ASX release

22 February 2024

Medibank Private Limited (MPL) – Financial results for half year ended 31 December 2023

In accordance with the Listing Rules, Medibank releases the following documents to the market:

(a) HY24 Results – Appendix 4D, Directors’ Report and Financial Report;

(b) HY24 Results – Media Release; and

(c) HY24 Results – Investor Presentation.

These documents have been authorised for release by the Board.

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medibank
For Better Health

MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259
RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Half-year ended 31 Dec 2023 $m	31 Dec 2022 (restated) $m	Movement $m	Movement %
Health Insurance revenue	3,919.4	3,482.8	436.6	12.5%
Medibank Health revenue	78.0	92.8	(14.8)	(15.9%)
Revenue (excluding net investment and other income) from ordinary activities	**3,997.4**	**3,575.6**	**421.8**	**11.8%**
Profit after tax from ordinary activities attributable to shareholders	**343.2**	**168.9**	**174.3**	**103.2%**
Net profit from ordinary activities attributable to shareholders	**343.2**	**168.9**	**174.3**	**103.2%**

For further information refer to the directors' report in the attached interim financial report of Medibank Private Limited for the half-year period ended 31 December 2023. The Medibank Private Limited Group comprises the consolidated entity, consisting of Medibank Private Limited and its subsidiaries for the half-year period ended 31 December 2023.

Medibank has adopted AASB 17 *Insurance Contracts* (AASB 17) from 1 July 2023 and has applied it retrospectively, resulting in the restatement of the financial results for comparative periods. The impacts of AASB 17 are detailed in Note 9 of the 2024 half-year financial statements.

Dividend information
On 5 October 2023, a fully franked final ordinary dividend of 8.30 cents per ordinary share was paid to shareholders, in respect of the six months ended 30 June 2023.

A fully franked interim ordinary dividend of 7.20 cents per ordinary share was determined on 22 February 2024 in respect of the six months ended 31 December 2023. This dividend is payable on 20 March 2024 to shareholders on the register as at close of business on 1 March 2024.

Net tangible assets per ordinary share
Net tangible assets are defined as the net assets of the Medibank Private Limited Group less intangible assets and right-of-use assets.

	31 Dec 2023 cents	31 Dec 2022 (restated) cents
Net tangible assets per ordinary share	72.3	69.1

This report should be read in conjunction with the Medibank Private Limited annual financial report for the year ended 30 June 2023, together with any public announcements made by Medibank Private Limited in accordance with its continuous disclosure obligations.

MEDIBANK PRIVATE LIMITED

ABN 47 080 890 259

INTERIM FINANCIAL REPORT
31 DECEMBER 2023

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The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and its subsidiaries (collectively referred to as the Group) for the half-year ended 31 December 2023.

Directors

The names of directors in office during the half-year and up to the date of this report, unless stated otherwise, are as follows:

Current
- Mike Wilkins AO – Chair
- David Koczkar – Chief Executive Officer
- Dr Tracey Batten
- Gerard Dalbosco
- Peter Everingham
- David Fagan
- Kathryn Fagg AO
- Linda Bardo Nicholls AO

Former
- Anna Bligh AC (retired 22 November 2023)

Review of operations

Six months ended 31 December ($m)	2023	2022 (restated)[1]	Change
Group revenue from external customers	**4,024.0**	**3,897.1**	**3.3%**
Health Insurance operating profit	317.0	303.8	4.3%
Medibank Health segment profit	26.7	24.6	8.5%
Segment operating profit	**343.7**	**328.4**	**4.7%**
Corporate overheads	(24.3)	(22.0)	10.5%
Group operating profit	**319.4**	**306.4**	**4.2%**
Net investment income	83.6	55.9	49.6%
Other income/(expenses)	(8.8)	(5.4)	63.0%
Cybercrime costs	(17.6)	(26.2)	(32.8%)
Profit before tax, before movement in COVID-19 reserve	**376.6**	**330.7**	**13.9%**
Movement in COVID-19 reserve (excl. tax)	115.3	(90.5)	n.m.
Profit before tax	**491.9**	**240.2**	**104.8%**
Income tax expense	(148.7)	(71.3)	108.6%
Group net profit after tax (NPAT)	**343.2**	**168.9**	**103.2%**
Effective tax rate	30.2%	29.7%	50bps
Earnings per share (EPS) (cents)	12.5	6.1	103.2%
Normalisation for investment returns	-	(6.6)	n.m.
Normalisation for COVID-19 reserve movements	(80.7)	63.4	n.m.
Underlying NPAT[2]	**262.5**	**225.7**	**16.3%**
Underlying EPS (cents)[2]	9.5	8.2	16.3%
Dividend per share (cents)	**7.2**	**6.3**	**14.3%**
Dividend payout ratio[2]	75.5%	76.9%	(140bps)

1. The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative period. The impacts of adoption are detailed in Note 9 of the 2024 half-year financial statements.
2. Underlying NPAT is statutory NPAT normalised for growth asset returns to historical long-term expectations, credit spread movements, movement in COVID-19 reserve and one-off items. Dividend payout ratio based on underlying NPAT.

Medibank has adopted AASB 17 *Insurance Contracts* (AASB 17) from 1 July 2023 and has applied it retrospectively, resulting in the restatement of the financial results for the comparative period. The impacts of AASB 17 are detailed in Note 9 of the 2024 half-year financial statements.

Unless otherwise stated, discussion of performance in this section of the report is on a management basis, which is consistent with how performance is assessed internally. This includes reporting the impacts of COVID-19 outside of Group Operating Profit.

Group

Medibank's financial results for the six months ended 31 December 2023 (1H24) demonstrate the resilience in our resident Health Insurance business as economic conditions remained challenging, strong momentum continued in our non-resident Health Insurance business and we saw strong growth in Medibank Health.

Group operating profit was up 4.2% to $319.4 million, with an increase of 4.3% in Health Insurance operating profit and an 8.5% increase in Medibank Health segment profit. Investment income increased by $27.7 million partly offset by $17.6 million of non-recurring costs associated with the 2022 cybercrime event (which was $8.6 million lower than 1H23). For the full year we expect non-recurring cybercrime costs to be between $30 million and $35 million for further IT security uplift and legal and other costs related to regulatory investigations and litigation. This does not include the impacts of any potential findings or outcomes from regulatory investigations or litigation.

NPAT increased 103.2% to $343.2 million, however this has been significantly impacted by the adoption of AASB 17, which has increased 1H24 statutory NPAT by $80.7 million due to the timing and value of COVID-19 claims savings and give backs. This compares to a reduction in NPAT of $63.4 million in the prior period. Underlying NPAT, which is adjusted for any movement in the COVID-19 equity reserve as well as the normalisation of investment returns, increased 16.3% to $262.5 million.

Reported EPS was up 103.2% to 12.5 cents per share and Underlying EPS, which adjusts for the normalisation of investment returns and COVID-19 impacts, was up 16.3% to 9.5 cents per share.

The key reasons for the movements in the Health Insurance and Medibank Health results, as well as net investment income, are outlined in this report.

Health Insurance overview

The resident Health Insurance market remained buoyant with estimated policyholder growth[1] in the 12 months to 31 December 2023 expected to be similar to the 1.9% growth we saw in the 12 months to 30 June 2023. This is despite the implementation of the Adult Dependant Reform (ADR) which allows eligible dependants to remain on their parents' policy up to and including 30 years of age, which has increased the number of 25 to 30 year-olds insured overall, however has reduced the growth in the number of single policies.

Overall, the resident health insurance market continues to be competitive, with customers seeking to offset cost of living pressures. This has resulted in a modest increase in the level of customers both switching funds and lapsing and higher cost of customer acquisition.

Policyholder growth

For the 12 months to 31 December 2023, the number of resident policyholders increased by almost 13,000 with a modest 0.3% decline in the Medibank brand and 3.4% growth in ahm. This includes growth of 3,400 policyholders in 1H24, noting that this is typically a seasonally weaker period of growth for the industry.

During the six months to 31 December 2023, resident acquisition rate increased 30 basis points to 5.3% with the Medibank acquisition rate back in line with pre-cybercrime levels and the ahm acquisition rate improving in line with increased aggregator sales. Resident lapse rate increased by 20 basis points to 5.1% indicative of higher industry switching levels across the industry.

Aided by further benefit from ADR, growth in hospital lives of 0.8% was 20 basis points above resident policyholder growth and skewed towards younger customers. We expect further benefit from this reform over the next four to five years, including the percentage of insured lives that are under 30 years of age expected to increase.

[1] Industry average, resident policyholders, APRA quarterly private health insurance statistics to Sep 23 with estimate for Dec 23 quarter.

For the remainder of the year, we will continue our focus on increasing resident policyholder growth through improving retention rates for both brands, investing further in differentiating the Medibank brand and increasing our focus on priority segments.

In the non-resident business we saw momentum continue with policy units increasing by 34.3% to 308,700 with particularly strong growth in the student segment. We see non-resident as an attractive market and we will continue to invest in product value and expand our health offering, particularly in the worker and visitor segments to support growth in the medium term.

Health Insurance financial performance

Revenue

During the period, Health Insurance revenue increased 3.6% to $3,925.3 million reflecting a 2.7% increase in resident revenue to $3,799.5 million and an increase in non-resident revenue of 38.5% to $125.8 million.

Claims

Total gross claims increased by 3.1% to $3,288.6 million and net claims, which includes risk equalisation, increased by 2.9% to $3,309.4 million. Risk equalisation had a 20 basis point benefit to net claims growth this period, which compares to a 20 basis point cost in the prior corresponding period.

Resident claims growth per policy unit decreased 30 basis points to 2.0% with a 20 and 100 basis point decrease in hospital and extras claims growth respectively. The decrease in hospital claims growth includes the improved risk equalisation outcome with higher private hospital indexation largely offset by the benefit of continued lower rehab claims. For extras, in addition to the prior period including investment in additional benefits, there are early signs that the economic environment is impacting consumer spending, particularly in more discretionary services.

With the favourable risk equalisation outcome, continued low non-surgical claims growth and softness in extras claims, we expect full year resident claims growth per policy unit to be between 2.2% and 2.4%, which is lower than the 2.6% indicated at the 2023 full year result. However, we will closely monitor key claims trends including rehab referral rates, the mix of hospital admissions and demand for extras services claims.

Non-resident net claims increased by 38.3% to $82.7 million in line with continued strong policy unit growth.

Gross Profit

Gross profit increased 7.4% to $615.9 million and includes the benefit of a $5.7 million lower risk equalisation payment. Whilst this improved risk equalisation outcome was partly driven by impacts that we expect to unwind, it also reflects favourable changes of age claiming patterns, which we will monitor in 2H24.

Gross margin improved 60 basis points to 15.7% with a 40 basis point increase in resident to 15.1% with revenue growth per policy unit remaining above claims growth per policy unit. Growth in revenue per policy unit increased 10 basis points with the lower average premium increase more than offset by a 20 basis point improvement in downgrading to 50 basis points, with the impact of economic conditions on downgrading more than offset by the benefit from ADR.

For the full year we expect downgrading of around 50 basis points with any further economic impacts largely offset by portfolio management and sales mix activities.

Non-resident gross margin was up 20 basis points to 34.3% reflecting stable tenure and mix. Policyholder growth has continued since 31 December 2023 and we expect non-resident gross profit to be higher in the 2H24.

Operating costs

Management expenses increased by 10.9% to $298.9 million, with higher sales commissions and what we expect is the peak of the impact of the inflation cycle, and with lower revenue this growth period, the management expense ratio was 50 basis points higher at 7.6%.

As a result of strong customer growth, non-resident sales commissions increased by $5.3 million, whilst resident sales commissions increased by $6.3 million in line with higher aggregator sales this period.

Operating expenses were up 7.9% driven by cost inflation of approximately 5%, and uplift in IT security ($2.5 million) and Victorian payroll tax ($1.5 million) costs and modest volume impacts. These increases were partially offset by $3.5 million of productivity savings. We are targeting a total $10 million of savings for the full year from increasing the use of digital channels and from business and process improvements and a further $10 million of productivity in FY25, including the benefit from relocating to the new Melbourne head office.

Based on our expectations for inflation in the second half, we expect full year management expenses of between $610 million to $615 million and a modestly higher management expense ratio (increase not expected to be as significant as 1H24).

Medibank Health financial performance

Medibank Health returned to a more normal operating environment this period with operating profit up 16.1% to $27.4 million, however this was partially offset by a lower contribution from our healthcare investments due to initial losses in our growing investment portfolio of short stay hospitals.

Revenue of $141.4 million was 1.4% higher with strong growth in health and wellbeing and diversified insurances, improving homecare revenue in line with increased hospital activity, partially offset by a reduction in telehealth revenue as we progressively optimise this business.

Gross profit was up 17.1% to $73.1 million and gross margin improved 700 basis points to 51.7% with strong growth in higher margin businesses, improved efficiency offsetting inflationary pressures in homecare and a higher telehealth margin.

The $6.9 million increase in management expenses reflects business mix, inflation and investment in future growth, and whilst the management expenses ratio increased, operating margin was up 250 basis points to 19.4%.

We continue to target on average, organic profit growth of at least 15% per annum between FY24 and FY26 with a key focus on volume and performance uplift in health services, broadening the scale and scope of our wellbeing and prevention programs and meeting the needs of more Medibank and ahm customers.

We also aim to invest $150 million to $250 million over the same period in healthcare acquisitions to add scale, capability or expand geographic coverage, including in Myhealth’s clinic footprint (following our recent shareholding increase) and virtual health capabilities.

Net investment income

Net investment income of $83.6 million was up $27.7 million or 49.6% driven by the increase of $28.1 million in the defensive portfolio which was partially offset by a $5.2 million decrease in the growth portfolio.

The increased income in the defensive portfolio reflects a $17.9 million benefit from higher RBA cash rate during the period and an improved but still below expected return on international fixed interest holdings. The decrease of $5.2 million in the growth portfolio investment income was largely due to a lower return across all asset classes other than international equities.

Consistent with previous practice, we have adjusted net investment income for the impact of short-term market returns that are expected to normalise over the medium to longer term in our underlying NPAT. After normalisation, net investment income was up $37.2 million from $46.4 million[2] in 1H23 to $83.6 million.

The $37.2 million increase in underlying net investment income is largely due to the higher RBA cash rate and improved manager performance in property and resulted in the underlying investment return increasing 116 basis points to 2.61%. On an annualised basis this is a 104 basis point spread to the RBA cash rate, and whilst this is higher than the prior period, it remains below the target range of 150 to 200 basis points, reflecting that achieving this target is more difficult in a higher interest rate environment.

Capital management and dividend

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to pay all eligible customer benefits, invest in the growth of our business to provide a return to shareholders and to meet financial commitments.

- On 1 July 2023, accounting standard AASB 17 *Insurance Contracts* and the new APRA capital standards became effective. As previously advised, the introduction of these new standards, increased our eligible capital position by $167.0 million.
- In June 2023 APRA announced an additional capital adequacy requirement of $250 million for Medibank, with effect from 1 July 2023, following a review of the 2022 cybercrime event. As a result, we have temporarily increased Health Insurance business related capital to offset this supervisory adjustment.
- Health Insurance required capital was $1,131.0 million at 31 December 2023 and 1.9 times the prescribed capital amount (PCA), with unallocated capital of $225.5 million at 31 December 2023.
- The target health insurance capital ratio is between 10% and 12% of premium revenue, however, the current ratio of 14% sits above this range to offset the $250 million temporary APRA supervisory adjustment.
- The $57.2 million increase in other required capital to $248.9 million includes the $50.8 million further investment in Myhealth.

With a strong level of unallocated capital, we are well placed to fund our $150 million to $250 million investment aspiration and have the ability to raise Tier 2 debt if attractive opportunities become available.

With a strong capital position, the Board has determined a fully franked interim dividend of 7.2 cents per share which is an increase of 14.3% from the previous year and a 75.5% payout of underlying net profit after tax. The interim dividend will be paid on 20 March 2024 to eligible shareholders on the register as at the close of business on 1 March 2024.

Rounding of amounts

The amounts contained in this directors' report and in the interim financial report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) unless specifically stated otherwise under the relief available pursuant to *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Medibank is an entity to which that relief applies.

[2] The adjustment normalises growth asset returns to long term expectations and defensive asset returns for credit spread movements. No net normalisation of investment returns for 1H24 benchmark performance (1H23: decreased $9.5 million).

Auditor's independence declaration

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of the directors.

Mike Wilkins AO
Chair

David Koczkar
Chief Executive Officer

22 February 2024
Melbourne

Auditor's Independence Declaration

As lead auditor for the review of Medibank Private Limited for the half-year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Medibank Private Limited and the entities it controlled during the period.

M. Laithwaite

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Melbourne
22 February 2024

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Consolidated statement of comprehensive income

For the half-year ended 31 December 2023

	Note	31 Dec 2023 $m	31 Dec 2022 (restated) $m
Insurance revenue		**3,919.4**	**3,482.8**
Insurance service expenses			
Incurred claims	3(a)	(3,121.6)	(2,954.5)
Other insurance service expenses	2(c)	(303.7)	(269.3)
		(3,425.3)	**(3,223.8)**
Insurance service result		**494.1**	**259.0**
Other operating revenue	2(a)	78.0	92.8
Other expenses	2(c)	(161.8)	(167.2)
Share of net profit/(loss) from equity accounted investments	7	(2.0)	(0.3)
Profit before net investment income and income tax		**408.3**	**184.3**
Net investment income	5(b)	83.6	55.9
Profit for the half-year before income tax		**491.9**	**240.2**
Income tax expense		(148.7)	(71.3)
Profit for the half-year		**343.2**	**168.9**
Total comprehensive income for the half-year		**343.2**	**168.9**
Earnings per share attributable to ordinary equity holders of the Parent - basic and diluted (cents)		**12.5**	**6.1**

The above statement should be read in conjunction with the accompanying notes.

The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative periods. The impacts of adoption are detailed in Note 9.

Consolidated statement of financial position

As at 31 December 2023

	Note	31 Dec 2023 $m	30 Jun 2023 (restated) $m	1 July 2022 (restated) $m
Current assets				
Cash and cash equivalents		485.1	420.6	596.7
Trade and other receivables		34.7	41.2	35.0
Financial assets at fair value	5(c)	2,660.9	2,866.8	2,854.5
Tax receivable		130.2	97.8	-
Other assets		28.4	25.9	19.3
Total current assets		**3,339.3**	**3,452.3**	**3,505.5**
Non-current assets				
Property, plant and equipment		59.9	70.5	88.4
Intangible assets		326.5	328.1	332.3
Deferred tax assets		32.3	62.4	88.5
Equity accounted investments		125.0	117.6	103.7
Other assets		3.3	3.5	6.0
Total non-current assets		**547.0**	**582.1**	**618.9**
Total assets		**3,886.3**	**4,034.4**	**4,124.4**
Current liabilities				
Trade and other payables		101.4	130.7	122.7
Insurance contract liabilities	3(a)	1,131.2	1,370.1	1,312.2
Tax liability		-	-	117.0
Provisions and employee entitlements		93.4	94.0	104.6
Total current liabilities		**1,326.0**	**1,594.8**	**1,656.5**
Non-current liabilities				
Trade and other payables		34.0	39.4	56.6
Insurance contract liabilities	3(a)	154.3	135.9	80.8
Provisions and employee entitlements		19.8	20.6	23.1
Total non-current liabilities		**208.1**	**195.9**	**160.5**
Total liabilities		**1,534.1**	**1,790.7**	**1,817.0**
Net assets		**2,352.2**	**2,243.7**	**2,307.4**
Equity				
Contributed equity		85.0	85.0	85.0
Reserves	6	308.1	233.5	434.3
Retained earnings		1,959.1	1,925.2	1,788.1
Total equity		**2,352.2**	**2,243.7**	**2,307.4**

The above statement should be read in conjunction with the accompanying notes.

The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative periods. The impacts of adoption are detailed in Note 9.

Consolidated statement of changes in equity

For the half-year ended 31 December 2023

	Note	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2022, as previously reported		**85.0**	**25.7**	**1,834.9**	**1,945.6**
Adjustment on initial application of AASB 17, net of tax	9	**-**	408.6	(46.8)	**361.8**
Balance at 1 July 2022 (restated)		**85.0**	**434.3**	**1,788.1**	**2,307.4**
Profit for the half-year		-	-	168.9	**168.9**
Total comprehensive income for the half-year		**-**	**-**	**168.9**	**168.9**
Dividends paid		-	-	(201.0)	**(201.0)**
Movement in COVID-19 reserve, net of tax	6	-	(63.4)	63.4	**-**
Acquisition and settlement of share-based payment, net of tax		-	(4.8)	-	**(4.8)**
Share-based payment transactions		-	3.4	-	**3.4**
Balance at 31 December 2022 (restated)		**85.0**	**369.5**	**1,819.4**	**2,273.9**
Balance at 1 July 2023		**85.0**	**233.5**	**1,925.2**	**2,243.7**
Profit for the half-year		-	-	343.2	**343.2**
Total comprehensive income for the half-year		**-**	**-**	**343.2**	**343.2**
Dividends paid		-	-	(228.6)	**(228.6)**
Movement in COVID-19 reserve, net of tax	6	-	80.7	(80.7)	**-**
Acquisition and settlement of share-based payment, net of tax		-	(7.0)	-	**(7.0)**
Share-based payment transactions		-	0.9	-	**0.9**
Balance at 31 December 2023		**85.0**	**308.1**	**1,959.1**	**2,352.2**

The above statement should be read in conjunction with the accompanying notes.

The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative periods. The impacts of adoption are detailed in Note 9.

Consolidated statement of cash flows

For the half-year ended 31 December 2023

	Note	31 Dec 2023 $m	31 Dec 2022 $m
Cash flows from operating activities			
Premium receipts		3,705.8	3,386.2
Medibank Health receipts		97.0	104.4
Other receipts		0.3	3.6
Payments for claims and levies		(3,123.2)	(2,968.3)
Payments to suppliers and employees		(465.0)	(444.0)
Income taxes paid		(150.5)	(206.4)
Net cash inflow/(outflow) from operating activities		**64.4**	**(124.5)**
Cash flows from investing activities			
Interest received		57.2	27.2
Investment expenses		(2.5)	(2.5)
Proceeds from sale of financial assets		1,999.0	1,592.9
Purchase of financial assets		(1,765.5)	(1,440.7)
Purchase of equity accounted investments	7	(9.4)	-
Purchase of plant and equipment		(2.5)	(4.0)
Purchase of intangible assets		(20.2)	(12.9)
Net cash inflow from investing activities		**256.1**	**160.0**
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(7.5)	(4.9)
Lease principal and interest payments		(19.9)	(19.6)
Dividends paid	4	(228.6)	(201.0)
Net cash outflow from financing activities		**(256.0)**	**(225.5)**
Net increase/(decrease) in cash and cash equivalents		**64.5**	**(190.0)**
Cash and cash equivalents at beginning of the half-year		420.6	596.7
Cash and cash equivalents at end of the half-year		**485.1**	**406.7**

The above statement should be read in conjunction with the accompanying notes.

Note 1: Summary of significant accounting policies

Medibank Private Limited ("Medibank") is a for-profit company incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

a) Basis of preparation of consolidated interim financial report
The consolidated interim financial report for the half-year period ended 31 December 2023 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The financial statements are for the consolidated entity (the Group), consisting of Medibank and its subsidiaries.

The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those applied in the preparation of the annual financial report for the year ended 30 June 2023, updated for the application of new and amended standards as set out below. This report includes, where necessary, updates to prior period comparatives, including to reflect the adoption of AASB 17 *Insurance Contracts.*

The consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by Medibank during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

b) Critical accounting estimates and judgements
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are the same as those applied in the annual financial report for the year ended 30 June 2023, except for the new key judgements and estimates relating to AASB 17 *Insurance Contracts* which are described in Note 3 and Note 9.

Note 2: Segment information

a) Segment information provided to the Chief Executive Officer (CEO)
The CEO measures the performance of the Group's reportable segments based on the operating profit of the segments. The segment information provided to the CEO for the half-year ended 31 December 2023 is as follows.

31 Dec 2023	Note	Health Insurance $m	Medibank Health $m	Total $m
Revenue				
Total segment revenue	(i)	3,925.3	141.4	**4,066.7**
Inter-segment revenue		-	(42.7)	**(42.7)**
Revenue from external customers		**3,925.3**	**98.7**	**4,024.0**
Operating profit	(ii)	**317.0**	**26.7**	**343.7**
Items included in segment operating profit:				
Depreciation and amortisation		(32.6)	(5.4)	**(38.0)**
Interest income from loans to associates		-	0.1	**0.1**
Share of profit/(loss) from equity accounted investments		-	(0.9)	**(0.9)**

Note 2: Segment information (continued)

a) Segment information provided to the Chief Executive Officer (CEO) (continued)

31 Dec 2022	Note	Health Insurance $m	Medibank Health $m	Total $m
Revenue				
Total segment revenue	(i)	3,789.5	139.5	**3,929.0**
Inter-segment revenue		-	(31.9)	**(31.9)**
Revenue from external customers		**3,789.5**	**107.6**	**3,897.1**
Operating profit	(ii)	**303.8**	**24.6**	**328.4**
Items included in segment operating profit:				
Depreciation and amortisation		(32.1)	(4.8)	**(36.9)**
Interest income from loans to associates		-	0.1	**0.1**
Share of profit/(loss) from equity accounted investments		-	0.9	**0.9**

(i) Segment private health insurance premium revenue is after $20.7 million (31 December 2022: $14.8 million) of transfers between the Group's other operating segments in relation to the loyalty program and excludes premium revenue related movements in the COVID-19 reserve which comprise the premium deferral cost of $26.6 million (31 December 2022: $114.5 million) and cash give back cost of nil (31 December 2022: $207.0 million).

(ii) Health Insurance operating profit includes management expenses of $298.9 million (31 December 2022: 269.6 million), comprised of insurance service result of $303.7 million (31 December 2022: $269.3 million) and movement in claims handling costs for incurred claims of $(4.8) million (31 December 2022: $0.3 million).

b) Other segment information

A reconciliation of segment operating profit to the profit for the half-year before income tax of the Group is as follows:

	Note	31 Dec 2023 $m	31 Dec 2022 $m
Total segment operating profit		**343.7**	**328.4**
Unallocated to operating segments:			
Corporate operating expenses		(24.3)	(22.0)
Group operating profit		**319.4**	**306.4**
Net investment income	5(b)	83.6	55.9
Cybercrime expenses	(i)	(17.6)	(26.2)
Other income/(expenses)	(ii)	(8.8)	(5.4)
Movement in COVID-19 reserve	6, (iii)	115.3	(90.5)
Profit for the half-year before income tax		**491.9**	**240.2**

(i) Expenses incurred in relation to the Group's cybercrime event of $17.6 million (31 December 2022: $26.2 million). These costs include office and administration expense of $12.1 million (31 December 2022: $11.2 million), employee benefits expense of $1.1 million (31 December 2022: $8.3 million), information technology expense of $4.4 million (31 December 2022: $6.0 million) and marketing expense of nil (31 December 2022: $0.7 million). Refer to Note 8 for further information.

(ii) Other income/(expenses) of $8.8 million (31 December 2022: $5.4 million) is comprised of mergers and acquisition expenses of $3.0 million (31 December 2022: $0.6 million), net sublease rent, acquisition intangible amortisation and interest on lease liabilities.

(iii) Movement in COVID-19 reserve is not included within Segment operating profit. Refer to Note 6 for further details.

Note 2: Segment information (continued)

c) Other operating expenses

The table below provides an analysis of other operating expenses incurred by the Group. Other operating expenses excludes incurred claims, net investment income and income tax expense.

	31 Dec 2023 $m	31 Dec 2022 (restated) $m
Medical services expense	(16.9)	(13.7)
Employee benefits expense	(234.1)	(231.4)
Office and administration expense	(52.5)	(49.5)
Marketing and commissions expense	(75.4)	(58.0)
Information technology expense	(45.6)	(43.1)
Depreciation and amortisation expense	(40.2)	(39.8)
Finance expense	(0.8)	(1.0)
Other expenses	**(465.5)**	**(436.5)**

Note 3: Insurance contracts

The Group applies the premium allocation approach (PAA) for the measurement of its insurance contracts. The insurance contract liability is comprised of a liability for remaining coverage (LFRC) and a liability for incurred claims (LFIC).

The LFRC represents the Group's obligation to provide future insurance services in relation to contracts recognised at the reporting date. This is the equivalent of unearned premium liability, net of any premiums receivable under the previously applicable AASB 1023 *General Insurance Contracts*. Under the PAA the LFRC is measured as premiums received less amounts recognised as insurance revenue for coverage that has already been provided. Insurance revenue is released on a passage of time basis over the coverage period. The LFRC is not discounted where the time between providing each part of the services and the related premium due date is no more than a year. Insurance acquisition cash flows are expensed as they are incurred.

The LFIC represents the present value of the estimated future payments arising from claims incurred at the end of each reporting period under insurance cover issued by the Medibank health insurance fund and other incurred insurance service expenses. This replaces the outstanding claims liability, including any claims payables, under the previously applicable AASB 1023 *General Insurance Contracts*. The LFIC is based on an actuarial assessment that considers historical patterns of claim incidence and processing and includes a risk adjustment that reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts.

The LFIC includes an allowance for claims management and handling expenses which comprises all direct expenses of the claims department and general administrative costs directly attributable to the claims function. These include internal and external costs incurred from the processing and settlement of claims.

The Group has announced various customer give backs as part of its commitment to return permanent net COVID-19 savings to policyholders. The treatment of these differs depending on the mechanism used to provide the give back to policyholders. Where a premium deferral has been provided, the reduced premium received from policyholders is recognised in the consolidated statement of comprehensive income on a passage of time basis over the policy coverage period. Customer give backs that are provided as one-time cash payments have been recognised as a provision within the LFIC when the Group formally announces the give back, with a corresponding reduction to insurance revenue in the consolidated statement of comprehensive income. The provision is utilised as amounts are returned to policyholders. A provision of $4.9 million (31 December 2022: $136.1 million) has been recognised in the LFIC at 31 December 2023 in relation to customer give backs.

Refer to Note 9 for details of the impact of adopting AASB 17.

Note 3: Insurance contracts (continued)

Key estimate

The liability for incurred claims includes the expected claims payments and expenses required to settle any insurance contract obligations. The liability for incurred claims estimate with respect to claims is based on the hospital, ancillary and overseas claim categories.

Hospital and overseas	Calculated using statistical methods adopted for all service months but with service levels for the most recent service month (hospital) or two service months (overseas) being based on the latest forecast adjusted for any observed changes in payment patterns.
Ancillary	Calculated using statistical methods adopted for all service months.

The critical assumption is the extent to which claim incidence and development patterns are consistent with past experience. Adjustments are then applied to reflect any unusual or abnormal events that may affect the estimate of claims levels such as major variability to claims processing volumes.

The process for establishing the liability for incurred claims involves consultation with internal actuaries (including the Chief Actuary), claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior management.

Key estimate

The risk adjustment reflects the compensation required for bearing uncertainty about the amount and timing of cash flows that arises from non-financial risk. The risk adjustment applied to the Group's outstanding claims central estimate (i.e. the claims reserve within the liability for incurred claims) at 31 December 2023 is 12.2% (30 June 2023: 12.2%). The risk adjustment is based on an analysis of past experience, including comparing the volatility of past payments to the adopted outstanding claims estimate. The risk adjustment has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 98% (30 June 2023: 98%).

a) Reconciliation of movement in insurance contract liabilities

The following reconciliation shows how insurance contract liabilities balance changed during the period as a result of cash flows and amounts recognised in the statement of comprehensive income.

			Liabilities for incurred claims (LFIC)		
		Liabilities for remaining coverage (LFRC)	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total insurance contract liabilities
Insurance contract liabilities at 1 July 2023		**690.7**	**759.6**	**55.7**	**1,506.0**
Insurance revenue		**(3,919.4)**	**-**	**-**	**(3,919.4)**
Insurance service expenses					
Claims incurred		-	3,234.8	-	**3,234.8**
Movement in risk adjustment for non-financial risk		-	-	(4.1)	**(4.1)**
Changes to liabilities for incurred claims relating to past service		-	(52.4)	-	**(52.4)**
Net Risk Equalisation Special Account payments		-	(20.8)	-	**(20.8)**
State levies		-	(31.1)	-	**(31.1)**
Incurred claims, excluding claims handing costs		-	3,130.5	(4.1)	**3,126.4**
Movement in claims handling costs for incurred claims		-	(4.8)	-	**(4.8)**
Incurred claims		-	3,125.7	(4.1)	**3,121.6**
Other insurance service expenses		-	303.7	-	**303.7**
Total insurance service expenses		**-**	**3,429.4**	**(4.1)**	**3,425.3**
Insurance service result		**(3,919.4)**	**3,429.4**	**(4.1)**	**(494.1)**
Total changes in statement of comprehensive income		**(3,919.4)**	**3,429.4**	**(4.1)**	**(494.1)**
Other movements	(i)	**125.8**	**(131.1)**	**-**	**(5.3)**
Premium receipts		3,705.8	-	-	**3,705.8**
Payments for claims and other expenses		-	(3,426.9)	-	**(3,426.9)**
Total cash flows		**3,705.8**	**(3,426.9)**	**-**	**278.9**
Insurance contract liabilities at 31 December 2023		**602.9**	**631.0**	**51.6**	**1,285.5**

Note 3: Insurance contracts (continued)

a) Reconciliation of movement in insurance contract liabilities (continued)

			Liabilities for incurred claims (LFIC)		
		Liabilities for remaining coverage (LFRC)	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	Total insurance contract liabilities
Insurance contract liabilities at 1 July 2022		**587.7**	**769.8**	**35.5**	**1,393.0**
Insurance revenue		**(7,086.4)**	**-**	**-**	**(7,086.4)**
Insurance service expenses					
Claims incurred		-	6,156.3	-	**6,156.3**
Movement in risk adjustment for non-financial risk		-	-	20.2	**20.2**
Changes to liabilities for incurred claims relating to past service		-	(13.6)	-	**(13.6)**
Net Risk Equalisation Special Account payments		-	(36.8)	-	**(36.8)**
State levies		-	(67.0)	-	**(67.0)**
Incurred claims, excluding claims handing costs		-	6,038.9	20.2	**6,059.1**
Movement in claims handling costs for incurred claims		-	(2.0)	-	**(2.0)**
Incurred claims		-	6,036.9	20.2	**6,057.1**
Other insurance service expenses		-	566.6	-	**566.6**
Total insurance service expenses		**-**	**6,603.5**	**20.2**	**6,623.7**
Insurance service result		**(7,086.4)**	**6,603.5**	**20.2**	**(462.7)**
Total changes in statement of comprehensive income		**(7,086.4)**	**6,603.5**	**20.2**	**(462.7)**
Other movements	(i)	**41.3**	**(50.7)**	**-**	**(9.4)**
Premium receipts		7,148.1	-	-	**7,148.1**
Payments for claims and other expenses		-	(6,563.0)	-	**(6,563.0)**
Total cash flows		**7,148.1**	**(6,563.0)**	**-**	**585.1**
Insurance contract liabilities at 30 June 2023		**690.7**	**759.6**	**55.7**	**1,506.0**

(i) Includes the movement between LFRC and LFIC in relation to the recognition and subsequent utilisation of the customer give back provision of $131.1 million (30 June 2023: $52.2 million), as well as movements in balances that do not form part of insurance contract liabilities of $5.3 million (30 June 2023: $9.4 million).

Note 4: Dividends

	Cents per fully paid share	$m	Payment date
31 Dec 2023			
2023 final fully franked dividend	8.30	228.6	5 October 2023
31 Dec 2022			
2022 final fully franked dividend	7.30	201.0	29 September 2022

(a) Dividends not recognised at the end of the reporting period
On 22 February 2024, the directors determined an interim fully franked ordinary dividend for the six months ended 31 December 2023 of 7.20 cents per share. The dividend is expected to be paid on 20 March 2024 and has not been provided for as at 31 December 2023.

(b) Calculation of dividend paid
Medibank's target dividend payout ratio for the 2024 financial year is 75-85% (2023: 75-85%) of full year normalised net profit after tax (underlying NPAT). Underlying NPAT is calculated based on statutory net profit after tax 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 impairments. Underlying NPAT is also adjusted for the net movement in the COVID-19 reserve.

Note 4: Dividends (continued)

(b) Calculation of dividend paid (continued)

	31 Dec 2023 $m	31 Dec 2022 (restated) $m
Profit for the half-year after tax	**343.2**	**168.9**
Normalisation for growth asset returns	4.4	(3.9)
Normalisation for defensive asset returns – credit spread movement	(4.4)	(2.7)
Normalisation for movement in COVID-19 reserve	(80.7)	63.4
Underlying NPAT	**262.5**	**225.7**

Note 5: Investment portfolio

This note provides information on the Group's net investment income and the carrying amounts of the Group's investments.

a) Portfolio composition

The following table sets out the carrying amounts of the financial assets residing in the two investment portfolios; the Health Fund Investment Portfolio (including the Short-term operational cash (STOC) sub-portfolio) and the Non-Health Fund Investment Portfolio.

			Portfolio composition		
Portfolio composition	**31 Dec 2023 $m**	**30 Jun 2023 $m**	**31 Dec 2023**	**30 Jun 2023**	**Target asset allocation**
Australian equities	122.3	153.2	5.2%	5.7%	6.0%
International equities	96.4	121.3	4.1%	4.5%	5.0%
Property	158.5	174.4	6.7%	6.6%	7.0%
Infrastructure	95.5	94.7	4.0%	3.5%	2.0%
Growth	**472.7**	**543.6**	**20.0%**	**20.3%**	**20.0%**
Fixed income	1,486.7	1,542.1	62.7%	57.7%	60.0%
Cash (2)	412.7	587.1	17.4%	22.0%	20.0%
Defensive	**1,899.4**	**2,129.2**	**80.1%**	**79.7%**	**80.0%**
Total Health Insurance Fund (pre-STOC)	**2,372.1**	**2,672.8**	**100.1%**	**100.0%**	**100.0%**
Short-term operational cash portfolio (STOC) (1)	567.6	393.8			
Total Health Fund Investment portfolio	**2,939.7**	**3,066.6**			
Non-Health Fund Investment portfolio	180.0	211.2			
Total investment portfolio	**3,119.7**	**3,277.8**			

(1) The STOC sub-portfolio is in place to fund claims deferred due to COVID-19 and customer give backs and also includes $167.0 million to support the amount held for the APRA supervisory adjustment. Given the short-term nature of this sub-portfolio, it is not subject to the existing SAA / TAA framework.

(2) For investment portfolio purposes, cash comprises cash and cash equivalents of $485.1 million (30 June 2023: $420.6 million), plus cash with longer maturities of $337.1 million (30 June 2023: 342.0 million), less Non-Health Fund Investment portfolio cash of $54.5 million (30 June 2023: $1.5 million), less short-term operational cash of $325.6 million (30 June 2023: 159.6 million), less cash allocated to the fixed income portfolio of $3.1 million (30 June 2023: 4.8 million). Cash and cash equivalents as reported in the statement of financial position also include operational cash of $26.3 million (30 June 2023: $9.6 million) which is not reported above.

Note 5: Investment portfolio (continued)

b) Net investment income

	31 Dec 2023 $m	31 Dec 2022 $m
Interest income (1)	61.8	37.0
Trust distributions	21.8	16.7
Investment management expenses	(2.3)	(2.5)
Net gain/(loss) on fair value movements on financial assets	(9.9)	11.4
Net gain/(loss) on disposal of financial assets	12.2	(6.7)
Net investment income	**83.6**	**55.9**

(1) Includes interest income of $5.6 million (31 December 2022: $2.6 million) relating to financial assets at fair value through other comprehensive income (Non-Health Fund Investments).

c) Fair value hierarchy

The Group's financial instruments are categorised according to the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted current bid price) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data.

The following tables present the Group's financial assets measured and recognised at fair value on a recurring basis.

31 Dec 2023	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss				
Australian equities (1)	-	122.3	-	**122.3**
International equities (1)	-	96.4	-	**96.4**
Property (1)	-	-	158.5	**158.5**
Infrastructure (1)	-	-	95.5	**95.5**
Fixed income (2)	59.0	2,003.7	-	**2,062.7**
Financial assets at fair value through other comprehensive income - Fixed income	-	125.5	-	**125.5**
Balance at 31 December 2023	**59.0**	**2,347.9**	**254.0**	**2,660.9**

30 Jun 2023	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss				
Australian equities (1)	-	153.2	-	**153.2**
International equities (1)	-	121.3	-	**121.3**
Property (1)	-	-	174.4	**174.4**
Infrastructure (1)	-	-	94.7	**94.7**
Fixed income (2)	58.7	2,054.8	-	**2,113.5**
Financial assets at fair value through other comprehensive income - Fixed income	-	209.7	-	**209.7**
Balance at 30 June 2023	**58.7**	**2,539.0**	**269.1**	**2,866.8**

(1) Australian equities, international equities, property and infrastructure are indirectly held through unit trusts.
(2) Fixed income investments are included in the Health Insurance Fund portfolio of $1,767.4 million (30 June 2023: $1,879.3 million) and short-term operational cash portfolio of $295.3 million (30 June 2023: $234.2 million).

The Group's other financial instruments, being trade and other receivables and trade and other payables, are not measured at fair value. The fair value of these instruments has not been disclosed, as due to their short-term nature, their carrying amounts are assumed to approximate their fair values.

The Group recognises any transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer. There were no transfers between the fair value hierarchy levels during the period.

Note 5: Investment portfolio (continued)

c) Fair value hierarchy (continued)

Fair value measurements using significant unobservable market data (level 3)
The Group's investments in infrastructure and property financial assets are classified within level 3 of the fair value hierarchy. These assets are held in unlisted unit trusts and are valued at the redemption value per unit as reported by the managers of such funds. They are classified within level 3 of the fair value hierarchy as their fair values are not based on observable market data due to the infrequent trading of these investments which results in limited price transparency.

The following table presents the changes in level 3 financial assets during the period.

	Infrastructure $m	Property $m	Total $m
Balance at 1 July 2023	**94.7**	**174.4**	**269.1**
Disposals	-	(10.9)	(10.9)
Net gain/(loss) on fair value movements	0.8	(5.0)	(4.2)
Balance at 31 December 2023	**95.5**	**158.5**	**254.0**

Note 6: Reserves

	Note	31 Dec 2023 $m	30 Jun 2023 (restated) $m	31 Dec 2022 (restated) $m
Equity reserve		17.8	17.8	17.8
Share-based payments reserve		4.0	10.1	6.5
COVID-19 reserve	(a)	286.3	205.6	345.2
Total		**308.1**	**233.5**	**369.5**

(a) COVID-19 reserve

The COVID-19 reserve was created on transition to AASB 17 *Insurance Contracts* and represents the expected future payments required due to the COVID-19 pandemic impacting availability and accessibility to surgeries and other health services. Medibank has committed to return permanent net claims savings due to COVID-19 to policyholders. Accordingly the balance of this reserve at the reporting date represents the claims savings to date that have not yet been utilised, net of tax.

The opening balance of the COVID-19 reserve at 1 July 2022 of $408.6 million arises from the derecognition of the $448.3 million deferred claims liability balance, which is unable to be recognised under AASB 17. It also includes $135.5 million in relation to the cost of the previously announced premium deferral give backs that are still to be expensed. Derecognised deferred tax assets of $175.2 million in relation to these items have also been recognised within the reserve.

Subsequently, the reserve is measured by comparing the difference between the actual and expected volume of insured surgical, non-surgical and ancillary procedures. Where actual claims are below expected claims, the reserve is increased by the amount of claims savings. Where actual claims exceed expected claims, the reserve is decreased by the amount utilised. In addition, the reserve is further utilised for the cost of any premium deferrals or one-time cash give backs that are returned to eligible policyholders.

The table below provides a reconciliation of the movement in the COVID-19 reserve during the period.

	31 Dec 2023 $m	30 Jun 2023 (restated) $m	31 Dec 2022 (restated) $m
Balance at beginning of period	205.6	408.6	408.6
Lower /(higher) than expected claims	141.9	256.9	230.5
Premium deferral cost	(26.6)	(209.4)	(114.5)
Cash give back cost	-	(337.9)	(207.0)
COVID-19 impact	-	0.3	0.5
Tax effect of movements	(34.6)	87.1	27.1
Balance at end of period	**286.3**	**205.6**	**345.2**

Note 6: Reserves (continued)

(a) COVID-19 reserve (continued)

The COVID-19 reserve balance at 31 December 2023 includes $9.3 million, net of tax (30 June 2023: $27.9 million, 31 December 2022: $57.1 million) in relation to previously announced premium increase deferrals that are still to be expensed.

Key estimate

The determination of the level of expected claims is a key estimate which is based on statistical analysis of the estimated underlying claims growth per Single Equivalent Unit per policy (PSEU) that would have occurred if the COVID-19 pandemic did not eventuate. It has then been applied to the average actual number of PSEUs.

Note 7: Equity accounted investments

As at 31 December 2023 the Group held the following investments in associates and joint ventures:

Name of company	Principal activity	Place of incorporation	Type	Ownership interest % 31 Dec 2023	Ownership interest % 30 Jun 2023
East Sydney Day Hospital Pty Ltd	Short stay hospital	Australia	Associate	49.00%	49.00%
Calvary Amplar Health JV Pty Ltd [(i)]	Medical services	Australia	Joint Venture	50.00%	50.00%
Myhealth Medical Holdings Pty Ltd	Medical services	Australia	Associate	49.00%	49.00%
Adeney Private Hospital Pty Ltd	Short stay hospital	Australia	Associate	49.00%	49.00%
Medinet Australia Pty Ltd	Digital health services	Australia	Associate	3.82%	3.82%
SydOrtho Holdings Pty Ltd	Short stay hospital	Australia	Joint Venture	50.00%	50.00%
Integrated Mental Health Pty Ltd	Short stay hospital	Australia	Joint Venture	50.00%	50.00%
Chamomile Finance Pty Ltd	Holding company	Australia	Joint Venture	50.00%	-

(i) Calvary Amplar Health JV Pty Ltd changed its name from Calvary Medibank JV Pty Ltd on 26 October 2023.

The equity accounted investment balance at 31 December 2023 of $125.0 million increased by $7.4 million during the period, which included an additional $8.4 million investment in SydOrtho Holdings Pty Ltd (SydOrtho) in line with SydOrtho's achievement of milestones, and an additional $1.0 million investment in East Sydney Day Hospital Pty Ltd (ESDH). The Group recognised a net $(2.0) million share of net profit/(loss) for the period.

Note 8: Contingencies

(a) Cybercrime event

The Group was subject to a cybercrime in the prior financial year which resulted in a data breach. Specific contingent liabilities in relation to the cybercrime that may impact the Group as known at this reporting period are set out below. The outcome and any potential financial impacts of the matters below are currently unknown.

OAIC regulatory investigation

The Office of the Australian Information Commissioner (OAIC) informed Medibank on 1 December 2022 that it was commencing an investigation into the cybercrime. The investigation will consider Medibank's conduct in relation to the unauthorised access that occurred in respect of the data breach, including whether Medibank took reasonable steps to protect personal information from unauthorised access and misuse, and to destroy or deidentify personal information that it is no longer required to retain.

Medibank continues to co-operate with the OAIC and its' ongoing investigation and has not received notice of any findings. The OAIC investigation may result in fines, penalties, enforceable undertakings or other regulatory enforcement action.

OAIC representative complaint

Maurice Blackburn, in collaboration with Bannister Law and Centennial Lawyers, has lodged a representative complaint with the OAIC alleging Medibank has breached its privacy obligations and seeks compensation for loss and damage, including but not limited to loss and damage for injury to feelings and humiliation.

Medibank is defending the representative complaint.

Note 8: Contingencies (continued)

(a) Cybercrime event (continued)

Consumer class actions
Medibank received notice of two separate consumer class actions filed in the Federal Court of Australia in relation to the cybercrime. On 1 August 2023 these proceedings were consolidated into a single consumer class action. The consolidated consumer class action is being brought by Baker & McKenzie on behalf of persons who were Medibank or ahm health insurance customers between 21 December 2001 and 12 October 2022, and persons who provided personal information to Medibank or ahm for the purpose of obtaining a quote for insurance but did not become a customer.

The consolidated statement of claim includes allegations of breach of contract, contraventions of the Australian Consumer Law, breach of equitable obligations of confidence, breach of the Privacy Act and breach of APRA Prudential Standard CPS 234. The amount claimed is unspecified, however remedies sought include damages, declarations for contraventions of the Privacy Act, injunctive relief requiring Medibank to take reasonable steps to destroy or deidentify personal information which Medibank no longer needs to retain, interest and costs.

Medibank is defending this consolidated consumer class action proceeding.

Shareholder class actions
Medibank received notice of two separate shareholder class actions filed in the Supreme Court of Victoria. On 6 September 2023 these proceedings were consolidated into a single shareholder class action. The consolidated shareholder class action is being brought by Quinn Emanuel and Phi Finney McDonald on behalf of persons who acquired an interest in Medibank shares or entered into equity swap confirmations of Medibank shares during the period 1 July 2019 to 25 October 2022.

The consolidated statement of claim includes allegations of misleading or deceptive conduct and that Medibank breached its continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules by not disclosing to the market information relating to alleged deficiencies in its cyber security systems. The amount claimed is unspecified, however remedies sought include damages, interest and costs.

Medibank is defending this consolidated shareholder class action proceeding.

(b) Other contingency matters (excluding cybercrime event)

In addition to the items noted above in relation to the cybercrime event, the Group is exposed from time to time to contingent liabilities which arise from the ordinary course of business, including:

- Losses which might arise from litigation.
- Investigations from internal reviews and by regulatory bodies such as the ACCC, APRA, ATO, ASIC or other regulatory bodies into past conduct on either industry-wide or Medibank specific matters.

It is anticipated that the likelihood of any unprovided liabilities arising from these other contingency matters is not material or are not at a stage to support a reasonable evaluation of the likely outcome.

Note 9: New accounting standards and interpretations

a) New and amended standards adopted
The Group applied AASB 17 *Insurance Contracts* for the first time in this half-year reporting period. The nature and effect of the changes as a result of the adoption of AASB 17 are described below.

The other amendments and interpretations that became effective for the annual reporting period commencing on 1 July 2023 did not have a material impact on the Group's accounting policies or on the consolidated interim financial report. The Group has not adopted any standards, interpretations or amendments that have been issued but are not yet effective.

AASB 17 *Insurance Contracts*
AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Group has adopted AASB 17 using the full retrospective approach, under which the reclassifications and adjustments arising from the new standard have been recognised in the opening consolidated statement of financial position at 1 July 2022. Significant changes to key estimates and judgements resulting from the application of AASB 17 are set out below and in Note 3. Disclosure of the new accounting policies is also included in the relevant notes as appropriate.

Recognition
The Group recognises groups of insurance contracts from the earliest of, the beginning of the coverage period, the date when the first payment from the policyholder is due or received, or when the Group determines that a group of contracts becomes onerous.

Level of aggregation
AASB 17 requires aggregation of insurance contracts into portfolios of contracts that have "similar risks and are managed together". Portfolios are further divided into groups of contracts for the identification of onerous contracts. The Group provides only health insurance contracts which are managed together and are subject to similar health-related risks. Accordingly, one portfolio of health insurance contracts has been identified that is further disaggregated into profitable contracts and onerous contracts (if applicable). These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. These groups are not subsequently reconsidered.

Measurement
The standard introduces a new general measurement model (GMM) for accounting for insurance contracts. However, a simplified premium allocation approach (PAA), similar in nature to the previous measurement basis under AASB 1023 *General Insurance Contracts*, is permitted if the coverage period of the contracts is less than a year or provided there is not a material difference between the PAA and what would have been recognised under the GMM.

The majority of the Group's contracts automatically qualify for the simplified PAA as the coverage period of each contract in the Group is one year or less. For those policies with a coverage period of greater than a year the Group has developed a model and methodology to assess their eligibility to apply the PAA, which includes modelling the outcome under a range of reasonably expected scenarios. The testing concluded that the measurement of the liability for remaining coverage (LFRC) determined under the PAA would not differ materially from the one that would be produced when applying the GMM. On this basis the Group has applied the PAA model to all of its insurance contracts.

Acquisition costs
For groups of contracts that apply the PAA and have a coverage period of one year or less, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. The Group has elected to apply this option and expense acquisition costs as incurred. This is a change from the previous accounting treatment under AASB 1023 whereby acquisition costs were amortised over the average expected retention period.

COVID-19 accounting
The impact of COVID-19 on the Group saw the recognition of a deferred claims liability and give back provisions in prior periods, both of which have been impacted by the adoption of AASB 17.

Note 9: New accounting standards and interpretations (continued)

AASB 17 *Insurance Contracts* (continued)

The deferred claims liability represented claims that have been deferred as a result of COVID-19. Under AASB 17, insurance liabilities are only able to include claims that have occurred prior to the end of the reporting period. Therefore claims that are expected to arise in the future but have not yet been incurred, such as the deferred claims liability, are unable to be recognised under AASB 17. Whilst not related to COVID-19, the provision for bonus entitlements is similar in that it represents the expected future utilisation of unused benefit entitlements and has also been derecognised under AASB 17.

The cost of the deferral of premium rate rise increases (premium deferrals) provided to policyholders has previously been recognised upfront as a provision for premium deferral. AASB 17 requires that any reduced premium received from policyholders is recognised on a passage of time basis over the coverage period of the related insurance contracts. Accordingly, the provision for premium deferral has been derecognised on transition and any reduced premiums received from customers, such as premium deferrals, are recognised in the consolidated statement of comprehensive income on a passage of time basis over the policy coverage period.

To maintain transparency in relation to the Group's commitment to return any permanent net claims savings due to COVID-19 to policyholders, a newly created COVID-19 equity reserve has been recognised on adoption of AASB 17 and the adjustments arising on the deferred claims liability and premium deferral give backs have been recognised within that reserve (net of tax). Refer to Note 6 for further details.

Onerous contracts
AASB 17 requires the identification of 'groups' of onerous contracts. Contracts that are measured under the PAA are assumed not to be onerous unless facts and circumstances indicate otherwise.

The Group has developed a framework to identify indicators of possible onerous contracts which includes the consideration of information provided to senior management to monitor financial performance. If facts and circumstances are identified that indicate an onerous contract may exist, then detailed testing using the GMM is performed and any onerous contract losses are required to be recognised in the consolidated statement of comprehensive income. There were no onerous contracts identified on transition, the restated comparative periods, or during the 6-month period to 31 December 2023.

Risk adjustment
AASB 17 requires a risk adjustment to be used in the measurement of insurance contract liabilities. AASB 17 requires an explicit risk adjustment for non-financial risk that represents the Group's compensation required for bearing the uncertainty about the amount and timing of the cash flows that arises from the insurance contracts it issues. The Group uses a confidence level technique to estimate the risk adjustment.

Financial impact on transition to AASB 17 at 1 July 2022
The Group's net assets as at the transition date of 1 July 2022 were increased by $361.8 million. This was comprised of the following adjustments:

1 July 2022	Net assets as at 1 July 2022 $m
As previously reported	**1,945.6**
Derecognition of the deferred claims liability	448.3
Adjustment to the premium deferral provision	135.5
Derecognition of deferred acquisition costs	(82.9)
Derecognition of the provision for bonus entitlements	16.0
Tax effects of the above adjustments	(155.1)
Restated	**2,307.4**

As noted above, the impacts for the deferred claims liability and the premium deferral provision have been separately recognised in a newly created COVID-19 equity reserve. Refer to Note 6 for further details. All other opening balance adjustments have been recognised within retained earnings.

The standard also introduces changes to the presentation and disclosure of insurance line items in the statement of comprehensive income and balance sheet. These are provided in the tables below (reclassification adjustments).

Note 9: New accounting standards and interpretations (continued)

AASB 17 *Insurance Contracts* (continued)

Financial impact on transition to AASB 17 at 1 July 2022 (continued)

1 July 2022	Previously reported $m	Measurement adjustments $m	Reclassification adjustments $m	Restated $m
Current assets				
Cash and cash equivalents	596.7	-	-	596.7
Trade and other receivables	225.4	-	(190.4)	35.0
Financial assets at fair value	2,854.5	-	-	2,854.5
Deferred acquisition costs	35.4	(35.4)	-	-
Tax receivable	-	-	-	-
Other assets	19.3	-	-	19.3
Total current assets	**3,731.3**	**(35.4)**	**(190.4)**	**3,505.5**
Non-current assets				
Property, plant and equipment	88.4	-	-	88.4
Intangible assets	332.3	-	-	332.3
Deferred acquisition costs	47.5	(47.5)	-	-
Deferred tax assets	243.6	(155.1)	-	88.5
Equity accounted investments	103.7	-	-	103.7
Other assets	6.0	-	-	6.0
Total non-current assets	**821.5**	**(202.6)**	**-**	**618.9**
Total assets	**4,552.8**	**(238.0)**	**(190.4)**	**4,124.4**
Current liabilities				
Trade and other payables	361.4	-	(238.7)	122.7
Claims liabilities	860.9	(457.6)	(403.3)	-
Insurance contract liabilities	-	-	1,312.2	1,312.2
Unearned premium liability	817.5	(145.2)	(672.3)	-
Tax liability	117.0	-	-	117.0
Customer give back provision	178.6	9.7	(188.3)	-
Provisions and employee entitlements	104.6	-	-	104.6
Total current liabilities	**2,440.0**	**(593.1)**	**(190.4)**	**1,656.5**
Non-current liabilities				
Trade and other payables	56.6	-	-	56.6
Claims liabilities	10.2	(6.7)	(3.5)	-
Insurance contract liabilities	-	-	80.8	80.8
Unearned premium liability	77.3	-	(77.3)	-
Provisions and employee entitlements	23.1	-	-	23.1
Total non-current liabilities	**167.2**	**(6.7)**	**-**	**160.5**
Total liabilities	**2,607.2**	**(599.8)**	**(190.4)**	**1,817.0**
Net assets	**1,945.6**	**361.8**	**-**	**2,307.4**

Note 9: New accounting standards and interpretations (continued)

AASB 17 *Insurance Contracts* (continued)

The 31 December 2022 and 30 June 2023 comparative financial information has also been restated for the impact of applying AASB 17. The impact on profit for the period and net assets are set out in the tables below.

Financial impact of adoption of AASB 17 at 30 June 2023:

30 June 2023	Previously reported $m	Measurement adjustments $m	Reclassification adjustments $m	Restated $m
Current assets				
Cash and cash equivalents	420.6	-	-	420.6
Trade and other receivables	248.1	-	(206.9)	41.2
Financial assets at fair value	2,866.8	-	-	2,866.8
Deferred acquisition costs	34.8	(34.8)	-	-
Tax receivable	97.8	-	-	97.8
Other assets	25.9	-	-	25.9
Total current assets	**3,694.0**	**(34.8)**	**(206.9)**	**3,452.3**
Non-current assets				
Property, plant and equipment	70.5	-	-	70.5
Intangible assets	328.1	-	-	328.1
Deferred acquisition costs	44.3	(44.3)	-	-
Deferred tax assets	130.8	(68.4)	-	62.4
Equity accounted investments	117.6	-	-	117.6
Other assets	3.5	-	-	3.5
Total non-current assets	**694.8**	**(112.7)**	**-**	**582.1**
Total assets	**4,388.8**	**(147.5)**	**(206.9)**	**4,034.4**
Current liabilities				
Trade and other payables	328.5	-	(197.8)	130.7
Claims liabilities	767.3	(261.1)	(506.2)	-
Insurance contract liabilities	-	-	1,370.1	1,370.1
Unearned premium liability	776.8	(39.9)	(736.9)	-
Customer give back provision	136.1	-	(136.1)	-
Provisions and employee entitlements	94.0	-	-	94.0
Total current liabilities	**2,102.7**	**(301.0)**	**(206.9)**	**1,594.8**
Non-current liabilities				
Trade and other payables	39.4	-	-	39.4
Claims liabilities	10.0	(5.8)	(4.2)	-
Insurance contract liabilities	-	-	135.9	135.9
Unearned premium liability	131.7	-	(131.7)	-
Provisions and employee entitlements	20.6	-	-	20.6
Total non-current liabilities	**201.7**	**(5.8)**	**-**	**195.9**
Total liabilities	**2,304.4**	**(306.8)**	**(206.9)**	**1,790.7**
Net assets	**2,084.4**	**159.3**	**-**	**2,243.7**

30 June 2023	Profit after tax for 12 months ended 30 Jun 2023 $m	Net assets as at 30 Jun 2023 $m
As previously reported	**511.1**	**2,084.4**
Derecognition of the deferred claims liability	(194.5)	253.8
Adjustment to the premium deferral provision	(95.6)	39.9
Derecognition of deferred acquisition costs	3.8	(79.1)
Derecognition of the provision for bonus entitlements	(2.9)	13.1
Tax effects of the above adjustments	86.7	(68.4)
Restated	**308.6**	**2,243.7**

Note 9: New accounting standards and interpretations (continued)

AASB 17 *Insurance Contracts* (continued)

Financial impact of adoption of AASB 17 at 31 December 2022:

31 December 2022	Previously reported $m	Measurement adjustments $m	Reclassification adjustments $m	Restated $m
Current assets				
Cash and cash equivalents	406.7	-	-	406.7
Trade and other receivables	215.7	-	(179.9)	35.8
Financial assets at fair value	2,733.6	-	-	2,733.6
Deferred acquisition costs	34.8	(34.8)	-	-
Tax receivable	25.9	-	-	25.9
Other assets	24.9	-	-	24.9
Total current assets	**3,441.6**	**(34.8)**	**(179.9)**	**3,226.9**
Non-current assets				
Property, plant and equipment	75.6	-	-	75.6
Intangible assets	325.4	-	-	325.4
Deferred acquisition costs	43.8	(43.8)	-	-
Deferred tax assets	208.4	(127.6)	-	80.8
Equity accounted investments	101.9	-	-	101.9
Other assets	4.9	-	-	4.9
Total non-current assets	**760.0**	**(171.4)**	**-**	**588.6**
Total assets	**4,201.6**	**(206.2)**	**(179.9)**	**3,815.5**
Current liabilities				
Trade and other payables	292.8	-	(190.6)	102.2
Claims liabilities	839.4	(417.7)	(421.7)	-
Insurance contract liabilities	-	-	1,173.1	1,173.1
Unearned premium liability	604.8	(81.7)	(523.1)	-
Customer give back provision	217.6	-	(217.6)	-
Provisions and employee entitlements	100.1	-	-	100.1
Total current liabilities	**2,054.7**	**(499.4)**	**(179.9)**	**1,375.4**
Non-current liabilities				
Trade and other payables	46.0	-	-	46.0
Claims liabilities	7.0	(4.2)	(2.8)	-
Insurance contract liabilities	-	-	99.7	99.7
Unearned premium liability	96.9	-	(96.9)	-
Provisions and employee entitlements	20.5	-	-	20.5
Total non-current liabilities	**170.4**	**(4.2)**	**-**	**166.2**
Total liabilities	**2,225.1**	**(503.6)**	**(179.9)**	**1,541.6**
Net assets	**1,976.5**	**297.4**	**-**	**2,273.9**

31 December 2022	Profit after tax for 6 months ended 31 Dec 2022 $m	Net assets as at 31 Dec 2022 $m
As previously reported	**233.3**	**1,976.5**
Derecognition of the deferred claims liability	(36.7)	411.6
Adjustment to the premium deferral provision	(53.8)	81.7
Derecognition of deferred acquisition costs	4.3	(78.6)
Derecognition of the provision for bonus entitlements	(5.7)	10.3
Tax effects of the above adjustments	27.5	(127.6)
Restated	**168.9**	**2,273.9**

b) New accounting standards and interpretations not yet adopted

There are no other standards, amendments or interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Note 10: Events occurring after the reporting period

On 5 January 2024, MH Solutions Investments Pty Ltd increased its shareholding in Myhealth Medical Group (Myhealth) from 49% to 90% for cash consideration of $50.8 million. Additionally there is contingent consideration of up to $1.0 million which is subject to Myhealth's financial performance in FY24. From the date of acquisition, Medibank will fully consolidate Myhealth with 100% of its EBIT included in the Medibank Health segment.

On 22 February 2024, Medibank announced it will return a further $215 million to its customers, as part of its COVID-19 support package and give back program. This will be recognised in the consolidated statement of comprehensive income for the 30 June 2024 full year. For segment reporting purposes it will be reported below Group Operating profit within the Movement in COVID-19 reserve line.

Other than events disclosed in this report, there have been no events occurring after the reporting period which would have a material effect on the Group's financial statements at 31 December 2023.

Directors' declaration

The directors declare that, in the opinion of the directors:

(a) the financial statements and notes set out on pages 8 to 27 are in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and

ii. complying with *Australian Accounting Standards,* the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Board,

Mike Wilkins AO Chair	David Koczkar Chief Executive Officer

22 February 2024
Melbourne

Independent auditor's review report to the members of Medibank Private Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Medibank Private Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, material accounting policy information and selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Medibank Private Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

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

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

Marcus Laithwaite
Partner

Melbourne
22 February 2024