Defence Health Limited
(ABN 80 008 629 481 AFSL 313890)

Financial Statements
for the year ended 30 June 2024

Contents

Registered Office and Principal Place of Business

Level 7 380 St Kilda Road
Melbourne VICTORIA 3004

Directors' Report

Defence Health Limited ("Defence Health" or the "Company") is a company limited by guarantee, incorporated and domiciled in Australia. The Company reports to members and has obligations to the Australian Prudential Regulation Authority (APRA), which regulates and monitors the private health insurance industry and to the Australian Securities and Investments Commission which regulates its corporate and financial services obligations.

Members

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

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

Directors

The ten non-executive Directors and one associate Director who held office during the financial year are as follows. The interests of the Directors shown below are as at 30th June 2024:

Mr Alan Ian Beckett
BEc FCA, GAICD
Appointed to the Board in January 2006. Mr Beckett's term expired at the Annual General Meeting held in 2023. Mr Beckett was appointed as the Chair of the Board in November 2019 and was a member of the Nomination and Remuneration Committee. Mr Beckett is the 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. Mr Beckett 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 2026. Mr Burns was elected the Chair of the Board in November 2023. Mr Burns was the Chair and member of the Risk and Audit Committees for part of the year and a member of the Nomination and Remuneration Committee for the full year. Mr Burns is also a non-executive director of BT Funds Management Ltd, Westpac Securities Administration Ltd and Uniting Ethical Investors Ltd. Mr Burns has more than 30 years of executive experience in financial services, including as Managing Director of Equity Trustees Ltd and prior CEO roles in superannuation, life and health insurance and stockbroking.

COL Anthony Gerard Hambleton AM
GAICD
Appointed to the Board in February 2014. COL Hambleton's term expired at the Annual General Meeting held in 2023. COL Hambleton was a member of the Nomination and Remuneration Committee for part of the 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, Mmgt, M Def Stud, Grad Dip Applied Finance, GAICD
Appointed to the Board in November 2016. Current term expires at the Annual General Meeting to be held in 2024. GPCAPT Stothart was the Chair of the Nomination and Remuneration Committee for the entire year. GPCAPT Stothart has served for more than 30 years in the Royal Australian Air Force, both in a full-time and reserve capacity. GPCAPT Stothart's expertise lies within the fields of logistics and human resource management. GPCAPT Stothart also serves as a Director of the Legacy Club of Canberra. GPCAPT Stothart is also the appointed Director of Chief of Airforce.

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 2026. Ms Ireland was Chair of the Investment Committee for the entire year. Ms Ireland is also a Director of International Women's Development Agency, Xavier College Foundation Ltd and Melbourne Archdiocese Catholic Schools Ltd. Ms Ireland has worked in senior roles in the finance, health insurance and investment sectors in organisations including Australian Pharmaceutical Industries Ltd, Australian Unity Ltd, Macquarie Bank Ltd, and KPMG.

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 2027. Ms Davies was a member of the Risk and Audit Committees for the entire year and became Chair of the Risk and Audit Committees for part of the year. Ms Davies is currently a non-executive director of The Actuator Operations Ltd and National Heart Foundation of Australia. Ms Davies is a member of the Advisory Committee of the UNSW Centre for Big Data in Health, and the Targeted Translational Research 'Board' (a program funded by the Medical Research Future Fund), Audit and Risk Committee member of the Professional Services Review (within the Department of Health) and Nominee Trustee for The University of Notre Dame Australia. Ms Davies is a highly regarded lawyer, who has worked with clients in technology, media and financial services.

Mr Michael Liu
BCom, LLB
Appointed to the Board in February 2023. Current term expires at the Annual General Meeting to be held in 2026. Mr Liu is a member of the Investment Committee. Prior to becoming a professional company director, Mr Liu was a lawyer, senior investment banker, and held senior management roles with high growth, fintech, start-up and scale-up companies. Mr Liu is also a director of Police Financial Services Ltd, Foresters Financial Ltd, WCM Global Growth Ltd and Law Institute of Victoria Ltd.

MAJGEN Kathryn Toohey AM CSC (Ret'd)
BEng (Hon) MBA MMDS GAICD
Appointed to the Board in November 2023. Current term expires at the Annual General Meeting to be held in 2026. MAJGEN Toohey was a member of the Nomination and Remuneration Committee for part of the year. MAJGEN Toohey is also a non-executive director of Austal Ltd, Cylent International Pty Ltd, Greater Western Sydney Giants (a division of the Australian Football League) and Basketball ACT Inc; and a member of the Defence South Australia Advisory Board, Swinburne Defence Advisory Board and the Australian Strategic Policy Institute Council. MAJGEN Toohey is also the appointed Director of Chief of Army.

Dr Susan Neuhaus AM CSC
PhD MBBS FRACS FAICD FAMA
Appointed to the Board in November 2023. Current term expires at the Annual General Meeting to be held in 2026. Dr Neuhaus was a member of the Risk and Audit Committee for part of the year. Dr Neuhaus is a non-executive director of Camp Quality Ltd, Australian Institute of Company Directors, MDASA Ltd and Medical Insurance Australia Pty Ltd, both part of the Medical Indemnity Group Australia. Council member of the Australian War Memorial and Chair of the Memorial Development Committee, Independent Assurance Reviewer, Capability Acquisitions and Sustainability Group - Department of Defence, Clinical Associate Professor – University of Adelaide and Adjunct Distinguished Professor, University of South Australia.

Mr Matthew Walsh
BAppSc, MBA, GAICD
Appointed to the Board in 2021. Member of the Investment, Audit and Risk Committees. Current term expires at the 2025 Annual General Meeting. Mr Walsh is also a Director of Credit Union SA Limited and Xframe Limited, and advisory board member of Recovr Pty Ltd. Mr Walsh is Director and Principal Consultant of Matt Walsh Consulting Pty Ltd, which provides strategic advice to Boards and Executives. Mr Walsh's former 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.

COL Bridget Mitzevich
MIR MMDS MBUS GAICD
The Board appointed an Associate Director, COL Mitzevich, on 18 October 2022. COL Mitzevich's term is set to expire in October 2024. COL Mitzevich has served in the Australian Army for more than 23 years. COL Mitzevich has broad experience across logistics, human resource management, operational planning and strategic leadership. During the year COL Mitzevich was also a Director of the Army Amenities Fund Board.

The Directors named above held office during the entire financial year, with the exception of Mr Alan Beckett, COL Anthony Hambleton, MAJGEN Kathryn Toohey and Dr Susan Neuhaus.

Company Secretary

Mr Andrew Guerin LLB, BEc, FGIA was appointed Company Secretary in September 2005 and retired in December 2023. Ms Philippa Marshall was appointed in April 2024 to the Company Secretary role.

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 / R Burns		C Ireland		R Burns / R Davies		R Burns / R Davies		S Stothart	
Meetings held	8		5		4		4		6	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A I Beckett	4	4							2	2
R Davies	8	8			4	4	4	4		
A Hambleton	4	4							2	2
M Walsh	8	7	5	4	4	3	4	3		
S Stothart	8	8							6	6
M Liu	8	6	5	5						
R Burns	8	8	1	1	4	4	4	4	6	6
C Ireland	8	7	5	5						
K Toohey	4	4							4	3
S Neuhaus	4	4			2	2	2	2		

Principal activities

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

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

There were no 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 its pipeline of strategic growth opportunities

Review of operations

During the year Defence Health has adopted AASB 17 – Insurance contracts and has restated comparative information for 2023. The impact of transition to AASB 17 is discussed further in Note 1.21.

In 2023, Defence Health launched its new Policy and Claims system 'Hawkei'. The initial implementation of this system encountered challenges, leading to various remediation streams. These remediation streams were completed by August 2024, with the next phase focusing on system optimisation.

Reflecting on the financial year, resilience has been the standout theme. Defence Health recorded a surplus of $55.6 million for the year ending 30 June 2024, a decrease of $13.6 million from the prior year. This decline was primarily due to a reduced release from onerous contracts, amounting to $1.3 million (2023: $22.0 million), yet still indicates improved product margins over the last three years. This shortfall was partially offset by higher investment returns of $40.5 million (2023: $37.4 million), with the total return on the investment portfolio rising to 6.8% (2023: 6.2%).

During the year the number of health insurance policies decreased by 1.36%, bringing the total to 144,488 policies as at 30 June 2024. Premium revenue increased by 0.3% to $672.8 million, while net benefits expenses decreased by 1.16% to $643.5 million.

Total management expenses of $88.7 million were contained at 13.2% of premium income (2023: 12%). The increase in management expenses compared to prior year is attributed to the remediation work for the new Hawkei system. It is expected this expense ratio will decrease in future years.

Defence Health continues to deliver a strong surplus, enabling it to invest in targeted and evidence-based health programs to enhance the overall health and wellness of its members. A new veteran's product is planned for the 2024/25 year, as well as reviewing other health aligned business opportunities.

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 Company.

Environmental regulation

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

Directors' benefits

Directors' fees are disclosed in Note 26 and related party transactions disclosed in Note 25 to the Financial Statements. No Director received any benefit as a result of a contract made by the Company with the Director, or with a firm associated with the Director or in which the Director has a substantial financial interest.

Indemnification of Directors and Officers

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

Auditor's independence declaration

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

Rounding of amounts

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

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Mr Robin Buick Orr Burns	Mr Rebecca Davies
Director	Director
20 September 2024	20 September 2024

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20 September 2024

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 2024, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Income statement and other comprehensive income
for the financial year ended 30 June 2024

	Notes	2024	2023 Restated
		$'000	$'000
Insurance revenue	10	672,768	670,760
Insurance service expense	4	(642,305)	(625,938)
Insurance service result		**30,463**	**44,822**
Investment income/(expense) – net of expenses	5	40,554	37,401
Net insurance financial result		**71,017**	**82,223**
Other operating income	6	1,303	2,192
Other operating expenses	7	(16,683)	(15,080)
Profit for the year		**55,637**	**69,335**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**55,637**	**69,335**

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

Statement of financial position
as at 30 June 2024

	Notes	30 June 2024	30 June 2023 Restated	1 July 2022 Restated
		$'000	**$'000**	**$'000**
Current assets				
Cash and cash equivalents	8	56,471	105,377	58,986
Other receivables	9	56,532	15,760	4,182
Insurance contract assets	10	-	-	-
Contract assets	11	660	563	669
Financial assets	12	553,682	519,034	544,367
Total current assets		**667,345**	**640,734**	**608,204**
Non-current assets				
Contract assets	11	906	1,158	1,937
Property, plant and equipment	13	148	414	724
Intangible assets	14	-	28	39
Right of use asset	15	5,773	7,247	8,715
Total non-current assets		**6,827**	**8,847**	**11,415**
Total assets		**674,172**	**649,581**	**619,619**
Current liabilities				
Other payables	16	11,745	9,725	5,377
Insurance contract liabilities	10	104,754	136,653	179,381
Lease liability	17	1,211	1,132	1,157
Provisions	18	889	1,310	817
Total current liabilities		**118,599**	**148,820**	**186,732**
Non-current liabilities				
Lease liability	17	4,012	5,223	6,251
Provisions	18	2,556	2,170	2,603
Total non-current liabilities		**6,568**	**7,393**	**8,854**
Total liabilities		**125,167**	**156,213**	**195,586**
Net assets		**549,005**	**493,368**	**424,033**
Equity				
Contributed equity	19	43,346	43,346	43,346
Retained earnings	20	505,659	450,022	380,687
Total equity		**549,005**	**493,368**	**424,033**

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

Statement of changes in equity
for the financial year ended 30 June 2024

	Contributed Equity	Retained Earnings	Total Equity
	Note 19	Note 20	
	$'000	**$'000**	**$'000**
At 30 June 2022, as previously reported	**43,346**	**338,350**	**381,696**
Application of AASB 17 (Derecognise Deferred Claims Liability – Note 1.21)	-	53,446	53,446
Application of AASB 17 (Derecognise URR – Note 1.21)		16,653	16,653
Application of AASB 17 (Recognise Onerous Contracts – Note 1.21)		(27,762)	(27,762)
Impact of initial application of AASB 9	-	-	-
Restated balance at 1 July 2022	**43,346**	**380,687**	**424,033**
Total comprehensive income for the year	-	69,335	69,335
Restated balance at 30 June 2023	**43,346**	**450,022**	**493,368**
Total comprehensive income for the year	-	55,637	55,637
Balance at 30 June 2024	**43,346**	**505,659**	**549,005**

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

Statement of cash flows
for the financial year ended 30 June 2024

	Notes	2024 $'000	2023 $'000
Cash flows from operating activities			
Premium receipts		654,368	671,534
Benefits paid to and on behalf of fund members		(546,294)	(576,173)
Government and other levies paid		(5,574)	(5,460)
Payments to Risk Equalisation Trust Fund		(31,928)	(22,551)
Payments to suppliers and employees		(126,638)	(82,283)
Commission received		1,459	1,378
Net cash from operating activities	**22**	**(54,607)**	**(13,555)**
Cash flows from investing activities			
Purchase of investment securities		(68,373)	(270,592)
Proceeds on sale of investment securities		49,198	314,289
Interest and dividends received		26,142	17,500
Purchase of property, plant and equipment		(36)	(54)
Disposal of intangible asset		19	
Purchase of right of use asset		-	(5)
Repayment of lease liability		(1,132)	(1,053)
Interest paid on lease liability		(117)	(139)
Net cash used in investing activities		**5,701**	**59,946**
Net increase/ (decrease) in cash and cash equivalents		(48,906)	46,391
Cash and cash equivalents at the beginning of the financial year		105,377	58,986
Cash and cash equivalents at the end of the financial year	**8**	**56,471**	**105,377**

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

Note 1 – Summary of material 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 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 2024 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.

Subsection 295(3A)(a) of the *Corporations Act 2001* does not apply to the company as the company is not required to prepare consolidated financial statements by Australian Accounting Standards.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 20 September 2024.

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 Insurance contracts classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis.

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Company issues private health insurance to individuals which compensates the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Company does not issue reinsurance contracts or any contracts with direct participating features.

1.5 Insurance contracts accounting treatment

Separating components from insurance contracts

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another AASB instead of under AASB 17. After separating any distinct components, the Company applies AASB 17 to all remaining components of the (host) insurance contract. Currently, the Company’s products do not include any distinct components that require separation.

1.5 Insurance contracts accounting treatment (cont'd)

Level of aggregation

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

The Company has elected to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

Recognition

The Company recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts.
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date.
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks

Or both of the following criteria are satisfied:

- The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio
- The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

1.5 Insurance contracts accounting treatment (cont'd)

Measurement - Premium Allocation Approach

	AASB 17 Options	Adopted approach
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model	Coverage period for private health insurance is one year or less so automatically qualifies for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is no longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group.	All insurance acquisition cash flows are expensed as incurred.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	There is no adjustment for accretion of interest as the private health insurance premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	Incurred claims are expected to be fully settled within one year therefore no adjustment for the time value of money will be applied to the liability for incurred claims.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	The change in LFIC as a result of changes in discount rates would be captured within profit or loss however, as above, discounting is not applied.

1.5 Insurance contracts accounting treatment (cont'd)

Insurance contracts – initial measurement

The Company applies the premium allocation approach (PAA) to all the private health insurance contracts that it issues as the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary.

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date, with the exception of contracts which are one year or less where this is expensed,
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

There is no allowance for time value of money as the premiums are received within one year of the coverage period.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

Insurance contracts – subsequent measurement

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows, if not expensed.
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the company
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment). The Company does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

1.5 Insurance contracts accounting treatment (cont'd)

<u>Insurance contracts – modification and derecognition</u>

The Company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired). If premiums are not paid by policyholders their policy is cancelled after 63 days. or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

<u>Presentation</u>

The Company has presented separately, in the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and portfolios of insurance contracts issued that are liabilities.

The Company disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

<u>Insurance revenue</u>

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognised on the basis of the passage of time.

<u>Loss components</u>

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

<u>Insurance finance income and expense</u>

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

• The effect of the time value of money and changes in the time value of money; and

• The effect of financial risk and changes in financial risk.

The Company does not disaggregate finance income and expenses between profit or loss and OCI because the related financial assets are managed on a fair value basis and measured at Fair Value through Profit and Loss (FVPL). The company has also elected to not discount the LFRC or LFIC as allowed under the PAA method.

1.6 Financial assets and financial liabilities

The Company classifies its financial instruments into the following categories:

Types of financial instruments	Classification	Reason
Cash and cash equivalents	Amortised cost	SPPI, hold to collect business model
Term deposits	FVTPL	Designated to avoid accounting mismatch
Interest bearing securities	FVTPL	Designated to avoid accounting mismatch
Units in fixed income trusts	FVTPL	Designated to avoid accounting mismatch
Units in unlisted equity trusts	FVTPL	Designated to avoid accounting mismatch
Alternatives	FVTPL	Designated to avoid accounting mismatch
Other receivables	Amortised cost	SPPI, hold to collect business model
Other payables	Amortised cost	SPPI, hold to collect business model

The Company does not apply hedge accounting.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost (AC) and investments in debt instruments measured at FVOCI.

The fair value of financial assets traded on active liquid markets are determined with reference to quoted market prices. The fair value of other financial assets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets ‘at fair value through profit or loss’.

Financial assets

The Company classifies its financial assets into the following measurement categories:

- Amortised cost (AC);
- Fair Value through Other Comprehensive Income (FVOCI); or
- Fair Value through Profit or Loss (FVTPL).

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective (i.e. instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets).

The Company subsequently measures all equity investments at FVTPL. Gains and losses on equity investments at FVTPL are included in the line ‘Investment income/(expense) – net of expenses’ in the statement of profit or loss.

The Company chooses not to apply the FVOCI option for equity instruments that are not held for trading.

1.6 Financial assets and financial liabilities (cont'd)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government and corporate bonds.

The classification and subsequent measurement of debt instruments depend on:

- the Company's business model for managing the asset; and
- the cash flow characteristics of the asset (represented by SPPI).

Financial assets measured at amortised cost

Financial assets are classified as measured at amortised cost if both the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
b) the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The carrying amount of assets measured at amortised cost is adjusted by any ECL allowance recognised. Interest revenue from these financial assets is included in interest revenue from financial assets not measured at FVTPL using the Effective Interest Rate (EIR) method.

Financial assets measured at FVOCI

Financial assets are classified as measured at fair value through other comprehensive income if both the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets and
b) the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not hold any financial assets measured at FVOCI.

Financial assets measured at FVTPL

Financial assets are measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For financial assets measured at fair value through profit or loss, realised and unrealised gains or losses arising from changes in fair value are included in profit or loss in the period in which they arise.

The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. The Company has determined that an accounting mismatch is reduced if financial assets backing private health insurance contracts are measured at FVTPL. For these instruments, the Company has applied the option to designate these financial assets at FVTPL.

Impairment

The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost. The Company recognises a loss allowance for such losses at each reporting date. Expected Credit Loss simplified approach under AASB 9 has been applied. The amount of credit losses (or reversal) is recognised in profit or loss, as an impairment gain or loss at the reporting date.

Unless otherwise stated, all other receivables are expected to be settled within 30-90 days.

<u>Financial liabilities</u>

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

1.6 Financial assets and financial liabilities (cont'd)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

1.7 Revenue recognition – non-insurance contracts

Non-insurance related revenue comprises:

(i) Interest revenue calculated using the effective interest method. 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.

(ii) Other investment revenue, which includes net gains on financial assets at FVTPL and dividends on equity investments. Dividend income is recognised when the right to receive income is established.

(iii) Other operating income 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 Other receivables when the underlying insurance premiums are determined.

The company has used the following assumptions:

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

1.8 Other receivables

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.

1.9 Property, plant and equipment

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

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

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

Office equipment and fittings	5 years
Motor vehicles	5 years
Computer equipment	2 - 5 years

1.10 Intangible assets

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

Licenses	5 years
Trademark	10 years

1.11 Leases

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

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

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

1.12 Impairment of 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.

1.13 Maintenance and repairs

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

1.14 Other payables

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

1.15 Employee benefits

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

Superannuation
The Company makes contributions to superannuation funds for the benefit of employees at a rate of 11.0% of each employee's salary in accordance with statutory requirements. The rate of contributions to employee superannuation funds changed to 11.5% on 1 July 2024.

Annual leave and long service leave
Provisions are made for employee annual and long service leave, based on the present value of estimated future payments and service records up to the balance sheet date. Expected future payments are discounted by rates attached to corporate bonds at the balance sheet date, which most closely match the terms to maturity of the related liabilities.

In determining the liability for employee benefits, consideration has been given to future increases in wage and salary rates, together with the Company's experience with staff departures. Related on-costs have also been included in the liability.

1.16 Cash and cash equivalents

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

1.17 Income tax

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

1.18 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.

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

SaaS arrangements are service contracts providing the Company 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 Company has no costs incurred like this.

1.20 Contract assets

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

1.21 Changes in material accounting policies and disclosures

New and amended standards and interpretations

In these financial statements, the Company has applied AASB 17 and AASB 9 for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 17 Insurance contracts

AASB 17 replaces AASB 4 Insurance Contracts ('AASB 4'), AASB 1023 General Insurance Contracts ('AASB 1023') and AASB 1038 Life Insurance Contracts ('AASB 1038') for annual periods on or after 1 January 2023.

The Company has restated comparative information for 2023 applying the transitional provisions in Appendix C to AASB 17. The nature of the changes in accounting policies can be summarised, as follows:

Changes to classification and measurement

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.

The Company's issued insurance contracts are all eligible to be measured by applying the Premium Allocation Approach (PAA). The PAA simplifies the measurement of insurance contracts in comparison with the general model in AASB 17 and is similar to previous accounting under AASB 1023.

The measurement principles of the PAA differ from the approach used by the Company under AASB 1023 in the following key areas:

- The liability for remaining coverage (LFRC) reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided.
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these formed part of the unexpired risk reserve provision).
- Measurement of the liability for incurred claims (previously outstanding claims liabilities) is determined on a probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.

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

When measuring the liability for incurred claims, AASB 17 also provides the option to not adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred. The Company also applies this option.

The Company has applied the full retrospective approach to all insurance contracts. The Company's classification and measurement of insurance contracts is explained in Note 1.5.

Changes to presentation and disclosure

For presentation in the Statement of Financial Position, existing insurance line items have been replaced and allocated to single line items representing portfolios of insurance contract assets, and separately liabilities.

The line item descriptions in the statement of profit or loss and other comprehensive income have been changed significantly compared with last year. Previously, the Company reported the following line items:

- Premium revenue
- Direct benefits expense
- Risk Equalisation Trust Fund expense
- State ambulance levies
- Unexpired risk reserve
- Investment income

1.21 Changes in material accounting policies and disclosures (cont'd)

Instead, AASB 17 requires separate presentation of:

- Insurance revenue
- Insurance service expenses
- Insurance finance income and expenses

The Company provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts
- Material judgements, and changes in those judgements, when applying the standard

Transition

On transition date, 1 July 2023, the Company:

- Has identified, recognised and measured each group of insurance contracts as if AASB 17 had always applied;
- Has applied the option to expense any acquisition costs as and when they become incurred for groups of contracts accounted for under the PAA and that have a coverage period of one year or less;
- Derecognised any existing balances that would not exist had AASB 17 always applied;
- Recognised any resulting net difference in equity.

The Company has applied the transition provisions in AASB 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item. The effects of adopting AASB 17 on the financial statements at 1 July 2022 are presented in the statement of changes in equity.

AASB 9 Financial instruments

AASB 9 replaced AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Company elected, under AASB's ED 292 'Amendments to AASB 17 Insurance Contracts', to apply the temporary exemption from AASB 9, thereby deferring the initial application date of AASB 9 to align with the initial application of AASB 17.

The Company has applied AASB 9 retrospectively and restated comparative information for 2023 for financial instruments in the scope of AASB 9.

The nature of the changes in accounting policies can be summarised, as follows:

Changes to classification and measurement

To determine their classification and measurement category, AASB 9 requires all financial assets to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The AASB 139 measurement categories for financial assets held at fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) and loans and receivables (L&R) at amortised cost have been replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition (not used by the Company)
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (not used by the Company)
- Debt instruments at amortised cost.

The Company's financial assets were previously all designated as assets backing insurance liabilities and accounted for at fair value through profit or loss. Under AASB 9 the Company's financial assets all continue to be designated as fair value through profit or loss therefore no reclassifications have occurred.

The Company's classification of its financial assets is further explained in Note 1.6.

1.21 Changes in material accounting policies and disclosures (cont'd)

Changes to impairment calculation

The adoption of AASB 9 has changed the Company's accounting for impairment losses for financial assets held at FVOCI or amortised cost by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

AASB 9 requires the Company to record an allowance for ECLs for all financial assets not held at FVTPL. The Company considers an instrument to be in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider an instrument to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

The Company previously recognised a provision for doubtful debt on earned premiums receivable (unclosed business premiums). The scope of AASB 9 excludes rights and obligations arising under an insurance contract as defined in AASB 17 Insurance Contracts therefore expected credit losses will no longer be recognised for earned premiums receivable.

The adoption of the ECL requirements of AASB 9 has no material impact to the financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Company has not early adopted the new standards in preparing these financial statements.

Note 2 – Material judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Insurance contracts

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company's previous accounting treatment under AASB 1023. However, when measuring liabilities for incurred claims, the Company now includes an explicit risk adjustment for non-financial risk.

<u>Liability for remaining coverage</u>

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the measurement of the fulfilment cash flows, including a risk adjustment for non-financial risk.

Time value of money

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.

Acquisition costs

Any insurance acquisition costs are recognised as expenses when incurred.

<u>Liability for incurred claims</u>

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. The probability of sufficiency on the applied risk adjustment is 75%. For onerous contracts the probability of sufficiency is increased to 82%. This is due to the increased risk adjustments on contributions as well as the current risk adjustment already in place for claims.

The Company has determined that the percentile technique will be used in estimating the risk adjustment for liability for incurred claims. The Company will use the target margin to determine the risk adjustment for the liability for remaining coverage when testing for and on recognition and measurement of onerous contracts. Target margin will be used as that is the level of risk the Company needs to take on insurance risk. The risk adjustment for non-financial risk is presented in full in the insurance service result.

Key assumptions

The Company uses several key assumptions and estimations when estimating the ultimate cost of liability for incurred claims.

The underlying assumption is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses based on the observed development of earlier months. Historical claims development is analysed by month and by claim type. No explicit assumption is made regarding future rates of claims inflation as claims are generally settled within 90 days.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions and legislation, as well as internal factors such as policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Note 2 – Material judgements and estimates (cont'd)

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.

Liability for incurred claims are generally settled within one year and are substantially settled within three months of the insurable event.

Some of the key assumptions used in the liability for incurred claims process include:

	30 June 2024	30 June 2023
Claims Handling Expenses	1.57%	1.68%
Risk Adjustment – Liability for Incurred Claims	10%	8%
Risk Adjustment – Onerous Contracts	1.5%	1.5%
Risk Equalisation Rate	6%	7.5%

Claims Handling Expenses
Claims handling costs, used in calculating the liability for incurred claims provision, have decreased due to no longer utilising outsourced providers, with our claims backlog now at normalised levels.

Risk Adjustment – Liability for Incurred Claims
The increase in the risk adjustment since FY23, reflects disruptions in claims payments from Hawkei, which affected trend identification and heightened uncertainty in projecting claims levels. The adjustment rose to 12% in FY24, up from 8% in FY23. Given recent improvements, a six-month review will be conducted, anticipating stabilisation and a return to FY23 levels.

Risk Adjustment – Onerous Contracts
This has remained the same over the two year period, which is line with the Pricing Philosophy of the target portfolio net margin of 1.5% - 3%

Risk Equalisation Rate
The Risk Equalisation Rate shows a downward trend due to our ageing membership compared to the industry, which has resulted in more of our claims being eligible for the pool.

Note 3 – Risk and capital management

Insurance risk

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.

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.

Note 3 – Risk and capital management (cont'd)

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 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. It is also mitigated by having a membership base that is geographically spread across Australia:

State	**30 June 2024**	**30 June 2023**
	$'000	**$'000**
NSW	119,118	117,264
ACT	47,541	47,518
Victoria	204,887	204,991
Queensland	204,343	204,132
SA	57,320	57,004
WA	25,981	25,959
Tasmania	8,547	8,624
Northern Territory	5,031	5,268
Insurance Revenue	**672,768**	**670,760**

Claims management and claims provisioning risks

Note 2 explains how the Company determines the insurance contract liabilities. Adequacy of the liability 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.

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. This also forms part of the Liability for Incurred Claims.

Sensitivities

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

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

Note 3 – Risk and capital management (cont'd)

Financial risk

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

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

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

Liquidity risk

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

The Company's Liquidity Risk Management Plan sets out the procedures and policies in place to mitigate the Company's exposure to liquidity risk. The Company manages its investment portfolio to ensure adequate liquidity exists to match future health insurance liabilities, also having regard to operational cash flows.

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

The following table details the maturity profile of portfolios of insurance contracts issued that are liabilities of the Company based on the estimates of the future cash flows expected to be paid out in the periods presented:

2024	Less than 1 month $'000	1-3 months $'000	3 months to 12 months $'000	12 months to 18 months $'000	Total
Liability for incurred claims	54,927	17,263	5,829	1,206	79,225

2023	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	12 months to 18 months $'000	Total
Liability for incurred claims	63,471	18,244	9,756	-	91,471

Note 3 – Risk and capital management (cont'd)

The following table details the company's liquidity based on maturity date, including financial assets and liabilities:

2024	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total
Financial assets						
Cash assets	56,471	-	-	-	-	56,471
Other receivables	53,316	1,306	1,910	-	-	56,532
Term deposits	11,000	34,000	107,396	-	-	152,396
Interest bearing securities	-	-	-	-	-	-
Units in fixed income trusts	167,602	-	-	-	-	167,602
Units in unlisted equity trusts	137,091	-	-	-	-	137,091
Alternatives	-	96,593	-	-	-	96,593
	425,480	**131,899**	**109,306**	**-**	**-**	**666,685**
Financial liabilities						
Other payables	11,745	-	-	-	-	11,745
	11,745	**-**	**-**	**-**	**-**	**11,745**

2023	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total
Financial assets						
Cash assets	105,377	-	-	-	-	105,377
Other receivables	15,152	89	519	-	-	15,760
Term deposits	11,000	48,500	111,396	-	-	170,896
Interest bearing securities	-	21,792	-	-	-	21,792
Units in fixed income trusts	88,151	-	-	-	-	88,151
Units in unlisted equity trusts	148,959	-	-	-	-	148,959
Alternatives	-	89,236	-	-	-	89,236
	368,639	**159,617**	**111,915**	**-**	**-**	**640,171**
Financial liabilities						
Other payables	9,725	-	-	-	-	9,725
	9,725	**-**	**-**	**-**	**-**	**9,725**

Note 3 – Risk and capital management (cont'd)

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

Interest rate risk
Interest rate risk arises from interest rate changes that could impact the future value of cash flows or principal of a financial instrument. At reporting date, if interest rates changed by 100 basis points and all other variables were held constant for variable and fixed interest rate investments, the Company's surplus would change by $5.6 million (2023: $5.7 million).

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

2024	**Weighted average effective rate**	**Variable interest rate**	**Fixed interest maturity dates Less than 1 year**	**Non-interest bearing**	**Total**
	%	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash assets	3.50	56,471	-	-	56,471
Other receivables	-	-	-	56,532	56,532
Term deposits	4.99	-	152,396	-	152,396
Interest bearing securities	-	-	-	-	-
Units in fixed income trusts	6.37	167,602	-	-	167,602
Units in unlisted equity trusts	-	-	-	137,091	137,091
Alternatives	-	-	-	96,593	96,593
		224,073	**152,396**	**290,216**	**666,685**
Financial liabilities					
Other payables	-	-	-	11,745	11,745
		-	**-**	**11,745**	**11,745**

2023	**Weighted average effective rate**	**Variable interest rate**	**Fixed interest maturity dates Less than 1 year**	**Non-interest bearing**	**Total**
	%	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash assets	2.60	105,377	-	-	105,377
Other receivables	-	-	-	15,760	15,760
Term deposits	4.30	-	170,896	-	170,896
Interest bearing securities	3.47	21,792	-	-	21,792
Units in fixed income trusts	7.60	88,151	-	-	88,151
Units in unlisted equity trusts	-	-	-	148,959	148,959
Alternatives	-	-	-	89,236	89,236
		215,320	**170,896**	**253,955**	**640,171**
Financial liabilities					
Other payables	**-**	**-**	**-**	9,725	9,725
		-	**-**	**9,725**	**9,725**

Note 3 – Risk and capital management (cont'd)

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

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

At reporting date, the Company's exposure to foreign currency risk was $20 million in unhedged overseas managed funds (2023: $45 million).

The Company's sensitivity to an average increase or decrease of 10% in foreign currencies with all other variables held constant, the surplus would change by $2 million (2023: $4.5 million).

Market price risk

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

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

As at reporting date, if unit prices change by 10% the Company's surplus would change by $23.4 million (2023: $23.7 million).

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

Credit risk

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

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

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

Note 3 – Risk and capital management (cont'd)

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

2024 Rating	**AAA**	**AA**	**A**	**BBB**	**Below BBB or Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash assets	-	56,471	-	-	-	56,471
Other receivables	-	-	-	-	56,532	56,532
Term deposits	-	72,396	80,000	-	-	152,396
Interest bearing securities	-	-	-	-	-	-
Units in fixed income trusts	-	-	-	-	167,602	167,602
Units in unlisted equity trusts^	-	-	-	-	137,091	137,091
Alternatives	-	-	-	-	96,593	96,593
	-	**128,867**	**80,000**	**-**	**457,818**	**666,685**

2023 Rating	**AAA**	**AA**	**A**	**BBB**	**Below BBB or Not Rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash assets	-	105,377	-	-	-	105,377
Other receivables	-	-	-	-	15,760	15,760
Term deposits	-	45,896	125,000	-	-	170,896
Interest bearing securities	-	-	21,792	-	-	21,792
Units in fixed income trusts	-	-	12,398	-	75,753	88,151
Units in unlisted equity trusts^	-	-	-	-	148,959	148,959
Alternatives	-	-	-	-	89,236	89,236
	-	**151,273**	**159,190**	**-**	**329,708**	**640,171**

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

Fair value of financial instruments

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

- the fair value of financial assets traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Transaction costs are not included in the determination of net fair value. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

Note 3 – Risk and capital management (cont'd)

2024	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Term deposits	152,396	-	-	152,396
Interest bearing securities	-	-	-	-
Units in fixed income trusts (i)	-	167,602	-	167,602
Units in unlisted equity trusts (i)	-	137,091	-	137,091
Alternatives (i)	-	-	96,593	96,593
Total	**152,396**	**304,693**	**96,593**	**553,682**

2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Term deposits	170,896	-	-	170,896
Interest bearing securities	-	21,792	-	21,792
Units in fixed income trusts (i)	-	88,151	-	88,151
Units in unlisted equity trusts (i)	-	148,959	-	148,959
Alternatives (i)	-	-	89,236	89,236
Total	**170,896**	**258,902**	**89,236**	**519,034**

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

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.

Capital and regulatory risks

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

The Directors manage capital to ensure the Company is a going concern while maximising returns within acceptable risk tolerances. The Capital Standards require the Company to maintain adequate capital to meet a 1 in 200-year event across insurance, asset and operational risks along with an allowance to recognise that these events are not expected to occur simultaneously. The Company is required to comply with these standards and results are reported to the Australian Prudential Regulation Authority (APRA).

Note 4 – Insurance service expense

	2024			2023 (restated)		
	Estimates of PV of future cashflow	Risk adjustment	Total	Estimates of PV of future cashflow	Risk adjustment	Total
Insurance service expense (Note 7)	72,008	-	72,008	65,256	-	65,256
Incurred claims and other expenses	568,988	1,309	570,297	559,528	1,154	560,682
Total insurance service expense	**640,996**	**1,309**	**642,305**	**624,784**	**1,154**	**625,938**

Note 5 – Total investment income and net insurance financial result

The table below presents an analysis of the net investment income recognised in profit or loss:

2024

	Private health insurance	Non-insurance related	Total
	$'000	$'000	$'000
Investment income			
Amounts recognised in the profit or loss			
Other interest and similar income	11,868	868	12,736
Dividend income	12,857	-	12,857
Realised gains/(losses) on disposal	1,283	-	1,283
Net fair value gain/(losses) on financial assets at fair value through profit or loss	14,190	-	14,190
Investment management fees	(512)	-	(512)
Total amounts recognised in the profit or loss	**39,686**	**868**	**40,554**
Total investment income	**39,686**	**868**	**40,554**

2023 (restated)

	Private health insurance	Non-insurance related	Total
	$'000	$'000	$'000
Investment income			
Amounts recognised in the profit or loss			
Other interest and similar income	9,011	501	9,512
Dividend income	12,011	-	12,011
Realised gains/(losses) on disposal	718	-	718
Net fair value gain/(losses) on financial assets at fair value through profit or loss	15,645	-	15,645
Net foreign exchange income/(expense)	(485)	-	(485)
Total amounts recognised in the profit or loss	**36,900**	**501**	**37,401**
Total investment income	**36,900**	**501**	**37,401**

Note 6 – Other operating income

	2024 $'000	2023 $'000
Life insurance commission	785	57
Travel insurance commission	518	437
Other income	-	1,698
Total other operating income	**1,303**	**2,192**

Note 7 - Other operating expenses

An analysis of the expenses incurred by the Company in the reporting period is included in the table below:

	2024			2023 (restated)		
	Directly attributable expenses	Other operating expenses	Total	Directly attributable expenses	Other operating expenses	Total
Employee expenses (note 7.1)	39,510	14,239	53,749	24,719	13,043	37,762
Marketing expenses	2,027	42	2,069	3,713	18	3,731
IT and computing expenses	21,858	372	22,230	28,452	210	28,662
Transaction processing costs	1,872	64	1,936	1,905	55	1,960
Professional fees	2,143	1,042	3,185	2,052	890	2,942
Depreciation and amortisation expenses	1,472	313	1,785	1,491	358	1,849
Occupancy expenses	334	277	611	340	210	550
Industry subscription	1,290	62	1,352	1,267	50	1,317
Agency legal costs	332	-	332	328	-	328
Interest expense	106	11	117	106	32	138
Other management expenses	1,064	261	1,325	883	214	1,097
Total	**72,008**	**16,683**	**88,691**	**65,256**	**15,080**	**80,336**

Directly attributable expenses comprise expenses incurred by the Company in the reporting period that relate directly to the fulfilment of contracts issued within AASB 17's scope. These expenses are recognised in the statement of profit or loss based on AASB 17 measurement requirements. Refer to note 4.

7.1 Employee benefit expense

	2024 $'000	2023 $'000
Employee benefits	50,589	34,911
Post-employment benefits – Superannuation contributions	3,160	2,851
Total	**53,749**	**37,762**

Note 8 – Cash and cash equivalents

	2024 $'000	2023 Restated $'000
Cash at bank and on hand	56,471	105,377
Total cash and cash equivalents	**56,471**	**105,377**

Note 9 – Other receivables

	2024 $'000	2023 Restated $'000
Current		
Other receivables	56,532	15,760
Total other receivables	**56,532**	**15,760**

Note 10 – Insurance contracts

The breakdown of portfolios of insurance contracts issued, that are in an asset position and those in a liability position is set out in the table below:

	2024			2023 (restated)		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Insurance contracts issued						
Private health insurance	-	21,061	21,061	-	39,461	39,461
Total insurance contracts issued	**-**	**21,061**	**21,061**	**-**	**39,461**	**39,461**

Note 10 – Insurance contracts (cont'd)

Roll-forward of net asset or liability for the insurance contracts issued showing the liability for remaining coverage and liability for incurred claims

The Company has one major product line, being Private Health Insurance. The roll-forward of the net asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims is disclosed in the table below:

2024	Liabilities for remaining coverage			Liabilities for incurred claims			Total
	Excluding loss component	Loss component	Total	Estimates of the present value of future cash flows	Risk adjustment	Total	
Insurance contract liabilities as at 01/07	39,461	5,721	**45,182**	87,847	3,624	**91,471**	**136,653**
Insurance contract assets as at 01/07	-	-	**-**	-	-	**-**	**-**
Net insurance contract (asset)/liabilities as at 01/07	**39,461**	**5,721**	**45,182**	**87,847**	**3,624**	**91,471**	**136,653**
Insurance revenue	672,768	-	**672,768**	-	-	**-**	**672,768**
Insurance service expenses	-	-	**-**	72,008	-	**72,008**	**(72,008)**
Incurred claims and other expenses	-	-	**-**	570,242	1,308	**571,550**	**(571,550)**
Losses on onerous contracts and reversals of those loses	-	1,253	**1,253**	-	-	**-**	**1,253**
Changes that relate to future service	-	-	**-**	-	-	**-**	**-**
Changes that relate to past service	-	-	**-**	-	-	**-**	**-**
Insurance service result	**672,768**	**1,253**	**674,021**	**642,250**	**1,308**	**643,558**	**30,463**
Total changes in the statement of comprehensive income	**672,768**	**1,253**	**674,021**	**642,250**	**1,308**	**643,558**	**30,463**
Cash flows							
Premiums received	654,368	-	**654,368**	-	-	**-**	**654,368**
Claims and other expenses paid	-	-	**-**	654,332	-	**654,332**	**(654,332)**
Total cash flows	**654,368**	**-**	**654,368**	**654,332**	**-**	**654,332**	**36**
Transfer to other items in the statement of financial position(i)	-	-	**-**	1,472	-	**1,472**	(1,472)
Net insurance contract (assets)/liabilities as at 30/06	**654,368**	**-**	**654,368**	**655,804**	**-**	**655,804**	**(1,436)**
Insurance contract liabilities as at 30/06	**21,061**	**4,468**	**25,529**	**74,293**	**4,932**	**79,225**	**104,754**
Insurance contract assets as at 30/06	-	-	**-**	-	-	**-**	-
Net insurance contract (assets)/liabilities as at 30/06	**21,061**	**4,468**	**25,529**	**74,293**	**4,932**	**79,225**	**104,754**

(i) The fulfilment cash flows may include amounts that are in the scope of a standard other than AASB 17. For example, the Company has included some right of use asset depreciation in the fulfilment cash flows (and therefore insurance service expense) under paragraph B65(l) of AASB 17. The Company removes such expenses from the insurance contract asset/liability roll forward table in this line when they are incurred and included in the carrying amount of another asset or liability (e.g. right of use assets) in accordance with the other standard.

Note 10 – Insurance contracts (cont'd)

2023 (restated)	Liabilities for remaining coverage			Liabilities for incurred claims			Total
	Excluding loss component	Loss component	Total	Estimates of the present value of future cash flows	Risk adjustment	Total	
Insurance contract liabilities as at 01/07	38,689	27,762	**66,451**	110,460	2,470	**112,930**	**179,381**
Insurance contract assets as at 01/07	-	-	**-**	-	-	**-**	**-**
Net insurance contract (asset)/liabilities as at 01/07	38,689	27,762	**66,451**	110,460	2,470	**112,930**	**179,381**
Insurance revenue	670,760	-	**670,760**	-	-	**-**	**670,760**
Insurance service expenses	-	-	**-**	65,256	-	**65,256**	**(65,256)**
Incurred claims and other expenses	-	-	**-**	581,569	1,154	**582,723**	**(582,723)**
Losses on onerous contracts and reversals of those loses	-	22,041	**22,041**	-	-	**-**	**22,041**
Changes that relate to future service	-	-	**-**	-	-	**-**	-
Changes that relate to past service	-	-	**-**	-	-	**-**	-
Insurance service result	670,760	22,041	**692,801**	**646,825**	**1,154**	**647,979**	**44,822**
Total changes in the statement of comprehensive income	**670,760**	22,041	**692,801**	**646,825**	**1,154**	**647,979**	**44,822**
Cash flows							
Premiums received	671,532	-	**671,532**	-	-	**-**	**671,532**
Claims and other expenses paid	-	-	**-**	667,946	-	**667,946**	**(667,946)**
Total cash flows	671,532	-	**671,532**	667,946	-	**667,946**	**3,586**
Transfer to other items in the statement of financial position[i]	-	-	**-**	1,492	-	**1,492**	**(1,492)**
Net insurance contract (assets)/liabilities as at 30/06	**671,532**	**-**	**671,532**	**669,438**	**-**	**669,438**	**2,094**
Insurance contract liabilities as at 30/06	39,461	5,721	**45,182**	87,847	3,624	**91,471**	**136,653**
Insurance contract assets as at 30/06	-	-	**-**	-	-	**-**	**-**
Net insurance contract (assets)/liabilities as at 30/06	**39,461**	**5,721**	**45,182**	**87,847**	**3,624**	**91,471**	**136,653**

(ii) The fulfilment cash flows may include amounts that are in the scope of a standard other than AASB 17. For example, the Company has included some right of use asset depreciation in the fulfilment cash flows (and therefore insurance service expense) under paragraph B65(l) of AASB 17. The Company removes such expenses from the insurance contract asset/liability roll forward table in this line when they are incurred and included in the carrying amount of another asset or liability (e.g. right of use assets) in accordance with the other standard.

Note 11 – Contract Assets

	2024 $'000	2023 $'000
Current		
Life Insurance commissions	660	563
Total Contract Assets – current	**660**	**563**
Non-current		
Life insurance commissions	906	1,158
Total Contract Assets – non-current	**1,566**	**1,158**

Contract assets have been recognised net of expected credit losses of $0 million (2023: $0 million).

Note 12 – Financial assets

	2024 $'000	2023 $'000
Financial assets measured at FVTPL		
Term deposits	152,396	170,896
Interest bearing securities (i)	-	21,792
Units in fixed income trusts	167,602	88,151
Units in unlisted equity trusts	137,091	148,959
Alternatives	96,593	89,236
Total investments	**553,682**	**519,034**

(i) The company has granted the lessor of the property a bank guarantee to support the lease obligations of $0.9 million (2023: $0.9 million)

Note 13 – Property, plant and equipment

	Leasehold improvements $'000	Plant & equipment $'000	Total $'000
Carrying amount			
Balance at 30 June 2022	**-**	**724**	**724**
Additions	-	55	55
Disposals	-	(1)	(1)
Depreciation	-	(364)	(364)
Balance at 30 June 2023	**-**	**414**	**414**
Additions	-	36	36
Disposals	-	-	-
Depreciation	-	(302)	(302)
Balance at 30 June 2024	**-**	**148**	**148**

Note 14 – Intangible assets

	Licenses $'000	Trademarks $'000	Total $'000
Carrying amount			
Balance at 30 June 2022	**34**	**5**	**39**
Additions	-	-	-
Disposals	-	-	-
Amortisation	(9)	(2)	(11)
Balance at 30 June 2023	**25**	**3**	**28**
Additions	-	-	-
Disposals	(19)	-	(19)
Amortisation	(6)	(3)	(9)
Balance at 30 June 2024	**-**	**-**	**-**

Note 15 Right of use asset

	Property $'000	Total $'000
Balance at 30 June 2022	**8,715**	**8,715**
Additions	5	5
Disposals	-	-
Depreciation	(1,473)	(1,473)
Balance at 30 June 2023	**7,247**	**7,247**
Additions	-	-
Disposals	-	-
Depreciation	(1,474)	(1,474)
Balance at 30 June 2024	**5,773**	**5,773**

Note 16 – Other payables

	2024 $'000	2023 Restated $'000
Current		
Other payables	11,745	9,725
Total other payables	**11,745**	**9,725**

Note 17 – Lease Liability

	2024 $'000	2023 $'000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1,304	1,249
One to five years	5,440	6,355
More than five years	-	-
Total undiscounted lease liability 30 June	**6,744**	**7,604**
Lease Liabilities included in the Statement of Financial Position at 30 June		
Current	1,211	1,132
Non-current	4,012	5,223
Total lease liability	**5,223**	**6,355**

Amounts recognised in profit and loss

	2024 $'000	2023 $'000
Interest on lease liabilities	(117)	(139)
Expenses related to short term leases	-	-

Amounts recognised in the statement of cash flows

Total cash outflow for leases	(1,132)	(1,192)

Note 18 - Provisions

	2024 $'000	2023 Restated $'000
a) Current		
Employee benefits	889	1,310
Total provisions – current	**889**	**1,310**
b) Non-current		
Employee benefits	2,556	2,170
Total provisions – non-current	**2,556**	**2,170**

Note 19 – Contributed equity

	2024 $'000	2023 $'000
Contributed equity	**43,346**	**43,346**

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

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

Note 20 – Reserves and retained earnings

	2024 $'000	2023 Restated $'000
Retained earnings		
Opening balance at 1 July	450,022	380,687
Surplus for the year	55,637	69,335
Retained earnings at 30 June	**505,659**	**450,022**

Note 21 – Capital adequacy

	2024 $'000	2023 Restated $'000
Capital base		
Net Assets (Common Equity Tier 1 Capital)	549,005	493,368
Less: Intangible and other regulatory adjustments	(9,303)	(13,356)
Total capital base	**539.702**	**480.012**
Prescribed capital amount	160.326	137.703
Prescribed capital amount coverage	**3.37**	**3.48**

Note 22 – Notes to the statement of cash flows

	2024 $'000	2023 $'000
Reconciliation of surplus for the period to net cash flows from operating activities		
Net surplus for the year	55,637	69,335
Depreciation and amortisation expense	1,785	1,849
Unrealised (gain)/loss on revaluation of fair value through the profit or loss financial assets	(15,473)	(16,363)
Investment income	(25,081)	(21,523)
Interest paid on lease liability	117	139
Changes in operating assets and liabilities:		
(Increase) / Decrease in other receivables	(41,832)	(8,687)
Decrease in contract assets	155	884
Increase / (Decrease) in current provisions	(421)	(42,901)
Increase / (Decrease) in other payables	(29,881)	4,145
Increase / (Decrease) non-current provisions	387	(433)
Net cash generated from operating activities	**(54,607)**	**(13,555)**

Note 23 – Auditors remuneration

	2024 $	2023 $
Remuneration for audit of the financial reports and regulatory reporting	240,500	170,000
Remuneration for APRA tripartite review (CPS 234)	-	41,500
Remuneration for work related to Project Delta	-	646,000
	240,500	**857,500**

The auditor is Deloitte Touche Tohmatsu, who was also the auditor in the prior year. The additional remuneration was subjected to review by both the Company and Deloitte before being incurred, to ensure that it did not affect the independence of the auditor's opinion on the financial statements.

Note 24 – Commitments for expenditure

As part of remediation work for the new 'Hawkei' system there are commitments with vendors to spend another $1.250m. This is expected to be completed in the first half of FY2025.

Note 25 – Related party transactions

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

	2024 $'000	2023 $'000
Australian Health Services Alliance (i)	-	1,023
Private Healthcare Australia (ii)	-	66
	-	**1,089**

(i) Australian Health Service Alliance Limited is a company limited by guarantee which negotiates the terms by which hospital services and hospital related medical and paramedical services are provided to its members. Major General G P Fogarty AO (Ret'd), Acting Chief Executive Officer of Defence Health was a Director of Australian Health Service Alliance Limited in FY23.

ii) Private Healthcare Australia Ltd provides private health insurance industry representation for members. Major General G P Fogarty AO (Ret'd), Acting Chief Executive Officer of Defence Health was a Director of Private Healthcare Australia Ltd in FY23.

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

Note 26 – Remuneration of key management personnel

	2024 $'000	2023 $'000
Short-term employee benefits	5,485	4,065
Post-employment benefits	374	342
Termination benefits	-	-
	5,859	**4,407**

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

The specified Directors for 2024:
Mr A I Beckett (expiry November 2023)
Mr R Burns
COL A Hambleton AM (expiry November 2023)
Ms S Stothart
Mr M Liu
Ms C Ireland
Ms R Davies
Mr M Walsh
MAJGEN K Toohey (appointed November 2023)
Dr S Neuhaus (appointed November 2023)
COL B Mitzevich (Associate Director)

The specified executives for 2024:
Ms J M Kadlecik – Chief Executive Officer (retired 7 March 2024)
Major General G P Fogarty AO (Ret'd) – Acting Chief Executive Officer (from 24 August 2023)
Mr J Thomopoulos – Chief Financial Officer
Ms T Haines – Chief Risk Officer (end 10 November 2023)
Ms T Haines – Deputy Chief Executive Officer (start 13 November 2023)
Mr J Watts – Chief Risk Officer (start 13 November 2023)
Mr A N Guerin – Chief Legal Officer (retired 20 December 2023)
Ms P Marshall – Chief Legal Officer (start 8 April 2024)
Mr G Cregan – Chief Operating Officer (end 10 November 2023)
Ms T Cumming – Chief Member Services Officer (start 22 November 2023)
Ms K A Dickson – Chief People Officer
Mr B Dunne – Transformation Director
Ms C Smyth – Chief Strategy Officer (end 14 May 2024)
Ms R Leathem – Head of IT (end 7 March 2024)

Note 27 – Contingent liabilities and contingent assets

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

Note 28 – 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 Company.

Directors' Declaration

The Directors of Defence Health Limited declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe the Company 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 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	Ms Rebecca Davies Director
20 September 2024	20 September 2024

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

Opinion

We have audited the financial report of Defence Health Limited (the "Company") which comprises the statement of financial position as at 30 June 2024, income statement and other comprehensive income, the statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information and other explanatory information, and the directors' declaration.

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

- Giving a true and fair view of the Company's financial position as at 30 June 2024 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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 (including Independent Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2024, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible:

- For the preparation of the financial report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Company in accordance with Australian Accounting Standards; and
- For such internal control as the directors determine is necessary to enable the preparation of the financial report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Company, and is free from material misstatement, whether due to fraud or error.

Deloitte.

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

Auditor's Responsibilities for the Audit of the Financial Reports

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Max Rt Murray

Max Murray
Partner
Chartered Accountants

Sydney, 20 September 2024