medibank For Better Health

2021 half year results

Investor presentation

Craig Drummond – Chief Executive Officer | **Mark Rogers** – Chief Financial Officer

24 February 2021

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Highlights

Craig Drummond – Chief Executive Officer

Results summary

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High quality result underpinned by strong policyholder growth and ongoing vigilance on management costs

Group results

Operating profit	NPAT	Net investment income	Interim dividend
$255.2m	$226.4m	$71.8m	5.8 cps
+16.6%	+26.8%	+86.5% (Up from $38.5m)	+1.8%

Health Insurance results

Operating profit	Operating margin	Management expenses	Service NPS (average)
$254.6m	7.7%	$250.8m	Medibank 37.9, +7.2
+13.6%	+90bps	+1.1%	ahm 46.8, +6.1

Premium revenue	Benefits payable	Policyholder growth
$3.3b	$2.8b	Net resident policyholders +49k, +2.7% (6 mths)
+0.3%	-1.8%	Market share growth: +28bps (6 mths)

Medibank Health results

Operating profit

$18.8m

+41.4%

Strengthening focus on preventative health with $63m investment in **Myhealth**[1]

1 Total expected consideration of $63 million. Under the terms of the share purchase agreement, if certain conditions are not met, Medibank may be required to acquire additional shares in Myhealth Medical Holdings Pty Ltd and pay additional consideration

Milestone scorecard 1H21 update: all on track to be delivered

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Objectives / Measures and targets

1. Customer and employee advocacy
Continue to achieve a high level of advocacy by delivering exceptional experiences for our customers and employees

Customer advocacy: Service NPS (average)

	1H20	1H21	FY21 target
Medibank	30.7	37.9	>30
ahm	40.7	46.8	>40

Employee advocacy

	1H21	FY21 target
Engagement[1]	N/A	≥85%
eNPS	+29	≥+19

2. Health and wellbeing differentiation
Double the uptake of Medibank's Live Better and Health Assist programs by FY22 while ensuring every customer[2] has at least one personalised health interaction through the year

	1H20	1H21	FY22 target
Education: Health engagement interactions	c. 1.1m	c. 1.7m	>2m[5]
Prevention: Live Better engaged customers[3]	c. 73k	c. 380k	>1m
Support: Health Assist interactions[4]	c. 56k	c. 91k	>150k[5]

Updated

3. Health insurance growth
We aim to increase market share and achieve total policyholder growth in excess of 3%, including an expectation of growing the Medibank brand by c. 1% during FY21[6]

Policyholder growth (unadjusted)

1 July 20 – 31 December 20
+2.7% / +49k

By brand (unadjusted)

Medibank	+1.3% / +17.6k
ahm	+7.5% / +31.4k

Market share

1H20	2H20	1H21
up 8bps	down 4bps	up 28bps

4. In-home care
Virtual hospital beds more than 300 by end of FY22[7]

Total

30 June 20	31 Dec 20	30 June 22
259 beds	384 beds	Target >300 beds

Medibank customers

31 December 2020
4,275 Medibank customers serviced by 322 beds

5. Medibank Health
By FY22 organically replace the reported FY18 $30m operating profit of Garrison

Medibank Health segment operating profit

FY18 (baseline)[8]	FY19	FY20	1H21
$47.3m	$22.1m	$27.6m	$18.8m

6. Productivity
FY21 productivity target of $20m and additional $30m during FY22-FY23

Productivity delivered

1H21	FY21	FY22 – FY23
On track	Target $20m	Target $30m

1 Employee engagement is measured on an annual basis with results available in 4Q21. Employee engagement in FY20 was 84%
2 Based on number of policyholders that consent to contact for marketing purposes, some exclusions may apply. Excludes new joins and customer lapses over the period
3 Includes the number of customers who have downloaded Live Better and enrolled for rewards plus Live Better at Home interactions
4 Includes Health Concierge, 24/7 Support, CareComplete, Medibank at Home, Better Knee, Better Me, Heart Health at Home and other new program interactions
5 FY22 target for health engagement and Health Assist interactions to be reviewed at FY21 results
6 Excluding the impact of policyholder suspensions due to COVID-19 financial hardship
7 In-home care milestone to be reviewed at FY21 results
8 Includes the $30m operating profit of Garrison

Strategy and FY21 priorities

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Our strategy is to accelerate our PHI growth and continue the transformation into a broader healthcare company

Better Health for Better Lives

Strategic pillar	Deliver differentiated products and services for customers	Continue to improve healthcare value and relevance for customers	Expand the offering for customers and grow the business
FY21 priorities	• Leverage our dual brand strategy to grow competitive advantage • Personalise and integrate more health and wellbeing into a more consistent customer experience • Enhance and scale our loyalty offering to recognise and reward membership • Simplify and enhance our cover options	• Focus on promoting better value care and improving customer outcomes by providing greater choice and transparency • Continue to work with stakeholders to reduce out-of-pocket costs and target ongoing low premium increases • Work with providers and doctors to accelerate a shift to alternative ways of delivering care to enhance patient experience and reduce costs • Refocus our payment integrity program towards prevention over recovery	• Strengthen and broaden our commercial and provider partnerships • Grow corporate and reposition our non-resident and diversified offerings for rebound and future growth • Build scale, co-design and grow our health services capability in conjunction with health providers and third-party payors • Build scale into our healthcare investments in order to improve health outcomes for all Australians • Targeted inorganic growth for Medibank Health and Health Insurance in a stressed operating environment
Enablers	People | Data insights | Technology | Financial strength		

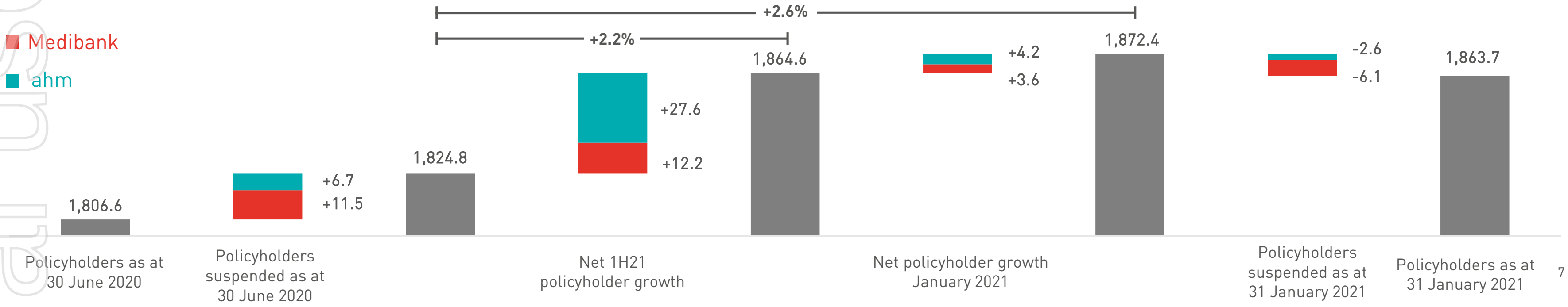
Our dual brand strategy is working

Top line growth gaining momentum

Customer growth reflects the strength of our brands and proposition differentiation, driving significant improvement in retention and advocacy

- Renewed focus on health in the community, pressure on the public system, low premium increases, and returning Australians are driving the PHI industry hospital participation turnaround (up 26bps to 43.86% over the last 6 months)
- Medibank and ahm brands are positioned to appeal to all customer segments with new to industry share of joins moderately higher in 1H21 vs 1H20
- Strong growth in digital acquisitions (accounted for 32% of joins compared to 22% in 1H20) and engagement, due to changes in customer behaviour and investment focus
- Significant improvement in retention:
  - As we continue to apply learnings from Medibank programs into ahm
  - Brand strength driving growth in diversified products as we expand and scale the offerings – supporting retention in PHI
  - Continued up-take of health prevention offerings through Live Better, health promotions and health navigation are having a noticeable impact on customer retention
- Service quality continues to improve as reflected through the ongoing sharp uplift in Service NPS and Customer NPS, and PHIO complaints remaining well below our market share (21.4% in Sep 20 Quarter)

YTD resident policyholder growth ('000, as at 31 January 2021)



Improving long-term value and relevance of private healthcare

Through more proactive preventative healthcare and enabling more choice outside of acute hospital settings

Supporting health and wellbeing through preventative healthcare

Health engagement

- Over one million personalised and proactive health promotions in 1H21

Live Better

- c. 380k interactions[1] in 1H21
- Live Better at Home program continues to engage customers and the community

Health propositions

- Planning, Pregnancy and Parenting
- Healthy Mind by Medibank
- Healthier Weight, Healthier Me pilot to support remission in customers with type 2 diabetes

Health navigation

- Doubled the number of hospital admissions supported by Health Concierge vs 1H20

CareComplete

- Delivered through phone and video consultations during COVID-19

Myhealth

- Investment in Myhealth recognises the vital role GPs have in enhancing the health of their patients early in the system

Enabling more choice in care

Clinical homecare

- 5,599 patients used hospital in the home, Rehab in the Home or other pilot programs in 1H21 (including 4,275 Medibank customers)
  - Significant uplift in demand for Rehab in the Home total joint replacements following COVID-19-related elective surgery shutdown (particularly in VIC)
- Heart Health at Home offers personalised, telehealth-delivered cardiac rehabilitation services
- My Home Hospital (delivered by a Calvary-Medibank joint venture) provides acute in-home care to public patients in South Australia

Short stay / No Gap Joint Replacement Program

- Short stay coverage in 6 regions
- Halved the number of bed days per episode for no gap joint replacement procedures with positive patient experiences and feedback

Virtual health

- c. 340k COVID-19-related telehealth interactions[2]
- c. 23k ancillary claims from telehealth services in 1H21

There is now a focus on scaling these initiatives and programs for customers

1 Includes the number of customers who have downloaded Live Better and enrolled for rewards plus Live Better at Home interactions
2 As at 20 January 2021

Investment in Myhealth Medical Group

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- Medibank announced on 5 February 2021 it would acquire a non-controlling 33.4% economic interest in Myhealth Medical Group (Myhealth)[1] for a total expected consideration of $63m
- This investment:
  - Recognises the vital role of GPs in enhancing the health and quality of life of their patients, helping to reduce high-cost hospital admissions
  - Provides Myhealth GPs with access to additional capabilities to improve data analytics and information management
  - Complements our existing partnerships with doctors across the health system
  - Reflects our ongoing transformation into a broader healthcare company
  - Utilises our marketing, digital and sales capabilities, alongside our strong consumer DNA
- GPs will retain full clinical autonomy with patients continuing to be treated equitably. No clinical priority will be given to Medibank or any other private health insurance customer
- Fully funded from existing cash resources
- Expected to be immediately EPS accretive

Myhealth	86 clinics across Australia Delivers 2.5m patient consultations per year More than 1,300 health professionals
Growth	Clinical footprint expected (on average) to grow by more than 10 clinics per annum FY21 EBITDA budget (incl. rent) of c. $21m (FY20: $17.0m, FY19: $11.1m, FY18: $7.4m)
Governance	Five member Myhealth Board includes two Medibank representatives
Completion	Expected by 31 March 2021

1 Medibank is acquiring 49% of the ordinary shares of Myhealth Medical Holdings Pty Ltd, which represents a 33.4% economic interest in the Myhealth Medical Group when taking into account the interests of management and the local GP shareholders in Myhealth Medical Holdings Pty Ltd and its subsidiaries. Under the terms of the share purchase agreement, if certain conditions are not met, Medibank may be required to acquire additional shares in Myhealth Medical Holdings Pty Ltd and pay additional consideration. However, even if this occurs Medibank will not have any financial and operational decision-making control over the Myhealth Medical Group or its board of directors

A return to growth in FY21

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Future growth will be driven by strengthening our competitive advantage in PHI, offering new products, and leveraging our strategic partnerships and investments

Accelerating growth and scale in PHI

- Continue to improve the consistency of experience for our customers
- Build on our brand strength with a dual brand strategy that delivers flexibility, broad customer coverage and price competitiveness
- Continue to apply acquisition and retention learnings between both brands
- Leverage investment in technology to drive more meaningful digital engagement and data insights
- Maintain focus on customer health and wellbeing through embedding health promotions, proactive preventative care and broadening choice

New products and services

- Expansion of diversified product range including:
  - ahm car and home insurance products launched in January 2021
  - Additional COVID-19 benefits through Medibank domestic travel insurance
- Expansion of mental health propositions including Healthy Mind by Medibank, 24/7 mental health support via phone and webchat for customers, and programs aimed at preventing hospital readmissions
- Digital triage will utilise technology to promote proactive health and wellbeing approaches which are tailored to our customers, enabling a smoother and more connected customer journey

Partnerships and investments

- In advanced discussions with several well-known partners to expand our **short stay, no gap** offering across additional sites, as well as establishing pilots for new procedures
- Initial $8.8m investment in **East Sydney Private Hospital** helps fund investment required to scale up its short stay model of care
- Medibank's investment in **Myhealth** enables its clinical footprint expansion and access to additional capabilities to support GPs to improve patient health, which helps reduce high cost hospital admissions or readmissions

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For Better Health

Financial results

Mark Rogers – Chief Financial Officer

Group financial summary

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Six months ended 31 Dec ($m)	1H20	1H21	Change
Group revenue from external customers[1]	**3,421.5**	**3,442.2**	**0.6%**
Health Insurance operating profit	224.2	254.6	13.6%
Medibank Health operating profit[1]	13.3	18.8	41.4%
Segment operating profit	**237.5**	**273.4**	**15.1%**
Corporate overheads	(18.7)	(18.2)	(2.7%)
Group operating profit – continuing operations	**218.8**	**255.2**	**16.6%**
Net investment income	38.5	71.8	86.5%
Amortisation of intangibles	(4.5)	(3.4)	(24.4%)
Other income / (expenses)	1.8	(1.7)	n.m.
Profit before tax	**254.6**	**321.9**	**26.4%**
Income tax expense	(76.0)	(95.5)	25.7%
NPAT - continuing operations	**178.6**	**226.4**	**26.8%**
Effective tax rate[2]	29.9%	29.7%	(20bps)
EPS (cents)[2]	6.5	8.2	27.3%
Underlying NPAT[3]	**179.4**	**203.4**	**13.4%**
Underlying EPS (cents)[3]	6.5	7.4	13.4%
Dividend per share (cents)	**5.70**	**5.80**	**1.8%**
Dividend payout ratio[3]	88%	79%	(10.2%)

- Profit before tax up 26.4% to $321.9m
- Other income / (expenses):
  - One-off $3.3m AASB16 impact in 1H20
  - Expect c. $3m of M&A costs in 2H21
- Lower corporate costs reflects ongoing tight expense management
- Investment income up 86.5% to $71.8m
- Amortisation charge reduced as intangibles balances progressively run off
- EPS:
  - Reported EPS up 27.3% to 8.2 cps
  - Underlying EPS up 13.4% to 7.4cps

1 Excludes discontinued operations
2 Calculated on total operations
3 Underlying NPAT adjusted to normalise growth asset returns to historical long-term expectations and credit spread movements. Dividend payout ratio based on Underlying NPAT

COVID-19 impacts

$310m balance sheet liability for deferred COVID-19 claims

Policyholders

- Net policies suspended reduced from 18.2k at 30 June 2020 to 9.0k at 31 December 2020
- Expect majority of remaining suspensions to reactivate

PHI revenue

- Customer relief measures reduced revenue by $109m in 1H21
- Impact to revenue not expected to be material in 2H21

Customer relief impact ($m)	2H20	1H21	Total
6-mth waiver of the 1 April 20 premium increase	65	92	157
Customer suspensions	15	17	32
Total customer relief impact	80	109	189

Overseas PHI & Medibank Health

- No material impact in 1H21

PHI claims

- COVID-19 net claims expense impact of $99m in 1H21:
  - 1H21 claims $112m lower than pre-COVID expectations
  - Offset by $13m increase in COVID-19 deferred claims liability
- COVID-19 deferred claims liability of $310m at 31 December 2020:
  - Hospital liability up $67m:
    - Change in hospital deferral assumption to 85% from 100%
    - $102m of largely Victorian deferred hospital claims in 1H21
  - Ancillary liability reduction of $54m:
    - Medibank limit reset on 31 December 2020
    - 1H21 claims $14m above our pre-COVID expectation

Six months ended 31 Dec 2020 ($m)	Hospital	Ancillary	Total
30 June – COVID-19 claims liability	234	63	297
Hospital deferral assumption to 85%	(35)	-	(35)
Current period deferral / (liability release)[1]	102	(54)	48
31 Dec – COVID-19 claims liability	301	9	310
Lower / (higher) than expected claims	126	(14)	112
Liability (increase) / decrease	(67)	54	(13)
COVID-19 claims expense impacts	59	40	99

1 Hospital movement includes prior-year provision release

COVID-19 impacts – claims recovery

Private hospital claims paid in non-Victorian states has been mixed so far

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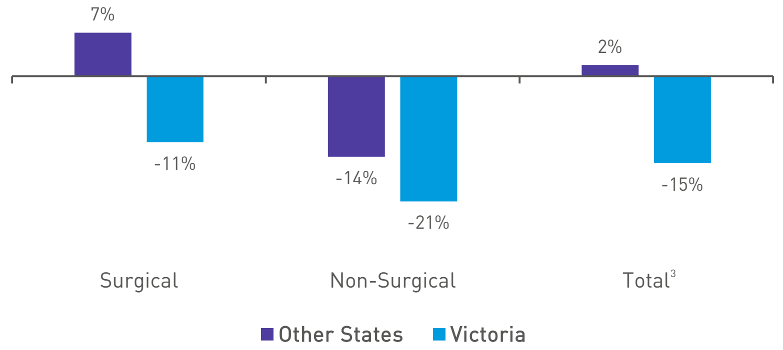
2019 composition:

- Private hospital claims comprised[1]:
  - 34% in Victoria and 66% in non-Victorian states
  - c. 60% surgical and c. 40% non-surgical[2]

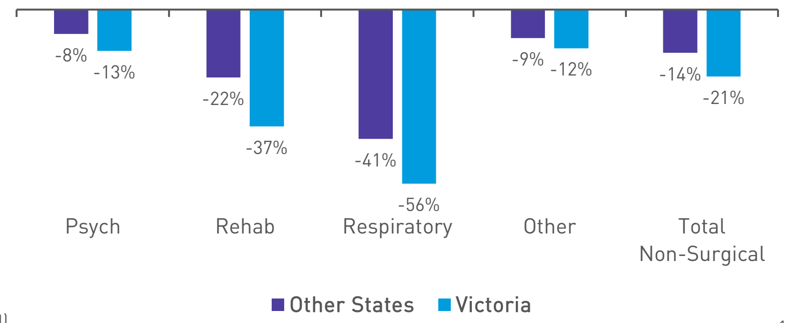
Indicative private hospital claims insights:

- Total:
  - Victorian claims down 15%, reflecting impact of more than 4-month lockdown
  - Non-Victorian claims up 2%, with surgical claims growth offset by reduction in non-surgical claims
- Surgical:
  - Victorian claims decreased by 11% though showed signs of picking up in October and November 20
  - Non-Victorian claims up 7% with same day claims showing stronger rebound than overnight claims
- Non-surgical:
  - Victorian claims reduced by 21%
  - Non-Victorian claims down 14% with notable declines across rehab, psych and respiratory claims
- Softness in rehab, respiratory and psych categories supports change in hospital deferral assumption

Private hospital claims – YTD Nov 20 $ growth vs pcp[1]



Private Hospital Non-Surgical claims – YTD Nov 20 $ growth vs pcp[1]



1 Private hospital services incurred by Medibank Group in the 5 months to November 2020 and 2019 (excluding prostheses and medical)
2 Based off industry standard Diagnosis Related Groups (DRGs). Surgical categorisation involves the use of an operating room
3 Total growth includes a portion of other claims not yet categorised

Health Insurance result

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Operating performance reflects policyholder growth and benefits of our productivity agenda

Six months ended 31 Dec ($m)	1H20	1H21	Change	COVID Adj.[2]	Change vs 1H20
Premium revenue	3,315.5	3,324.5	0.3%	3,433.9	3.6%
Claims expense	(2,851.6)	(2,801.3)	(1.8%)		
Risk equalisation	8.4	(17.8)	n.m.		
Net claims expense (including risk equalisation)	(2,843.2)	(2,819.1)	(0.8%)	(2,918.1)	2.6%
Gross profit	**472.3**	**505.4**	**7.0%**	**515.8**	**9.2%**
Management expenses	(248.1)	(250.8)	1.1%	(250.8)	1.1%
Operating profit	**224.2**	**254.6**	**13.6%**	**265.0**	**18.2%**
Gross margin[1]	**14.2%**	**15.2%**	**100bps**	**15.0%**	**80bps**
MER[1]	7.5%	7.5%	-	7.3%	(20bps)
Operating margin[1]	**6.8%**	**7.7%**	**90bps**	**7.7%**	**90bps**

Adjusted for claims provision impacts

Six months ended 31 Dec ($m)	1H20	1H21	Change	COVID Adj.[2]	Change vs 1H20
Gross profit	472.3	505.4	7.0%	515.8	9.2%
Under / (over) movement on central provision estimate	26.1	-	n.m.	-	n.m.
Adjusted gross profit	**498.4**	**505.4**	**1.4%**	**515.8**	**3.5%**
Adjusted gross margin	15.0%	15.2%	20bps	15.0%	-
Adjusted operating margin	**7.5%**	**7.7%**	**20bps**	**7.7%**	**20bps**

1 Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.8% in 1H20 and 14.9% in 1H21, the MER for Australian residents only was 7.3% in 1H20 and 7.5% in 1H21, and the operating margin for Australian residents only was 6.5% in 1H20 and 7.5% in 1H21
2 Adjusted for the impact of customer relief measures +$109.4m and hospital and ancillary claims savings -$99.0m as a result of COVID-19

Health Insurance – policyholders

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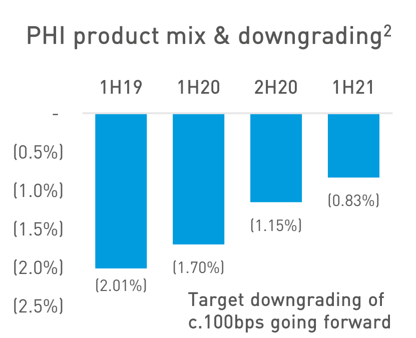
Stronger resident policyholder growth of 2.6% in the last 12 months

Six months ended 31 Dec ($m)	1H20	1H21	Change	COVID Adj.[2]	Change vs 1H20
Policyholders[1] (thousand):					
Opening balance	1,796.0	1,806.6	0.6%	1,824.8	1.6%
Acquisitions	98.3	102.6	4.4%	102.6	4.4%
Lapses	(86.6)	(62.8)	(27.5%)	(62.8)	(27.5%)
Net suspensions / reactivations	-	9.2	n.m.	-	-
Closing balance	**1,807.7**	**1,855.6**	**2.6%**	**1,864.6**	**3.1%**
- Medibank	1,401.5	1,405.8	0.3%	1,411.9	0.7%
- ahm	406.2	449.8	10.7%	452.7	11.4%
Acquisition rate[3]	**5.5%**	**5.6%**	**10bps**		
- Medibank	4.1%	4.1%	-		
- ahm	11.3%	11.3%	-		
Lapse rate[3]	**4.8%**	**3.4%**	**(140bps)**		
- Medibank	4.5%	3.3%	(120bps)		
- ahm	7.2%	5.0%	(220bps)		
Policyholder growth	**0.7%**	**2.7%**	**200bps**	**2.2%**	**150bps**
Total policy units[1,4] (thousand)					
Closing balance	4,709.1	4,761.6	1.1%	4,781.7	1.5%
Average balance	4,711.1	4,736.5	0.5%	4,763.1	1.1%
Annualised average revenue per policy unit[1,4] ($)	**1,407.5**	**1,403.8**	**(0.3%)**	**1,441.9**	**2.4%**



1 Consistent with reported industry data, policyholder numbers only include resident business whereas total policy units include both resident and non-resident policyholders (i.e. OSHC and OVHC)
2 Adjusted for suspensions and reactivations occurring as a result of COVID-19
3 Consolidated lapse and acquisition rates exclude transfers of policyholders between ahm and Medibank at a combined brand level. Figures at brand level include these transfers. Lapse and acquisition rates are based on the average of the opening and closing balances for the period
4 Refer to glossary for definition of policy units. Policy units include both resident and non-resident business (i.e. OSHC and OVHC). Based on an average of the month-end balances over the reporting period

Health Insurance – claims

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Underlying claims growth per policy unit of 2.6%

- Net claims expense down 0.8%:
  - 1.8% decline in gross claims
  - Includes $99.0m reduction in claims expense due to COVID-19
  - COVID-19 adjusted net claims growth of 2.6%
- Risk equalisation payment of $17.8m vs $8.4m receipt in 1H20:
  - Continued lower than industry claims growth
  - Impact of lower claims paid in Medibank brand expected to unwind with increased claims activity
  - Expect to be a net payer going forward
- Underlying claims growth of 2.6%:
  - Adjusted for provision movements and COVID-19 impacts
  - Broadly in line with 2H20
- Underlying hospital claims growth of 2.5%:
  - Includes modest benefit of prostheses price reductions from 1 February 20
- Underlying extras claims growth of 3.1%:
  - Reduced following investment in Members' Choice Advantage network in the prior period

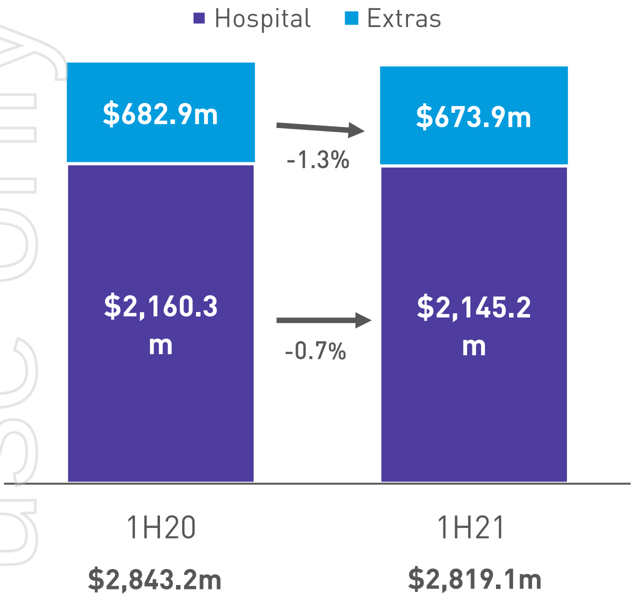
Six months ended 31 Dec ($m)	1H20	1H21	Change	COVID Adj.[3]	Change vs 1H20	Change per PSEU adjusted for COVID-19 and provision impacts
Claims expense	(2,851.6)	(2,801.3)	(1.8%)	(2,900.3)	1.7%	
Risk equalisation	8.4	(17.8)	n.m.	(17.8)	n.m.	
Net claims expense (including risk equalisation)	**(2,843.2)**	**(2,819.1)**	**(0.8%)**	**(2,918.1)**	**2.6%**	
- Hospital	(2,160.3)	(2,145.2)	(0.7%)	(2,204.2)	2.0%	2.5%
- Extras	(682.9)	(673.9)	(1.3%)	(713.9)	4.5%	3.1%
Annualised average net claims expense per policy unit[1] ($)	**(1,207.0)**	**(1,190.4)**	**(1.4%)**	**(1,225.3)**	**1.5%**	**2.6%**
Resident hospital utilisation growth[2]	0.1%			(0.1%)	(20bps)	
Resident extras utilisation growth[2]	2.8%			0.7%	(210bps)	

1 Refer to glossary for definition of policy units. Policy units include both resident and non-resident business (i.e. OSHC and OVHC). Based on an average of the month-end balances over the reporting period
2 Estimated hospital utilisation is defined as the number of hospital admissions per hospital policy unit and includes a provision for IBNR and COVID-19. Actual hospital utilisation for 1H20 was 0.1% compared to the reported estimate of 1.1% as at 31 December 2019. Actual extras utilisation for 1H20 was 2.8% compared to the reported estimate of 3.3% as at 31 December 2019. Estimated utilisation differs from actual utilisation largely as a result of the claims provision impacts
3 Adjusted for the impact of hospital and ancillary claims savings of $99.0m as a result of COVID-19

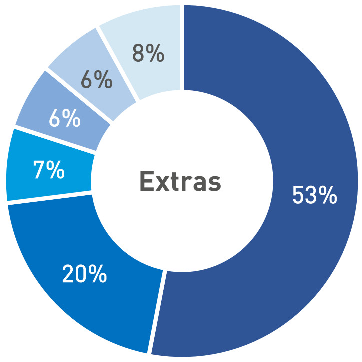
Health Insurance – claims

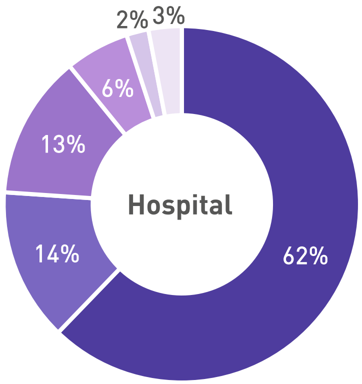
Claims growth impacted by COVID-19 restrictions

Net claims expense (including risk equalisation)



Indicative composition & movement in dollar value[1] vs. 1H20





	$ value movement
Dental	-1%
Optical	-2%
Physiotherapy	-1%
Chiropractic	+1%
Alternative therapies	-1%
Other modalities (including Ambulance)	-7%
Private hospitals	+1%
Medical	+2%
Prostheses	-1%
Public hospitals	-12%
Other	n.m.
Overseas	+6%

1 Includes movement in COVID-19 liability of ($54m) for Extras and $67m for Hospital

Health Insurance – management expenses

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Continued discipline on costs resulted in a 1.1% increase in management expenses and MER of 7.5%

- Management expenses up 1.1% to $250.8m:
  - Flat non-cash costs
  - Operating expenses up 1.3%
- Operating expenses up $2.7m to $210.1m:
  - Underlying cost inflation of c. 2.0%
  - Increase in incentive payments versus 1H20
  - c. $10m of productivity savings

- Productivity agenda:
  - On track to deliver $20m in FY21
  - Savings from business simplification, technology modernisation and continual process improvement
  - Will assess potential for additional productivity opportunities, including from COVID-19 experience
  - Expect to provide update at FY21 results
- Expect FY21 management expenses of c. $530m:
  - Reflects seasonality of management expenses towards 2H21

Six months ended 31 Dec ($m)	1H20	1H21	Change	COVID Adj.[2]	Change
Premium revenue	3,315.5	3,324.5	0.3%	3,433.9	3.6%
Management expenses	**(248.1)**	**(250.8)**	**1.1%**	**(250.8)**	**1.1%**
- Depreciation and amortisation	(21.1)	(21.2)	0.5%		
- DAC amortisation	(19.6)	(19.5)	(0.5%)		
- Operating expenses[1]	(207.4)	(210.1)	1.3%		
MER	**7.5%**	**7.5%**	-	**7.3%**	(20bps)

1 Operating expenses include right-of-use depreciation of $10.7m (1H20: $10.6m)
2 Adjusted for the impact of customer relief measures +$109.4m as a result of COVID-19

Medibank Health result

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Result reflects period of growth and increasing take up of in-home care

- Strong revenue growth of 13.2%, reflecting:
  - Increased demand for in-home care and telehealth services
  - Partly offset by soft demand in travel insurance
- Gross margin improved 80bps to 42.6% reflecting:
  - Improved operating efficiency
  - Increasing scale benefits
- $2.8m uplift in management expenses driven by:
  - Underlying cost inflation
  - Full period impact of FY20 investments in growth capacity
- Operating profit up 41.4% to $18.8m, including:
  - Benefit of strong revenue growth
  - Operating margin up 260bps to 12.9%
- Business is set up for growth in FY22 and beyond:
  - Focus on realising benefits of scale
  - On track to deliver on $30m organic operating profit growth milestone
  - Interest in Myhealth will be equity accounted in this segment and provides another strong avenue for growth

Six months ended 31 Dec ($m)	Continuing businesses[1]		
	1H20	1H21	Change
Revenue	128.6	145.6	13.2%
Gross profit	53.7	62.0	15.5%
Management expenses	(40.4)	(43.2)	6.9%
Operating profit	13.3	18.8	41.4%
Gross margin	**41.8%**	**42.6%**	**80bps**
MER	31.4%	29.7%	(170bps)
Operating margin	**10.3%**	**12.9%**	**260bps**

1 Including telehealth, in-home care, CareComplete, Health Concierge, Diversified Insurance, Loyalty and equity accounted investments

Investment portfolio & investment income

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Investment income uplift driven by increased returns in growth and defensive assets

- Growth portfolio investment income performance driven primarily by stronger equity market returns and a positive return in property
- Defensive portfolio investment income increased as credit spreads tightened, offsetting impact of the lower RBA cash rate

Six months ended 31 Dec ($m)	1H20	1H21	Change
Closing balance:			
Growth	443.4	449.5	1.4%
Defensive[1]	1,951.5	2,272.5	16.4%
Total balance[1]	**2,394.9**	**2,722.0**	**13.7%**
Average monthly balance:			
Growth	478.8	464.7	(2.9%)
Defensive[1]	2,019.1	2,311.0	14.5%
Total average monthly balance	**2,497.9**	**2,775.7**	**11.1%**
Net investment income:			
Growth	15.4	44.8	190.9%
Defensive[1]	25.3	28.9	14.2%
Investment expenses	(2.2)	(1.9)	(13.6%)
Total net investment income[1,2]	**38.5**	**71.8**	**86.5%**
Total net investment income – underlying[3]	39.7	38.9	(2.0%)
RBA cash rate (average)[4]			
Underlying premium over RBA cash rate			

1 Includes interest income and asset balances from non health fund investments, short-term operational cash sub portfolio and operational cash
2 Reported and underlying returns are calculated using total average monthly balances

- Asset allocation
  - Retained 20% growth 80% defensive allocation
  - Infrastructure portfolio allocation fully funded
  - Elevated cash balance of approximately $300m to fund deferred claims liability
- Impact of lower RBA cash rate
  - Reduced interest income by c. $7m in 1H21
  - Expect further impact of c. $1m in 2H21
- Underlying spread to benchmark of 1.30% (pro-rata) is above target range of 1.50% - 2.00% per annum due to historic low level for benchmark

Investment returns			
	1H20	1H21	Change
	3.23%	9.64%	641bps
	1.25%	1.25%	-
	1.54%	**2.59%**	**105bps**
	1.59%	1.40%	(19bps)
	0.44%	0.10%	(34bps)
	1.15%	**1.30%**	**15bps**

3 Adjusted to normalise all growth asset returns to long-term expectations and defensive asset returns for credit spread movements
4 RBA cash rate pro-rata for six months

Capital & dividend

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Our capital position reflects strong capital generation and disciplined capital management

- Health Insurance capital:
  - At top end of 11% to 13% target range[1]
  - Increase in required capital due to revenue growth
- Other required capital increased largely due to investment in East Sydney Private Hospital
- Strong capital position:
  - Unallocated capital of $205.2m (~$142.2m post Myhealth investment)
  - Well placed to implement new APRA capital standard from 1 July 2023
  - Potential for subordinated debt issuance
  - Provides ability to:
    - Fund organic and inorganic growth
    - Consider future capital management activities
- Dividend:
  - Interim dividend of 5.80 cents per share, fully franked
  - 79% payout ratio of Underlying NPAT
  - Expect to pay towards top end of target payout ratio range of 75% - 85% of Underlying NPAT in FY21

Period ended ($m)	31 Dec 2019	30 Jun 2020	31 Dec 2020
Total equity	1,837.0	1,813.9	1,864.6
Less: Intangible and illiquid assets	(491.3)	(476.5)	(467.9)
Total tangible and liquid assets	1,345.7	1,337.4	1,396.7
Determined but unpaid ordinary dividend	(157.0)	(173.5)	(159.7)
Cost of product bonus additions[2]	(24.2)	(10.5)	(22.7)
Total tangible eligible capital	1,164.5	1,153.4	1,214.3
Required capital			
- Health Insurance	872.8	873.2	908.6
- Other	89.5	91.8	100.5
Unallocated capital	202.2	188.4	205.2
Health insurance capital (%)[1]	13.0%	13.2%	13.0%

Dividend[3]	31 Dec 2019	30 Jun 2020	31 Dec 2020
Dividend per share (cents)	5.7	6.3	5.8
Payout ratio	88%	93%	79%

1 Calculated as required Health Insurance related capital post dividends divided by the last 12 months' Health Insurance premium revenue inflated by the growth rate in Health Insurance premium revenue over the same 12-month period
2 Policies that include a product bonus receive an entitlement every 1 January to spend on otherwise uncovered expenses. The allowance is booked on 1 January each year
3 Payment Date for interim ordinary dividend: 25 March 2021 (Ex-dividend Date 03 March 2021, Record Date 04 March 2021)

Key success factors

We remain focused on the execution of key success factors

Business set to operate in continued lower rate rise environment

Maintain policyholder growth trajectory

- Leverage dual brand strength
- Continued focus on retention
- Prepared to invest for growth

Maintain market leading claims management capability

- Hospital contracting
- Payment integrity innovation
- Allocate capital to preventative health and alternative care settings

Further improve management expense ratio

- Productivity agenda
- Increasing scale benefits
- Provides capacity to invest in growth

Strong capital position to support growth

- Organic growth
- Inorganic growth
  - Opportunities to expand Medibank Health
  - Well positioned for potential PHI consolidation

Conclusion

Craig Drummond – Chief Executive Officer

COVID-19 has driven meaningful innovation through the health system – more is needed

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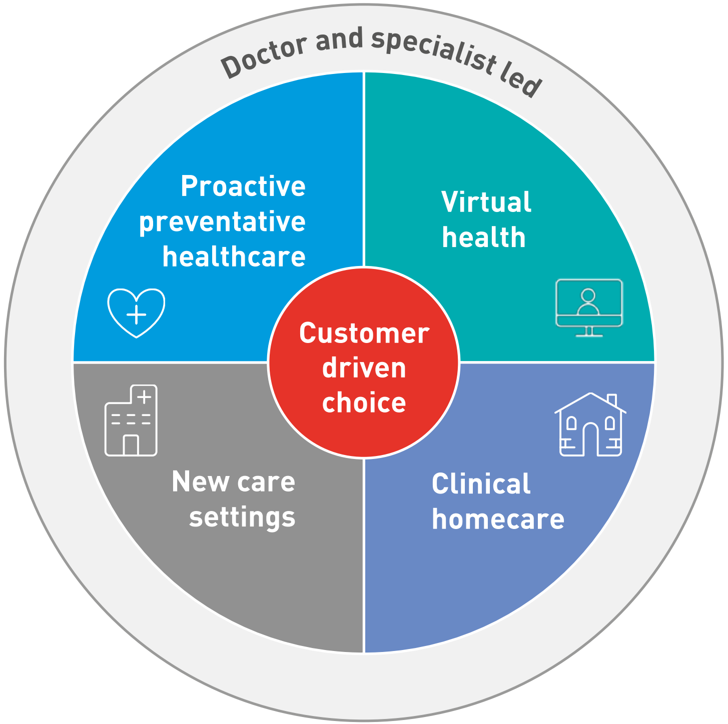
The short-term impacts of COVID-19 on the Australian healthcare system are significant

- Large reduction in medical and inpatient rehab admissions to hospital, however wait times for elective surgery in the public system continue to rise meaningfully
- COVID-19 accelerated / embedded the adoption and use of alternative ways to deliver healthcare including telehealth and in-home care
  - 4 in 5 people surveyed would consider receiving care at home, if clinically appropriate, instead of in hospital since the onset of COVID-19[1]
- Increasing demand for mental health support – which will have longer-term implications and likely see market solutions evolve
- Specialists rapidly understanding the out-of-pocket cost problem and coming to us to be part of the solution

The future will see more prominent digital delivery of physical and mental wellbeing promotion, more healthcare choice for consumers at an affordable price and a relentless focus on system waste and cost reduction

This can be done through:

- More focus on proactive **preventative healthcare** and **primary care** to keep pressure off the downstream health system
- Improving accessibility and customer experience through **virtual health** including services such as digital concierge, triage and telehealth
- More extensive use of **clinical homecare** so that patients can substitute hospital treatment where appropriate
- Expanding **new care settings** such as short stay, as clinically appropriate



1 Data from Medibank survey of 1,353 Australians (April 2020 – January 2021) conducted by Pureprofile

Future reform must remain customer focused

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Centred on building participation, improving affordability and delivering more value, while driving broader system reform for mental health

Future reforms

To build participation

- Potential changes to incentives for PHI uptake, including LHC changes and an increase to the MLS
- Reforms to make PHI more relevant to all Australians, including supporting primary care and out of hospital services

To improve affordability

- Enable effective implementation of Prostheses List reform to potentially deliver an additional $500m saving to all PHI customers, with expected implementation in early 2022
- Restore the PHI rebate

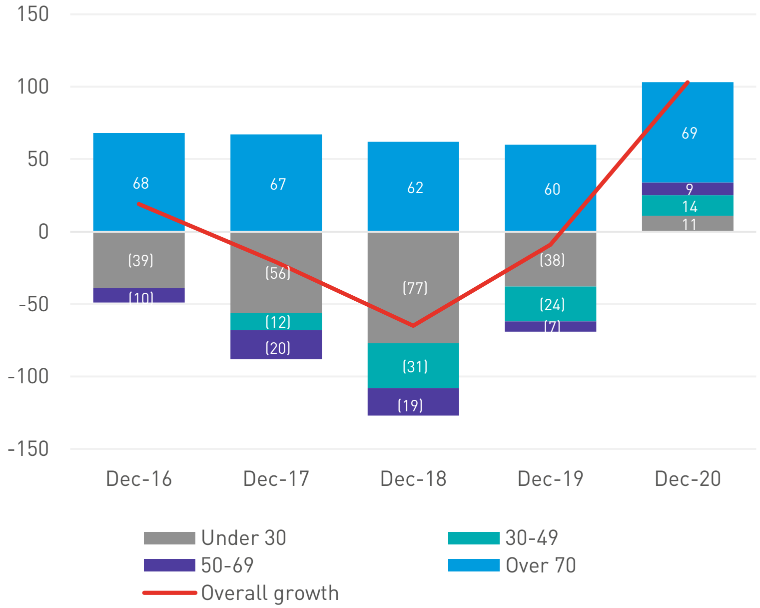
To deliver more value

- Making home and community-based care more sustainable through private health insurance, commencing with mental health and general rehabilitation services
- More virtual and alternative healthcare delivery models

To drive broader system reform for mental health

- Focus on expansion of early intervention and prevention
- Improve integration of services across health and social services for serious mental health conditions
- Stepped care approach within the private sector and reduced reliance on hospital care as the sole solution

Growth in hospital lives covered ('000)[1] – encouraging trend in participation



1 Source: APRA Quarterly Private Health Insurance Statistics

FY21 outlook

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Policyholder growth

We aim to increase market share and achieve total policyholder growth in excess of 3%, including an expectation of growing the Medibank brand by c. 1% during FY21[1]

Underlying drawing rate

Our underlying drawing rate growth or increase in annualised average net claims expense per policy unit for 2H21 is forecast to be in line with 1H21 (c. 2.6%)

Health Insurance management expenses

FY21 productivity target of $20m

Additional $30m productivity planned during FY22-FY23

Management expenses are expected to be c. $530m for FY21

Capital

Dividend payout ratio expected to be towards the top end of our target range of 75%-85%

Targeted inorganic growth for Medibank Health and Health Insurance remain areas of focus

Any permanent net claims savings due to COVID-19 will be given back to customers through additional support in the future

1 Excluding the impact of policyholder suspensions due to COVID-19 financial hardship

Appendix

Reconciliation of Group operating profit and Underlying NPAT

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Group operating profit – total operations

($m)	1H20	1H21	Change
Group operating profit – continuing operations	218.8	255.2	16.6%
Operating loss / profit – discontinued operations	(1.0)	-	n.m.
Group operating profit – total operations	217.8	255.2	17.2%

Underlying NPAT

($m)	2H19	FY19	1H20	2H20	FY20	1H21
NPAT – continuing operations	241.4	437.7	178.6	137.0	315.6	226.4
Normalisation for growth asset returns	(28.6)	(7.9)	1.2	42.0	43.2	(13.2)
Normalisation for defensive asset returns – credit spread movement	(7.3)	(2.9)	(0.4)	8.9	8.5	(9.8)
Underlying NPAT – continuing operations	205.5	426.9	179.4	187.9	367.3	203.4
Dividend payout ratio[1]	95%	80%	88%	92%	90%	79%

1 Calculated on Underlying NPAT – total operations. In 1H19, FY19 and 1H20 there were discontinued operations balances. NPAT – total operations 1H19: $207.7m, FY19: $458.7m, 1H20: $177.9m

Group financial summary – half by half

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($m)	1H20	2H20	1H21	Change	
				1H21 vs 1H20	1H21 vs 2H20
Group revenue from external customers[1]	3,421.5	3,348.1	3,442.2	0.6%	2.8%
Health Insurance operating profit	224.2	246.4	254.6	13.6%	3.3%
Medibank Health operating profit[1]	13.3	14.5	18.8	41.4%	29.7%
Segment operating profit	**237.5**	**260.9**	**273.4**	**15.1%**	**4.8%**
Corporate overheads	(18.7)	(18.7)	(18.2)	(2.7%)	(2.7%)
Group operating profit – continuing operations	**218.8**	**242.2**	**255.2**	**16.6%**	**5.4%**
Net investment income	38.5	(36.1)	71.8	86.5%	n.m.
Amortisation of intangibles	(4.5)	(4.5)	(3.4)	(24.4%)	(24.4%)
Other income / (expenses)	1.8	(6.0)	(1.7)	n.m.	(71.7%)
Profit before tax	**254.6**	**195.6**	**321.9**	**26.4%**	**64.6%**
Income tax expense	(76.0)	(58.6)	(95.5)	25.7%	63.0%
NPAT – continuing operations	**178.6**	**137.0**	**226.4**	**26.8%**	**65.3%**
EPS (cents)[2]	6.5	5.0	8.2	27.3%	65.1%
Underlying NPAT[3]	**179.4**	**187.9**	**203.4**	**13.4%**	**8.2%**
Underlying EPS (cents)[3]	6.5	6.8	7.4	13.4%	8.2%
Dividend per share (cents)	**5.70**	**6.30**	**5.80**	**1.8%**	**(7.9%)**
Dividend payout ratio[3]	88%	92%	79%	(10.2%)	(14.1%)

1 Excludes discontinued operations
2 Calculated on total operations
3 Underlying NPAT adjusted to normalise growth asset returns to historical long-term expectations and credit spread movements. Dividend payout ratio based on Underlying NPAT

Health Insurance policyholders – half by half

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	1H20	2H20	1H21	Change 1H21 vs 1H20	Change 1H21 vs 2H20
Premium revenue ($m)	**3,315.5**	**3,230.1**	**3,324.5**	**0.3%**	**2.9%**
Policyholders[1] (thousand):					
Opening balance	1,796.0	1,807.7	1,806.6	0.6%	(0.1%)
Acquisitions	98.3	97.5	102.6	4.4%	5.2%
Lapses	(86.6)	(80.4)	(62.8)	(27.5%)	(21.9%)
Net suspensions / reactivations	-	(18.2)	9.2	n.m.	n.m.
Closing balance	**1,807.7**	**1,806.6**	**1,855.6**	**2.6%**	**2.7%**
- Medibank	1,401.5	1,388.2	1,405.8	0.3%	1.3%
- ahm	406.2	418.4	449.8	10.7%	7.5%
Acquisition rate[2]	**5.5%**	**5.4%**	**5.6%**	**10bps**	**20bps**
- Medibank	4.1%	3.8%	4.1%	-	30bps
- ahm	11.3%	11.8%	11.3%	-	(50bps)
Lapse rate[2]	**4.8%**	**4.4%**	**3.4%**	**(140bps)**	**(100bps)**
- Medibank	4.5%	4.0%	3.3%	(120bps)	(70bps)
- ahm	7.2%	7.2%	5.0%	(220bps)	(220bps)
Policyholder growth	**0.7%**	**(0.1%)**	**2.7%**	**200bps**	**280bps**
Total policy units[1,3] (thousand):					
Closing balance	4,709.1	4,677.1	4,761.6	1.1%	1.8%
Average balance	4,711.1	4,684.0	4,763.5	0.5%	1.7%
Annualised average revenue per policy unit[1,3] ($)	**1,407.5**	**1,379.2**	**1,403.8**	**(0.3%)**	**1.8%**

1 Consistent with reported industry data, policyholder numbers only include resident business whereas total policy units include both resident and non-resident business (i.e. OSHC and OVHC)

2 Consolidated lapse and acquisition rates exclude transfers of policyholders between ahm and Medibank at a combined brand level. Figures at brand level include these transfers. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

3 Refer to glossary for definition of policy units. Policy units include both resident and non-resident business (i.e. OSHC and OVHC). Based on an average of the month-end balances over the reporting period

Cash flow

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Six months ended 31 Dec ($m)	1H20	1H21	Change
Profit before net investment income and income tax	**215.1**	**250.1**	**35.0**
Changes in working capital	(45.7)	(20.4)	25.3
Customer acquisition costs	0.6	0.1	(0.5)
Changes in other operating assets and liabilities	(176.2)	(97.7)	78.5
Depreciation and amortisation	42.1	41.6	(0.5)
Net cash flows from operations	**35.9**	**173.7**	**137.8**
Income tax	(104.9)	(139.3)	(34.4)
Capital expenditure	(16.6)	(16.2)	0.4
(Purchase) / sale of equity accounted investments	-	(7.1)	(7.1)
Loan to equity accounted investments	-	(2.9)	(2.9)
Lease principal and interest payments	(17.7)	(18.3)	(0.6)
Net cash flows before investment related items and dividends	**(103.3)**	**(10.1)**	**93.2**
Net realised investment income	14.1	5.4	(8.7)
(Purchase) / sale of investments	141.3	(81.4)	(222.7)
Purchase of shares to settle share-based payment	(3.8)	(5.6)	(1.8)
Net cash flows before dividends	**48.3**	**(91.7)**	**(140.0)**
Dividends paid	(272.6)	(173.5)	99.1
Net increase / (decrease) in cash and cash equivalents	**(224.3)**	**(265.2)**	**(40.9)**
Cash and cash equivalents at beginning of the period	656.5	871.4	214.9
Cash and cash equivalents at end of the period	432.2	606.2	174.0

- Movement in working capital was due to timing of claims payments
- Change in other operating assets and liabilities driven by impact of COVID-19 deferred claims liability
- Capital expenditure continues to be below D&A
- Equity investments line comprises the investment in East Sydney Private Hospital and establishment of the My Home Hospital JV
- Purchase of investments reflects shift to floating-rate notes during the period

Investment portfolio

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As at 31 December 2020	Balance ($m)	Portfolio composition	Target asset allocation
Australian equities	105.5	4.7%	5.0%
International equities	128.0	5.8%	6.0%
Property	165.4	7.5%	7.0%
Infrastructure	50.6	2.3%	2.0%
Growth	**449.5**	**20.3%**	**20.0%**
Fixed income[1,2]	1,207.6	54.7%	52.0%
Cash[3]	552.0	25.0%	28.0%
Defensive	**1,759.6**	**79.7%**	**80.0%**
Total fund (pre-STOC)	**2,209.1**	**100.0%**	**100.0%**
Short-term operational cash[4]	310.3		
Total fund	**2,519.4**		
Non health fund investments[5]	202.6		
Total investment portfolio	**2,722.0**		

1 Target asset allocation comprises floating rate notes and asset-backed investments 32.0% and other fixed income 20.0%. Average credit duration is approximately 2.3 years, average interest rate duration is approximately 0.9 years, and the average credit rating is 'A'.
2 For investment portfolio purposes, fixed income comprises fixed income securities ($1,693.2m), less reclassified cash with maturities between 3-12 months ($199.8m), less non health fund fixed income securities ($123.5m), less short-term operational cash fixed income securities ($229.2m), plus cash allocated to the fixed income portfolio ($66.9m).
3 For investment portfolio purposes, cash comprises cash and cash equivalents ($606.2m) plus cash with maturities between 3-12 months ($199.8m), less non health fund investments ($79.1m), less short-term operational cash ($81.1m), less operational cash ($26.9m) less cash allocated to the fixed income portfolio ($66.9m).
4 Short-term operational cash ("STOC") sub-portfolio of the fund's investment portfolio consists of short dated defensive assets with the purpose of funding the COVID-19 claims liability. Given the short-term nature of this portfolio, it is not subject to the existing SAA, TAA framework
5 The fund's strategic asset allocation does not apply to the non health fund investment portfolio

Glossary

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Term	Definition
1H	Six months ended/ending 31 December of the relevant financial year
2H	Six months ended/ending 30 June of the relevant financial year
APRA	Australian Prudential Regulation Authority
bps	Basis points (1.0% = 100 bps)
cps	Cents per share
Customer NPS	A measure of the likelihood of an existing customer to recommend the brand
DAC	Deferred acquisition costs
Downgrading	The difference between the average premium rate rise and revenue growth per policy unit
eNPS	Employee Net Promoter Score. A measure of the likelihood of an employee to recommend the companys products and services
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FY	Financial year ended/ending 30 June
IBNR	Incurred but not reported
IHPA	Independent Hospital Pricing Authority
LHC	Lifetime Health Cover
MER	Management expense ratio
MLS	Medicare levy surcharge
n.m.	Not meaningful
NPAT	Net profit after tax
NTI	New to industry
OSHC	Overseas students hospital cover
OVHC	Overseas visitor health cover

Term	Definition
PHI	Private Health Insurance
PHIO	Private Health Insurance Ombudsman
Policyholder	The primary person who is insured under a private health insurance policy (other than in relation to overseas students or visitors), who is not a dependent child, and who is responsible for paying the premium
PSEUs or policy units	Policy Single Equivalent Units are used by Medibank as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. For example, a household with two parents and three children, all of which had both Hospital and Extras Cover, would represent four policy units (2 adults x 2 types of Cover = 4; no premium payable in relation to children). This measure includes residents and non-resident policies and only adult insureds are typically counted in the calculation of PSEUs
SAA	Strategic Asset Allocation. The long-term portfolio asset allocation that meets the expected risk and return objectives of the fund
Service NPS	A measure of the likelihood of an existing customer to recommend the brand immediately following a service interaction
TAA	Tactical Asset Allocation. The medium-term portfolio asset allocation that varies to the strategic asset allocation in order to help optimise risk-adjusted investment returns in light of the prevailing relative market pricing
Underlying NPAT	Underlying NPAT is calculated based on statutory NPAT – total operations adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments and movements in credit spreads, and for one-off items, especially those that are non-cash, such as asset impairments
Virtual hospital beds	The number of people receiving hospital substitute treatments by Medibank Health which is calculated for a given period as total days of hospital substitute treatments service / number of days in the period
Working capital	Working capital comprises trade and other receivables, other assets, trade and other payables other than balances relating to customer acquisition costs and operating assets and liabilities