in place already deliver on the requirements of AASB 17. The key areas of change are in our actuarial models and processes, and reporting and in our financial systems and reporting processes. Additional data requirements have been identified and changes to these systems has commenced.

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 6) 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 was a deferred claims provision due to the COVID-19 pandemic which saw elective surgery put on hold for a period of time and the member giveback provision.

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.

Notes to the Financial Statements continued

The key judgements and estimates are the:

- (i) Central estimate which is the mean of all the possible values of expected future payments.
- (ii) Risk margins which reflect the variability of the underlying insurance risk, the reliability and volume of data available and the robustness of the valuation models.

The risk margin adopted by the Company for outstanding claims, on the advice of the Appointed Actuary, is 8.0% (2021: 8.0%) and determined to give at least a 75% probability of adequacy. The risk margin remains at 8.0% as no hindsight adjustment is being applied. This is consistent with the approach used in 2021.

The unexpired risk reserve in was adopted on the advice of the Appointed Actuary and is determined with a risk margin of 3.3% (2021: 3.3%), and a 75% probability of adequacy.

- (iii) Deferred claims provision for COVID-19 has been calculated by reviewing forecasts prior to the pandemic and forecasts after the pandemic to see what claims had potentially been deferred due to the impact of the pandemic. The approach taken is in line with updated APRA guidance and takes account of claims experience seen both internally and across the industry throughout the COVID-19 pandemic. The provision has been determined to give at least a 90% probability of adequacy.
- (iv) The member giveback provision has been calculated to include benefits from procedures that were not performed and are not expected to be performed later, less any amounts already returned to members. The approach taken is in line with industry guidance and takes account of claims experience seen both internally and across the industry throughout the COVID-19 pandemic. The provision is expected to be utilised within the next 12 months with a one-time cash payment to eligible members.

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; and
- A deferred claims provision for the COVID-19 pandemic which was approved by the Appointed Actuary in line with APRA and ASIC regulations

b) Financial risks arising from insurance contracts

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

c) Capital and regulatory risks

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

d) Sensitivities

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

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

Notes to the Financial Statements continued

Note 4 – Revenue

	2022 \$'000	2021 \$'000
Continuing Operations		
Premium revenue pursuant to a contract of private health insurance	651,240	618,480
Investment revenue		
Interest revenue		
Bank deposits	127	102
Term deposits	1,116	1,773
Interest bearing securities	430	456
	1,673	2,331
Dividends		
Unlisted fixed income trusts	2,884	3,133
Unlisted equity trusts	11,498	4,732
Alternatives	777	360
	15,159	8,225
Realised gains/(losses) on disposal		
Unlisted fixed income trusts	(1,588)	(373)
Unlisted equity trusts	(816)	(710)
	(2,404)	(1,083)
Realised foreign exchange gains/(losses)		
Alternatives	(453)	-
	(453)	-
Unrealised gains/(losses)		
Unlisted fixed income trusts	(7,422)	(565)
Unlisted equity trusts	(21,109)	18,968
Alternatives	4,562	3,542
	(23,969)	21,945
Total Investment Revenue	(9,994)	31,418
Other revenue		
Life insurance revenue	185	99
Travel insurance revenue	86	(100)
Accident insurance revenue	1	4
Other revenue	4	3
Other revenue – lease derecognition	-	5,083
	276	5,089
	641,522	654,987

Note 5 – Financial assets

	2022 \$'000	2021 \$'000
Current		
Term deposits	243,396	238,312
Interest bearing securities ⁽ⁱ⁾	19,845	20,006
Units in fixed income trusts	67,981	84,735
Units in unlisted equity trusts	144,453	140,521
Alternatives	68,692	42,141
Total investments	544,367	525,715

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 \$0.9 million (2021: \$1.6 million).

Note 6 – Claims liabilities

	2022 \$'000	2021 \$'000
Gross outstanding claims	60,270	62,241
Risk equalisation cost	2,057	2,068
Claims handling costs	443	444
Risk margin	2,470	2,480
Deferred Claims (COVID-19)	53,448	47,456
Member give-back provision	42,043	-
Gross outstanding claims liability	160,731	114,689
Changes in the gross outstanding claims liabilities can be analysed as follows:		
Opening balance	114,689	87,306
Benefits incurred during the year	486,020	508,780
Benefits utilised during the year	(484,690)	(493,633)
Unused provision from prior year	(3,301)	(3,553)
Member give-back provision	42,043	-
Risk equalisation cost	(11)	316
Claims handling costs	(1)	45
Risk margin	(10)	948
Deferred claims (COVID-19)	5,992	14,480
Closing balance	160,731	114,689

The risk margin of 8.0% (2021: 8.0%) has been estimated to equate to at least 75% probability of adequacy (2021: 75%) refer to Note 2.

Notes to the Financial Statements continued

Note 7 – Contingent liabilities and contingent assets

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

Note 8 – 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.

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

19 September 2022



Mr Alan Ian Beckett

Director

19 September 2022

Independent Auditor's Report

to the members of Defence Health Limited

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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

We have audited the accompanying concise financial report of Defence Health Limited ("the Entity") which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity, consolidated statement of cash flows for the year then ended, and related notes, derived from the financial report of Defence Health Limited for the year ended 30 June 2022 and the discussion and analysis.

In our opinion, the accompanying concise financial report, including the discussion and analysis of Defence Health Limited for the year ended 30 June 2022 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Basis for Opinion

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

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

Concise Financial Report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

The Financial Report and Our Report Thereon

We expressed an unmodified audit opinion on the financial report in our report dated 19 September 2022.

Directors' Responsibilities for the Concise Financial Report

The directors of the Entity are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's Responsibilities for the Audit of the Concise Financial Report

Our responsibility is to express an opinion on whether the concise financial report, in all material respects, complies with AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with AASB

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Deloitte.

1039 Concise Financial Reports based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 19 September 2022

Contact Us



Phone

1800 335 425

Monday to Friday

8:30am to 6:00pm AEDT/AEST



Web

defencehealth.com.au



Email

info@defencehealth.com.au



Post/Street Address

PO Box 7518

Melbourne, Victoria 3004

7/380 St Kilda Road

Melbourne, Victoria 3004