

18 August 2022

Medibank Private Limited (MPL) – Financial results for year ended 30 June 2022

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

- (a) FY22 Results – Appendix 4E, Directors' Report (including Remuneration Report) and Financial Report;
- (b) FY22 Results – Media Release; and
- (c) FY22 Results – Investor Presentation.

These documents have been authorised for release by the Board.

MEDIBANK PRIVATE LIMITED
ABN 47 080 890 285
RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group Financial year ended 30 June			
	2022 \$m	2021 \$m	Movement \$m	Movement %
Health Insurance premium revenue	6,881.2	6,691.1	190.1	2.8%
Medibank Health revenue	247.3	219.3	28.0	12.8%
Revenue (excluding net investment and other income) from ordinary activities	7,128.5	6,910.4	218.1	3.2%
Profit after tax from ordinary activities attributable to shareholders	393.9	441.2	(47.3)	(10.7%)
Net profit from ordinary activities	393.9	441.2	(47.3)	(10.7%)

For further explanation of the results, refer to the directors' report in the attached financial report of the Medibank Private Limited Group (comprising Medibank Private Limited and its subsidiaries (the Group)) for the year ended 30 June 2022.

Dividend information

A fully franked final ordinary dividend of 7.30 cents per ordinary share was determined on 18 August 2022 in respect of the six months ended 30 June 2022. This dividend is payable on 29 September 2022 to shareholders on the register at close of business on 8 September 2022.

A fully franked interim ordinary dividend of 6.10 cents per ordinary share was determined on 25 February 2022 in respect of the six months ended 31 December 2021, paid on 24 March 2022 to shareholders on the register at close of business on 7 March 2022.

Net tangible assets per ordinary share

Net tangible assets are defined as the net assets of the Group less intangible assets (including right-of-use assets).

	30 June 2022 cents	30 June 2021 cents
Net tangible assets per ordinary share	56.6	54.4

This report is lodged with the ASX under listing rule 4.3A. Additional Appendix 4E disclosure requirements can be found in the Medibank Private Limited financial report for the year ended 30 June 2022. This report is also to be read in conjunction with any public announcements made by Medibank Private Limited in accordance with its continuous disclosure obligations.

This report is based on the consolidated financial statements of the Group which have been audited by PricewaterhouseCoopers (PwC).

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1. About Medibank

Medibank Private Limited (Medibank) is a health company providing health insurance and health services to more than 4 million people in Australia. Our core business is Health Insurance, whereby we underwrite and distribute private health insurance policies under the Medibank and ahm brands. Medibank Health complements our Health Insurance business by providing a number of services: our health services business, which is being rebranded as Amplar Health, supports the healthcare needs of our core Medibank and ahm customers and the broader community; our Live Better program supports customers and the community to make better choices for their health and wellbeing; and we offer a range of diversified insurance products such as travel, life and pet insurance. Additionally, as we maintain assets to satisfy our regulatory reserves, we generate investment income from our portfolio of investment assets.

Medibank was founded in 1976 as a private health insurer owned and operated by the Australian Government. We have operated on a for-profit basis since 2009. On 25 November 2014, Medibank was sold by the Australian Government by way of an initial public offering (IPO) and listed on the Australian Securities Exchange. As at 30 June 2022, we had 3,291 full-time equivalent (FTE) employees, including 970 health professionals (excluding employees in associates and joint ventures).

2. Financial and operating performance

References to “2021”, “2022” and “2023” are to the financial years ended on 30 June 2021, 30 June 2022 and 30 June 2023 respectively, unless otherwise stated. The “Group” refers to the consolidated entity, consisting of Medibank and its subsidiaries.

Despite the challenging environment over the last year, our results show continuing momentum in our Health Insurance business and strong growth in Medibank Health, including a meaningful uplift in the contribution from our healthcare partnerships.

2.1 Group summary income statement

Year ended 30 June (\$m)	2022	2021	Change
Group revenue from external customers	7,128.5	6,910.4	3.2%
Health Insurance operating profit	592.6	538.6	10.0%
Medibank Health segment profit	45.5	31.4	44.9%
Segment operating profit	638.1	570.0	11.9%
Corporate overheads	(44.0)	(41.7)	5.5%
Group operating profit	594.1	528.3	12.5%
Net investment income/(expense)	(24.8)	120.0	n.m.
Amortisation of intangibles	(2.0)	(4.6)	(56.5%)
Other income/(expenses)	(7.3)	(11.4)	(36.0%)
Profit before tax	560.0	632.3	(11.4%)
Income tax expense	(166.1)	(191.1)	(13.1%)
Group net profit after tax (NPAT)	393.9	441.2	(10.7%)
Effective tax rate	29.7%	30.2%	(50bps)
Earnings per share (EPS) (cents)	14.3	16.0	(10.7%)
Normalisation of growth asset returns	22.7	(31.2)	n.m.
Normalisation of defensive asset returns	18.5	(11.3)	n.m.
Underlying NPAT¹	435.1	398.7	9.1%
Underlying EPS (cents) ¹	15.8	14.5	9.1%
Dividend per share (cents)	13.4	12.7	5.5%
Dividend payout ratio ¹	84.8%	87.7%	(3.3%)

1. Underlying NPAT is statutory NPAT normalised for growth asset returns to historical long-term expectations, credit spread movements and one-off items. Dividend payout ratio based on underlying NPAT

Group operating profit increased by \$65.8 million or 12.5%, with \$54.0 million or 10.0% growth in Health Insurance operating profit, and \$14.1 million or 44.9% growth in Medibank Health segment profit. However, continued volatility within financial markets drove a \$24.8 million loss in net investment income compared to a \$120.0 million gain in 2021, and as a consequence Group NPAT was down 10.7%. Underlying NPAT, which

adjusts for the normalisation of investment returns, increased \$36.4 million or 9.1% to \$435.1 million.

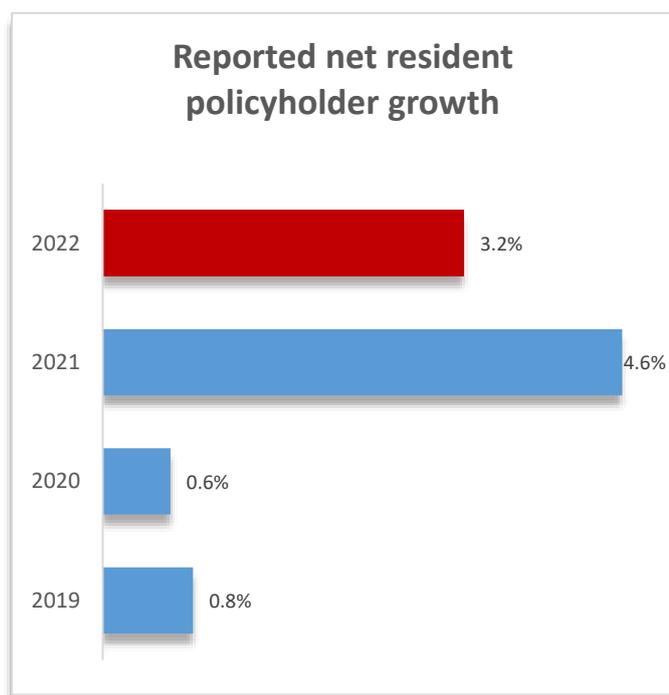
The key reasons for the movements in the Health Insurance and Medibank Health results, as well as net investment income, are outlined in this report.

Health Insurance

Year ended 30 June (\$m)	2022	2021	Change
Premium revenue	6,859.8	6,680.3	2.7%
Net claims expense (including risk equalisation)	(5,731.1)	(5,610.8)	2.1%
Gross profit	1,128.7	1,069.5	5.5%
Management expenses	(536.1)	(530.9)	1.0%
Operating profit	592.6	538.6	10.0%
Gross margin	16.5%	16.0%	50bps
Management expense ratio	7.8%	7.9%	(10bps)
Operating margin	8.6%	8.1%	50bps

Strong Health Insurance performance was driven by continued policyholder growth, a subdued level of cover downgrading and ongoing cost control, and was achieved despite the impact of border closures on the non-resident health insurance business.

Health Insurance revenue grew 2.7% to \$6,859.8 million with strong policyholder growth and improved downgrading. When adjusted for our COVID-19 customer support measures of \$369.4 million in 2022 and \$226.0 million in 2021, underlying revenue grew 4.7%.



The resident Health Insurance market remains buoyant with the trend of high quality industry policyholder growth continuing, including new to industry and younger customers.

Our reported net resident policyholders increased by more than 60,000 or 3.2% with the Medibank and ahm brands growing 1.9% and 7.3% respectively. The Medibank brand acquisition rate increased 30 basis points, reflecting strong growth in the corporate segment and through digital channels. ahm continued its strong growth trajectory and now has more than 500,000 policyholders, although the acquisition rate was lower than the prior period due to declining sales through aggregator platforms and increased policyholder numbers. The lapse rate for Medibank was stable, while an increase in ahm’s lapse rate in part reflects the benefit of the extras annual limit rollover last year. Despite deteriorating economic conditions, the lapse rate in the second half for both brands improved compared to the second half of 2021, and throughout the year there was no notable increase in policy suspensions.

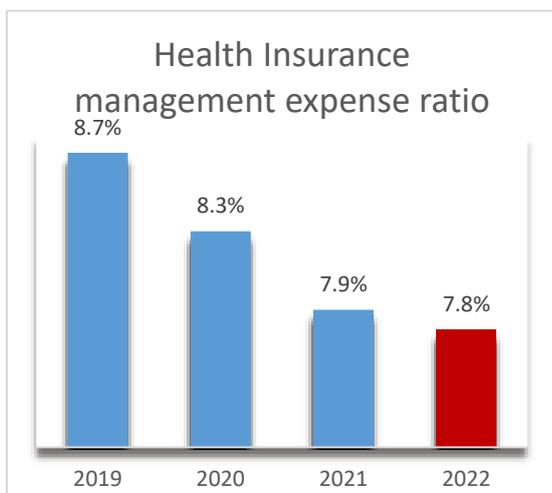
Gross claims expense increased 1.9% and net claims, which includes risk equalisation, increased 2.1%. The risk equalisation payment increased \$11.5 million, reflecting our claims growth continuing to be below industry growth and strong policyholder growth in ahm which has a younger and lower claiming customer demographic. There was also a \$368.8 million reduction in claims expense with lower than expected claims as a result of COVID-19 and an increase in the deferred claims liability.

Underlying resident claims growth per policy unit (which excludes COVID-19 impacts) was 2.3% with the increase in hospital claims more than offset by the reduction in extras claims. Extras claims growth in the prior

period was elevated due to investment in additional product benefits, and the modest increase in hospital claims this period reflects sales mix and the benefits of claims initiatives in the prior period.

The COVID-19 deferred claims liability, which is in recognition of claims that have likely been deferred since the commencement of COVID-19 restrictions, increased \$224.5 million to \$448.3 million with lower hospital volumes due to elective surgery restrictions and staff shortages resulting from COVID-19 isolation periods. Overall, COVID-19 had a modest impact of \$0.6 million on operating profit with the cost of our customer give back program offset by further permanent claims savings. Removing these COVID-19 impacts, underlying gross profit increased 5.3%.

Reported gross profit increased 5.5% to \$1,128.7 million with improving revenue and lower claims growth per policy unit in the resident portfolio more than offsetting a decline in the non-resident portfolio. The second half saw a material improvement in gross profit for the non-resident portfolio as the opening of international borders led to an increased student intake.



Management expenses were up 1.0% to \$536.1 million with approximately \$15 million of productivity savings and lower non-cash costs largely offsetting cost inflation of approximately 2.5%, additional statutory costs and growth in non-resident commissions. The growth in non-resident commissions reflects the reopening of borders in the second half. While we expect cost inflation to increase to approximately 3.5% to 4.0% in 2023, this will largely be offset by further productivity savings. Despite this modest increase in management expenses, the increase was lower than the increase in revenue resulting in an improved management expense ratio of 7.8%, or 7.4% on an underlying basis. Going forward we will continue to leverage the benefits of growth and scale to target further modest improvement in the management expense ratio. While we will remain disciplined, we will continue to focus on balancing this objective with our medium-term growth aspirations.

Our Health Insurance operating profit of \$592.6 million increased 10.0% this year, or 9.5% on an underlying basis, with continued cost discipline and the benefit of increasing scale contributing to a 50 basis point improvement in operating margin. On an underlying basis, operating margin improved 40 basis points to 8.2% due to the 30 basis point improvement in underlying management expense ratio.

Medibank Health

The role of Medibank Health is to strengthen and complement our core Health Insurance business, support long-term customer retention and to build successful standalone businesses. It includes the provision of health management, telehealth services for government and corporate customers, hospital care in the home, preventative health and wellbeing programs, and diversified insurance products. Our investments in associates and joint ventures also form part of this segment. This includes our non-controlling investments in East Sydney Private Hospital and Myhealth, a leading operator of primary care clinics, and our joint venture with Calvary to deliver My Home Hospital, a Wellbeing SA service, and COVID Care at Home services.

During 2022 there were a number of largely offsetting COVID-19 impacts to Medibank Health. Closed borders continued to impact travel insurance sales, and lockdowns impacted homecare patient numbers and margins, although this was largely offset by the provision of COVID-related services. Revenue increased 13.4% to \$321.8 million with strong growth in telehealth and health and wellbeing services, and a strong second half of travel insurance sales, offset by lower homecare revenue due to elective surgery restrictions.

Gross margin was down 110 basis points to 40.1% with constrained labour availability impacting labour costs and the ability to deliver services in homecare, and the impact of transitioning out of telehealth contracts.

Management expenses increased \$3.6 million, including \$2 million due to contract exits and other one-off costs, however the management expense ratio improved 240 basis points to 27.5% due to strong revenue growth, reinforcing the opportunity to create scale in this business.

With the strong momentum in the remainder of the Medibank Health business and growth opportunity around the needs of the Medibank customer, we expect on average at least 15% organic segment profit growth per annum over the next three years, with the potential for further growth from M&A activity.

While revenue and costs will be lower in 2023 as a result of the exit of 1800RESPECT and Beyond Blue telehealth contracts, these contracts did not make a material contribution to 2022 operating profit, which increased 26.7% to \$40.8 million and excludes our share of the results of Myhealth and other investments. Medibank Health segment profit improved 44.9% to \$45.5 million.

Net investment income/(expense)

Medibank's investment portfolio was \$3.4 billion as at 30 June 2022. This investment portfolio, which includes \$3.2 billion relating to the health fund, provides liquidity to cover insurance liabilities related to the Health Insurance business and satisfies Medibank's obligations to maintain regulatory reserves to meet health claims and to fund ongoing operations. It includes additional assets, largely in cash to fund claims deferred due to COVID-19 and customer give back programs, and sits outside our target allocation of growth and defensive assets of 20% and 80% respectively.

Volatile investment markets significantly impacted net investment income in both years with a \$24.8 million expense in 2022 compared to income of \$120.0 million in 2021. The decreased income was driven by the significant correction across equity markets within the growth portfolio assets, and a reduction in income from the defensive portfolio including a \$26.5 million loss due to widening of credit spreads, compared to a gain of \$16.1 million last year.

Our investment portfolio is subject to and compliant with our Responsible Investment Policy. Domestic and international equity investment portfolios remain aligned with socially responsible investment principles.

2.2 Group financial position

Medibank's net asset position decreased by \$39.5 million or 2.1% to \$1,945.6 million as at 30 June 2022.

Some of the major movements in the consolidated statement of financial position include:

- An increase in financial assets at fair value to fund our commitment to return permanent net claims savings due to COVID-19 to customers (customer give back programs) and COVID-19 deferred claims liability.
- An increase in claims liabilities due to the ongoing recognition of the COVID-19 deferred claims liability.
- An increase in unearned premium liability and provisions due to the recognition of customer give back provision relating to the return of permanent net claims savings due to COVID-19 to customers through premium relief and cash returns.

As at 30 June 2022, Medibank's consolidated statement of financial position remained debt-free.

2.3 Capital management and dividends

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to meet financial commitments. As at 30 June 2022:

- Our total Health Insurance business-related capital was \$983.7 million; equivalent to 13.0% of premium revenue after the allowance for determined but unpaid dividends. This was at the top end of Medibank's target range of 11%-13%.
- Non-fund required capital was \$187.2 million.
- Unallocated capital surplus was \$148.0 million.

In November 2018, the Australian Prudential Regulation Authority (APRA) announced its intention to harmonise the health insurance capital framework with Life and General Insurance Capital (LAGIC) standards. Since then, APRA has consulted with the industry and undertaken a Quantitative Impact Study (QIS). Draft capital standards were released in December 2021 with the intention to release the final standards in September 2022 for implementation on 1 July 2023. We are well placed to implement this framework as our Capital Management Policy is already closely aligned with LAGIC and do not expect it will negatively impact our capital position.

Dividends paid or payable in respect of profits from the financial year totalled 13.40 cents per share fully franked, amounting to \$369.0 million comprising:

- An interim ordinary dividend of 6.1 cents per share fully franked, amounting to \$168.0 million paid on 24 March 2022 in respect of the six-month period ended 31 December 2021.
- A final ordinary dividend of 7.30 cents per share fully franked, amounting to \$201.0 million to be paid on 29 September 2022 in respect of the six-month period ended 30 June 2022.

The full year 2022 ordinary dividend represents an 84.8% payout ratio of underlying NPAT, normalising for investment market returns. This is at the top end of our dividend target payout ratio range of between 75% and 85% of underlying NPAT, and reflects our strong capital position.

2.4 Management changes

There have been no changes to Medibank’s Executive Leadership Team this year.

3. Strategy and future prospects

Medibank’s purpose is Better Health for Better Lives. Our 2030 vision is to create the best health and wellbeing for Australia. By working to provide affordable and quality health outcomes, we seek to sustainably build our customer base and grow shareholder value. Our strategy puts our customers and people at the centre of everything we do.

Our strategy

Growing as a health company



Deliver leading experiences



Create personalised and connected customer experiences

Empower our people

Collaborate with our communities to make a difference

Differentiate our insurance business



Deliver more value, choice and control for customers

Offer products and services to meet all customer needs

Leverage our dual brands and provider networks

Expand in health



Focus growth on prevention and integrated care models

Scale and connect our health businesses

Bring benefits back to our core

Better Health for Better Lives

Our employees are our most valuable asset. It is only by empowering our people that we can deliver on our vision, so we’ve built a culture anchored by the three pillars of purpose, people and performance so they can make the greatest impact on our customers and communities. We are committed to ensuring Medibank remains a great place to work, differentiating ourselves in the market through our approach to flexibility and health and wellbeing. We’re embedding our purpose and values throughout our business, and building a highly engaged, skilled team. We’re also committed to driving a culture of wellbeing and supporting the diverse physical, emotional and mental health needs of our people.

Since the start of the COVID-19 pandemic we have seen a shift of people in Australia prioritising their health and wellbeing. Combined with heightened pressure on the public health system, this has resulted in private health insurance becoming more compelling for many people including those who were previously uninsured. We have continued to focus on differentiating and growing our health insurance business by leveraging our dual brand strategy to create a competitive advantage. The pandemic has also resulted in an increased awareness and acceptance of integrated care models. We’re partnering with doctors, hospitals and governments to deliver care in new ways – and growing and developing new health services through our Amplar Health business.

We have worked hard to deliver our lowest premium increase in 21 years, with premiums scheduled to rise by an average of 3.10% from 1 April 2022. Due to our commitment to return all COVID-19 permanent net claims savings, we deferred this premium increase for seven months to 1 November 2022 for eligible policyholders. Additionally, we have announced a cash give back to eligible customers, which they will receive in September 2022. To date, our total COVID-19 support for our customers stands at around \$682 million and has included two rounds of premium deferrals, give backs to customers through premium relief and cash give backs, ancillary limit rollovers for ahm customers, and financial hardship support. We are committed to returning all permanent net claims savings due to COVID-19 to our customers once they are known.

We have focused on making our business more efficient and to reduce and eliminate unnecessary costs in the health system, so that we can deliver greater value and choice for our customers. We maintained strong cost discipline and have delivered approximately \$55 million of productivity savings over the past three years, including approximately \$15 million in 2022, and will continue to target further productivity.

Customers are at the heart of what we do and we are working to better support their healthcare needs by providing greater choice and more personalised advice, while helping to reduce out-of-pocket medical costs. We've expanded the no gap program to more participating providers across the country to provide eligible customers with the option of paying no out-of-pocket medical costs for a range of selected procedures including hip and knee replacements, endoscopies, and some general surgery procedures. Our no gap network, which includes a short stay care model, has continued to grow with 64% of Medibank customers to live within 25km of a no gap site by October 2022. The network includes East Sydney Private Hospital, which we have a 49% interest in. We also continue to work with a group of more than 40 doctors on the development of Adeney Private Hospital – a short stay surgical facility in Melbourne due to open in 2024.

The My Home Hospital service delivers hospital level care to patients in their homes in Adelaide and surrounding areas. This year the service expanded to provide a broader range of treatments and operate in additional areas in South Australia. A Wellbeing SA service delivered by a joint venture between Calvary and Medibank, My Home Hospital utilises remote monitoring technology to enable clinicians to track the clinical status of admitted patients and allows the care team to stay in touch 24/7. More than 3,200 patients have used the service since launch in January 2021. In the future, opportunities exist to use market leading technology platforms, like those used for My Home Hospital, across public and private settings.

We continue to work with GPs given the vital role they play in primary health. Our investment in the Myhealth Medical Group supports GPs to enhance the health and quality of life of their patients which helps reduce high-cost hospital admissions and alleviate pressure on the health system. The investment also gives the GPs access to additional capabilities to improve data analytics and information management and enables Myhealth to continue its rapid growth. There were 106 Myhealth clinics at the end of 2022 and further growth will be supported by investment in greenfield practices and acquisition of existing practices. Our investment in digital health services company Medinet to support the virtual capability and connectivity of GPs and their patients also reflects our support for primary care in the community.

We have deepened relationships with our customers through other avenues and we have seen substantial growth in members supported in navigating and managing their health. More than 40,000 customers, equating to approximately 27% of customers going to hospital, were supported by our telephone and digital Health Concierge, and we're trialling the introduction of specialist health concierge clinicians across five Victorian stores to engage with customers on the many health and wellbeing support options available to access. We've made progress in mental health solutions with the Better Minds hub and app attracting approximately 79,000 users and app downloads. We also launched a telepsych clinic pilot this year in partnership with Myhealth and Medinet, and partnered to deliver out-of-hospital care models for mental health.

Our Members' Choice network is one of the largest health provider networks in Australia, and offers better value, more cost transparency and a wider range of services to our customers. Customers using our Members' Choice Advantage for their dental and optical needs saved approximately \$31.2 million in out-of-pocket costs in 2022. We have now expanded the network to also include physio, chiro, podiatry, acupuncture, and remedial massage, covering more types of services than any other health insurer.

Our Live Better program continues to scale, with more than 522,000 Live Better Rewards participants, and we are targeting more than 800,000 participants in FY25. We are continuing to integrate the Live Better app into the My Medibank app to provide a single digital health experience across health insurance and health and wellbeing. We are also integrating Live Better into preventative health, acquisition and retention journeys to evolve the way we inform and inspire customers about health and wellbeing, making it even more relevant, accessible and easy to use.

We've invested in growing our suite of preventative healthcare programs designed to support our customers stay healthy and avoid unnecessary treatments, and have seen more than 10,000 enrolments in our programs, an increase of more than 40% over the past 12 months. Our national Better Knee, Better Me program was awarded the Australian Clinical Trials Alliance (ACTA) inaugural Industry Partnership Award this year. Following the success of Better Knee, Better Me, we recently launched a Better Hip pilot that aims to help people manage osteoarthritis hip pain.

The macroeconomic environment and ongoing impacts of COVID-19 cannot be predicted with any certainty in 2023. Although we are seeing rising inflation impacting the cost of items such as groceries and fuel, and households navigating a higher interest rate environment, Medibank remains positioned for growth with strong customer advocacy, positive policyholder growth outlook, a continued focus on cost discipline, and a strong balance sheet to support our growth ambitions.

In the year ahead we will build on further understanding our customers' needs to develop a broader and deeper relationship with them and their health. We will continue to differentiate and add value to the core health insurance proposition by strengthening our product range, and leveraging our technology and data capabilities to deliver increasing personalised propositions. We will work with partners and providers to deliver more proactive and preventative healthcare to support affordability, drive down costs, and improve the choice and experiences for our customers. We will embed and scale our existing health assets to deliver earnings growth in their own right, utilising the synergies between the individual assets as well as the core Health Insurance business and expedite health system change. Connection between our various health assets will be key to delivering a better and more customer/patient-centric health experience.

Our strategy is the right strategy for our business and will continue to inform our decisions. Aligned with our strategy, our milestones are detailed below.

Pillar	Milestones	
Deliver leading experiences	Customer advocacy: Service NPS (average)	
	FY22	FY23 benchmark¹
	Medibank 45.3	>35
	ahm 42.4	>35
Differentiate our insurance business	Market share³ – updated for FY23	
	Q3FY22	FY25 aspiration
	27.35% (+4bps since FY21)	Up 25-75 bps on FY22
Expand in health	Health and wellbeing	
	FY22	FY25 target
	Live Better Rewards participants c. 522k	> 800k
	Preventative program participants ⁴ c. 10k	>50k
	Employee advocacy: eNPS	
	FY22	FY23 benchmark²
	Place to work +27	≥+26
	Products and services +29	≥+19
	Health Insurance productivity delivered	
	FY22	FY22-FY24 target
	c. \$15m	\$40m (including c. \$15m delivered in FY22)
	Medibank Health segment profit	
	FY22	FY23-FY25 target
	\$45.5m	Average at least 15% p.a. organic segment profit growth Aim to invest \$150 - \$250m in total to grow Medibank Health inorganically as suitable opportunities arise over the next 3 years

1. Benchmark reflects sustaining service levels while continuing to digitise the service delivery model
2. FY23 benchmarks for Place to Work eNPS based on the global average benchmark, Products and Services eNPS target based on historical trend
3. APRA PHI quarterly data to March-22
4. Includes total customers who have engaged with 8 preventative health programs (e.g. Better knee, better me, Better Hip) and any new offerings developed

4. Material business risks

The material business risks which could affect Medibank’s operations, business strategies and financial prospects are summarised below.

The COVID-19 pandemic has, and will continue to have in 2023, the potential to impact Medibank’s material and strategic business risks. Medibank continuously monitors the uncertainty introduced by COVID-19 and its impact on its risk profile, both on financial and non-financial risks. Where appropriate, Medibank has strengthened its governance, monitoring and internal control system to address increased risk exposures caused by the pandemic in relation to its operational, financial and strategic risks.

Risk	Mitigations	Material sustainability categories
<p>Strategic The risk that we are unable to identify and execute the right strategic initiatives and projects on target and on time that deliver measurable and agreed outcomes to support our goals</p>	<p>Medibank’s strategic risks are identified and assessed as part of our annual strategic planning process and endorsed by the Board. Key strategic risks identified include loss of private health insurance customers, healthcare costs and utilisation, regulatory risk, and execution of non-private health insurance growth. These risks influence the prioritisation of investments and resources in the Corporate Plan, which is approved by the Board. To effectively understand and assess some key strategic risks that are broad in nature (e.g. regulatory and customer risks), we undertake detailed analysis on threats or opportunities that specific scenarios may pose to our business.</p>	<ul style="list-style-type: none"> • Customer health • Community health
<p>Operational (including regulatory compliance) The risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events</p>	<p>We have established risk management policies and procedures for identifying, assessing, monitoring and reporting operational risks and controls. This includes the important areas of information security, technology, business continuity, outsourcing, fraud, people, and health and safety risks. We have established compliance management policies and procedures for identifying and managing regulatory obligations and incidents that may arise. Management of operational risk is overseen by divisional risk committees, the Executive Risk Committee and the Board’s Risk Management Committee.</p>	<ul style="list-style-type: none"> • Employee health • Governance • Environmental health
<p>Credit The risk of financial loss due to counterparties failing to meet all or part of their contractual obligations</p>	<p>Exposure to this risk is primarily through Medibank’s investment portfolio. This risk is managed through the application of the Investment Management Policy. The effective implementation of this policy is overseen by the Board’s Investment and Capital Committee to ensure that credit risk is managed in line with the risk appetite set by the Board.</p>	<ul style="list-style-type: none"> • Governance
<p>Capital and liquidity The risk of not being able to meet financial commitments as and when they are due and in complying with APRA prudential standards on solvency and liquidity</p>	<p>Medibank has a Board-approved Liquidity Management Policy and a Board-endorsed plan designed to ensure it meets or exceeds regulatory solvency requirements and is able to meet all payments as and when they fall due. Liquidity risk is managed by our treasury function through daily cash management of cash flows and liquid asset positions and projected future cash flows, supported by actuarial forecasts that take into account anticipated seasonality as well as stressed market conditions.</p>	<ul style="list-style-type: none"> • Governance

Risk	Mitigations	Material sustainability categories
<p>Market and investment The risk of adverse financial impact market factors e.g. foreign exchange rates, interest rates and equity prices</p>	<p>We have a Board-approved Investment Management Policy. The Board’s Investment and Capital Committee oversees the investment process and compliance with investment mandates, performance against benchmarks and asset allocation. Our strategic asset allocation is weighted largely towards defensive assets and with limits applied to illiquid assets.</p>	<ul style="list-style-type: none"> • Governance
<p>Insurance The risk of misestimation of incurred and expected costs, frequency and severity of insured events</p>	<p>The Board approves the Pricing Policy, which includes pricing and profitability objectives and forms a key part of the Capital Management Plan. Our objective is to support customer growth through balancing the offer of competitive value to all customers with profitability objectives and the need to meet capital management and regulatory requirements. Insurance risk is a key part of regular portfolio monitoring and treatment plans are formulated and implemented in response to any potential for deviation from target measures.</p>	<ul style="list-style-type: none"> • Governance
<p>Clinical The risk of unexpected, adverse clinical outcomes from a health service provided by Medibank, or a third party acting on behalf of Medibank</p>	<p>Clinical risk arises from clinical services that Medibank provides and procures, the provision of health-related information, and customer health initiatives. We have implemented a clinical governance and quality management framework that defines the principles, structures and processes that underpin service quality, continuous improvement and patient safety. Our Chief Medical Officer, supported by a clinical governance team, provides oversight and assurance. The Risk Management Committee and Board receive regular reporting on the performance of clinical risk management.</p>	<ul style="list-style-type: none"> • Customer health • Community health

The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and the entities it controlled (collectively referred to as the Group) for the year ended 30 June 2022.

References to 2021 and 2022 are to the financial years ended on 30 June 2021 and 30 June 2022 respectively unless otherwise stated.

Directors

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

Current:

- Mike Wilkins AO – Chair
- David Koczkar – Chief Executive Officer
- Dr Tracey Batten
- Anna Bligh AC
- Gerard Dalbosco
- Peter Everingham (appointed effective 31 March 2022)
- David Fagan
- Kathryn Fagg AO (appointed effective 31 March 2022)
- Linda Bardo Nicholls AO

Former:

- Peter Hodgett (retired effective 18 November 2021)
- Christine O'Reilly (retired effective 18 November 2021)

Principal activities

The principal activities of the Group during the financial year were as a private health insurer, underwriting and distributing private health insurance policies under its two brands, Medibank and ahm. Medibank is also a provider of health services through the Medibank Health businesses, which capitalise on Medibank's experience and expertise, and support the Health Insurance business. There were no significant changes in the nature of those activities during the year.

Operating and financial review

Details of the operating and financial review of the Group including a review of operations during the year and results of those operations is included in the operating and financial review on pages 1 to 9.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group during the year.

Events since end of financial year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect, Medibank's operations, or the results of those operations, or Medibank's state of affairs in future financial years. Details of subsequent events are set out in Note 20(d).

Future developments

Details of developments in Medibank's operations in future financial years and the expected results of those operations are included in the operating and financial review on pages 1 to 9.

Dividends

Dividends paid or determined by Medibank during and since the end of the year are set out in Note 6 to the financial statements and further set out below:

- A fully franked final ordinary dividend of 6.90 cents per share was determined in respect of the six-month period to 30 June 2021, payable on 30 September 2021 to shareholders registered on 9 September 2021.
- A fully franked interim ordinary dividend of 6.10 cents per share was determined in respect of the six-month period to 31 December 2021 and paid on 24 March 2022 to shareholders registered on 7 March 2022.
- A fully franked final ordinary dividend of 7.30 cents per share has been determined in respect of the six-month period to 30 June 2022, payable on 29 September 2022 to shareholders registered on 8 September 2022.

Directors' qualifications, experience and special responsibilities

Details of the qualifications, experience and special responsibilities of each director in office as at the date of this report are set out below.

Mike Wilkins AO

Chair and Independent Non-executive Director

BCom, MBA, FAICD, FCA

Age: 65

Mike was appointed a director in May 2017 and Chair effective 1 October 2020. He is Chair of the Nomination Committee and a member of the Investment and Capital Committee and the People and Remuneration Committee.

Mike is the Chair (since March 2020) and a director (since November 2016) of QBE Insurance Group Limited. He is also a director of Scentre Group Limited (since April 2020).

Mike has more than 30 years of experience in financial services, predominantly in Australia and Asia. He served as Managing Director and Chief Executive Officer at Insurance Australia Group (November 2007 to November 2015), Managing Director and Chief Executive Officer at Promina Group Limited and Managing Director at Tyndall Australia Limited. He also served as Acting Chief Executive Officer (April 2018 to December 2018), Executive Chair (April 2018 to June 2018) and a director (September 2016 to February 2020) of AMP Limited. He was previously a director of Maple-Brown Abbott Limited, Alinta Limited, The Geneva Association and the Australian Business and Community Network.

David Koczkar

Chief Executive Officer

BCom, PG Dip Finance, MAICD

Age: 49

David was appointed Chief Executive Officer in May 2021.

He commenced at Medibank in 2014, holding the roles of Chief Operating Officer from March 2014 and then Group Executive – Chief Customer Officer from September 2016, where he was responsible for the Health Insurance and Diversified financial portfolios, Live Better and the ahm business. David was also appointed Acting Chief Executive Officer between April 2016 and June 2016.

Prior to joining Medibank, David was the Group Chief Commercial Officer at Jetstar where he was responsible for the airline group's commercial businesses, sales and marketing and customer channels and served as a director of Jetstar Pacific (Vietnam), Jetstar Hong Kong and NewStar (Singapore) JV airlines.

David has more than 25 years of strategy, customer, commercial and operational experience, including previous work in the strategy consulting and financial services industries.

Dr Tracey Batten

Independent Non-executive Director
MBBS, MHA, MBA, FAICD, FRACMA
Age: 56

Tracey was appointed a director in August 2017. She is Chair of the People and Remuneration Committee and a member of the Risk Management Committee and the Nomination Committee.

Tracey has extensive experience in the health services sector, with strong commercial, business and change leadership skills.

Tracey is currently a director of EBOS Group Limited (since July 2021), the National Institute of Water and Atmospheric Research in New Zealand and the New Zealand Accident Compensation Corporation, and a former director of Abano Healthcare Group.

Tracey was previously the Chief Executive of the Imperial College Healthcare NHS Trust in the United Kingdom. In that role, Tracey focused on change leadership, in particular improving organisational culture and strengthening patient safety and experience. Tracey also oversaw the implementation of a range of digital initiatives as Chief Executive. Tracey is a former Chief Executive of St Vincent's Health Australia, which runs a group of public hospitals, private hospitals and aged care facilities.

Anna Bligh AC

Independent Non-executive Director
BA (QLD)
Age: 62

Anna was appointed a director in December 2012. She is a member of the Risk Management Committee and the Investment and Capital Committee.

Anna is currently the Chief Executive Officer of the Australian Banking Association and a director of the International Banking Federation (IBFed).

Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management. She has held several roles in the Queensland Government, including Premier, Treasurer, Minister for Finance, Minister for State Development, Minister for Trade and Innovation and Minister for Education. She was also a member of the Queensland Cabinet Budget Review Committee for 11 years. Anna was a director of Bangarra Dance Theatre Australia (2012-2020) and is currently a non-executive director of Australian Plays Transform.

Gerard Dalbosco

Independent Non-executive Director
M.AppFin, B.Comm, FCA, FFIN, GAICD
Age: 59

Gerard was appointed a director in May 2021. He is Chair of the Audit Committee and a member of the Risk Management Committee and the Nomination Committee.

Gerard held a number of senior leadership roles as a Partner of EY until September 2020. His most recent role was Melbourne Managing Partner where he led a large team responsible for EY's go-to-market and client service strategies. Prior to this, Gerard held other roles at EY including Asia Pacific Managing Partner – Markets and Co-Deputy CEO where he led EY's client-serving activities across the Asia Pacific market. He was also Oceania Managing Partner and CEO, and Oceania Managing Partner of Transaction Advisory Services where he was responsible for EY's Transaction Advisory Services business across Oceania.

Gerard is currently Chair of Melbourne Archdiocese Catholic Schools. He has previously held roles as a

director and Chair of the Finance & Audit Committee of Mercy Health & Aged Care, director and member of the Finance Committee of Berry Street Victoria and director and Co-Deputy Chair of the Committee for Melbourne.

Peter Everingham

Independent Non-executive Director

BEC, MBA, GAICD

Age: 53

Peter was appointed a director in March 2022. He is a member of the Audit Committee and the People and Remuneration Committee.

Peter has over 25 years of corporate experience and is highly respected in the digital sector, having held senior executive roles in that sector for 18 years. His senior leadership experience includes key roles at companies with a strong consumer and technology focus.

Peter is currently a director of Super Retail Group Limited (since December 2017), the owner of several notable Australian brands including BCF, Macpac, Rebel and Supercheap Auto. He is also a director of WWF Australia.

He was previously a director of iCar Asia Limited (July 2017 to May 2022), Managing Director of the international division of Seek Limited (and concurrently Chair of Seek's subsidiary, Zhaopin), a director of ME Bank and IDP Education Ltd, and a senior executive for Yahoo! in Australia and Southeast Asia.

David Fagan

Independent Non-executive Director

LLB, LLM, GAICD

Age: 65

David was appointed a director in March 2014. He is Chair of the Risk Management Committee and a member of the Audit Committee and the Nomination Committee.

David was a commercial lawyer for over 40 years. He held a variety of leadership positions at Clayton Utz culminating in the role of Chief Executive Partner for nine years. In this role, David had responsibility and accountability for leadership and transformation, strategy, finance, stakeholder engagement, and governance, including risk management. During David's tenure as Chief Executive Partner, Clayton Utz entrenched itself as a first class top tier commercial law firm.

David also chaired the Medibank Privatisation Committee which operated during 2014 in preparation for the privatisation process. David is a former director and Chair of the Audit Committee of The Global Foundation, a former director of Grocon Funds Management Group, the Hilco Group and UBS Grocon Real Estate Investment Management Australia Pty Limited and a former member of the advisory board of Chase Corporate Advisory.

David is currently a director of PayGroup Limited (since November 2017). He is Chair of BDO Group Holdings Limited and a member of the ASIC Corporate Governance Consultative Panel.

Kathryn Fagg AO

Independent Non-executive Director

FTSE, BE (Hons), MCom (Hons), Hon.DBus, Hon.DChemEng, GAICD

Age: 61

Kathryn was appointed a director in March 2022. She is a member of the Audit Committee and the People and Remuneration Committee.

Kathryn is a highly respected director and Chair with significant, wide-ranging senior commercial and operational experience. She is currently a director of National Australia Bank Ltd (since December 2019) Djerriwarrh Investments Ltd (since May 2014) and she is the Chair of CSIRO. In the non-for-profit sector, she is Chair of Watertrust Australia Ltd and Breast Cancer Network Australia, a director of The Myer Foundation, the Grattan Institute and the Champions of Change Coalition.

Kathryn was a non-executive director of Boral Limited from September 2014 to July 2021 including as Chair from July 2018, a non-executive director of Incitec Pivot Limited from April 2014 to December 2019, and a member of the board of the Reserve Bank of Australia from 2013 to 2018. She is a former President of Chief Executive Women (CEW), a former Chair of Parks Victoria and the Melbourne Recital Centre and a former board member of the Australian Centre for Innovation, and has held senior executive roles at Linfox, Bluescope Steel and ANZ.

Linda Bardo Nicholls AO

Independent Non-executive Director

BA, MBA (Harvard), FAICD

Age: 74

Linda was appointed a director in March 2014. She is Chair of the Investment and Capital Committee and a member of the Risk Management Committee and the Nomination Committee.

Linda has more than 30 years of experience as a senior executive and director in banking, insurance and funds management in Australia, New Zealand and the United States.

She is currently a director of Inghams Group Limited (since November 2016). Linda is also Chair of the Board of Melbourne Health and a member of the Museums Victoria Board.

Linda's previous directorships include Japara Healthcare Limited as Chair (March 2014 to November 2021), Fairfax Media Limited and Sigma Pharmaceuticals Limited.

Company Secretary**Mei Ramsay**

Group Executive – Legal, Governance & Compliance and Company Secretary

BA, LLB, LLM

Mei was appointed Group Executive – Legal, Governance & Compliance (previously Legal, Governance & Regulatory Affairs) in September 2016 and has been the Company Secretary for Medibank Private Limited since 2014. Mei previously held the position of Group General Counsel from 2011.

She is responsible for leading the legal and governance functions, including compliance, regulatory affairs and company secretariat, and providing legal and corporate governance advice to Medibank's Board, Chief Executive Officer and senior management.

Mei has more than 25 years of experience in the legal profession, both as a senior in-house legal adviser for multinational and international companies, as well as a private practitioner. Prior to joining Medibank, Mei was the General Counsel and Company Secretary for the Asia Pacific region at Cummins Inc, and before that held various senior legal positions at Coles Myer Ltd and Southcorp Limited. Mei started her legal career at Arnold Bloch Leibler and also worked as a Senior Associate at Minter Ellison.

Mei is currently the President of the Association of Corporate Counsel (ACC) Australia, a member of the Executive of the ACC GC100 and former Chair of the ACC GC100, and a member of Chief Executive Women.

Directors' attendance at meetings

The table below shows the number of Board and committee meetings held and the number of meetings attended by directors during the year. All directors may attend committee meetings even if they are not a member of the relevant committee. The table below does not include the attendance of directors at committee meetings where they were not a committee member.

Director	Board (scheduled) 11		Board (unscheduled) 2		Audit Committee 4		Risk Management Committee 6		Investment & Capital Committee 4		People & Remuneration Committee 4		Nomination Committee 4	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mike Wilkins ¹	11	11	2	2	2	2	-	-	4	4	4	4	4	4
Dr Tracey Batten ²	11	11	2	2	-	-	6	6	-	-	4	4	1	1
Anna Bligh ³	11	11	2	2	-	-	1	1	4	4	3	3	-	-
Gerard Dalbosco ⁴	11	11	2	2	4	4	6	6	-	-	-	-	3	3
Peter Everingham ⁵	3	3	2	2	1	1	-	-	-	-	1	1	-	-
David Fagan ⁶	11	11	2	2	3	3	6	6	4	4	-	-	4	4
Kathryn Fagg ⁷	3	3	2	2	1	1	-	-	-	-	1	1	-	-
Peter Hodgett ⁸	5	5	0	0	1	1	-	-	2	2	-	-	1	1
David Koczkar	11	11	2	2	-	-	-	-	-	-	-	-	-	-
Linda Bardo Nicholls ⁹	11	10	2	1	-	-	-	-	-	-	3	3	4	4
Christine O'Reilly ¹⁰	5	5	0	0	1	1	3	3	-	-	-	-	1	1

A Indicates the number of meetings held during the time the director held office or was a member of the committee during the year.

B Indicates the number of meetings attended during the time the director held office or was a member of the committee during the year.

¹ Mike Wilkins was appointed a member of the Audit Committee effective 18 November 2021 and retired as a member of that committee effective 31 March 2022.

² Tracey Batten was appointed a member of the Nomination Committee effective 31 March 2022.

³ Anna Bligh was appointed a member of the Risk Management Committee effective 31 March 2022 and retired as a member of the People and Remuneration Committee effective 31 March 2022.

⁴ Gerard Dalbosco was appointed a member of the Nomination Committee effective 18 November 2021.

⁵ Peter Everingham was appointed as a director and a member of the Audit Committee and People and Remuneration Committee effective 31 March 2022.

⁶ David Fagan was appointed a member of the Audit Committee effective 18 November 2021 and retired as a member of the Investment and Capital Committee effective 1 June 2022.

⁷ Kathryn Fagg was appointed as a director and a member of the Audit Committee and People and Remuneration Committee effective 31 March 2022.

⁸ Peter Hodgett retired as a director effective 18 November 2021.

⁹ Linda Bardo Nicholls was appointed a member of the Risk Management Committee and the Investment and Capital Committee effective 1 June 2022, retired as a member of the People and Remuneration Committee effective 1 June 2022 and retired as a member of the Nomination Committee effective 31 March 2022 and was re-appointed as a member of the Nomination Committee effective 1 June 2022.

¹⁰ Christine O'Reilly retired as a director effective 18 November 2021.

In addition, ad-hoc committees were convened for special purposes, including in relation to financial reporting and other matters.

Options and performance rights

During the financial year, 3,542,600 performance rights were issued to senior executives pursuant to Medibank's Performance Rights Plan. No performance rights have been issued since the end of the financial year up to the date of this directors' report.

During the financial year, 825,420 performance rights became eligible to vest and were exercised. Further information regarding performance rights is included in the remuneration report from page 18.

Directors' interests in securities

The relevant interests of directors in Medibank securities at the date of this directors' report were:

Director	Ordinary shares	Performance rights
Mike Wilkins	100,000	
David Koczkar	858,734	1,208,604
Dr Tracey Batten	50,000	
Anna Bligh	44,623	
Gerard Dalbosco	72,832	
Peter Everingham	40,000	
David Fagan	47,016	
Kathryn Fagg	32,750	
Peter Hodgett*	67,800	
Linda Bardo Nicholls	45,000	
Christine O'Reilly*	69,930	

* Peter Hodgett and Christine O'Reilly retired from the Board effective 18 November 2021, and their ordinary shareholding information is as at that date.

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulation under either Commonwealth or State law.

Indemnification and insurance of directors and officers

The Medibank Constitution permits Medibank to indemnify, to the maximum extent permitted by law, every person who is or has been a director, secretary, officer or senior manager of the Group. The indemnity applies to liabilities incurred by a person in the relevant capacity (except liability for legal costs). The indemnity may however also apply to certain legal costs incurred in obtaining advice or defending legal proceedings. Further, the Medibank Constitution permits Medibank to maintain and pay insurance premiums for a director and officer liability insurance covering every person who is or has been a director, secretary, officer or senior manager of the Group, to the extent permitted by law.

Consistent with the provisions in Medibank's Constitution, Medibank has entered into deeds of indemnity, insurance and access with current and former directors and secretaries of the Group. Under these deeds, Medibank:

- Indemnifies current and former directors and secretaries against liabilities incurred as a director or secretary, as the case may be, to the maximum extent permitted by law.
- Maintains a directors' and officers' insurance policy covering current and former directors and secretaries against liabilities incurred in their capacity as directors or secretaries, as the case may be. Disclosure of the insurance premium and the nature of the liabilities covered by the insurance are prohibited by the contract of insurance.
- Grants current and former directors and secretaries access to Medibank's records for the purpose of defending any relevant action.

Auditor's independence declaration

A copy of the auditor's independence declaration given by PricewaterhouseCoopers (PwC) in relation to its compliance with independence requirements of section 307C of the *Corporations Act* is set out on page 48.

Non-audit services

During the year, PwC, the Group's external auditor, performed certain other services to the Group in addition to its statutory responsibilities as auditor. Details of the amounts paid or payable to PwC for non-audit services provided by it during the year are set out in Note 19 Auditor's remuneration.

Based on advice provided by the Audit Committee, the directors are satisfied that the provision of non-audit services during the year by PwC is compatible with the general standard of independence for auditors imposed by the *Corporations Act*, and that the provision of the non-audit services did not compromise the auditor independence requirements of the *Corporations Act*, for the following reasons:

- All non-audit services provided were approved in accordance with the process set out in Medibank's policies, including being reviewed by the Audit Committee to ensure that provision of the services did not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

Remuneration report

The remuneration report on pages 18 to 46 forms part of the directors' report.

Rounding of amounts

The amounts contained in this directors' report and in the 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.

Dear shareholder,

On behalf of the Board, I am pleased to present Medibank's remuneration report for 2022 which describes how non-executive directors and Executive Key Management Personnel (Executive KMP) are paid. Included in this report are the fixed and variable remuneration outcomes for Executive KMP, which were determined after considering the Company's results and their individual performance.

Our remuneration strategy has been developed to ensure remuneration is fair and competitive. During 2022 the Board continued to focus on a framework that rewards responsible behaviours, aligns remuneration with performance outcomes and regulatory requirements, and has regard for the expectations of our customers, shareholders and the community.

As a health company working to create Better Health for Better Lives by providing the best health and wellbeing experience for people across Australia, the Board is proud of how Medibank has continued to support our customers, employees and the broader community.

Despite the challenging environment over the last year, Medibank has delivered a strong result. As part of the standing commitment to not profit from COVID-19, the company continued to support customers and returned \$369.4 million of permanent net claims savings during the year. Our business performance was driven by continued policyholder growth, ongoing cost control, momentum in our Medibank Health businesses and an uplift in contributions from our healthcare investments, all of which helped deliver strong growth in Group Operating Profit.

Changes to key management personnel

As stated last year, following the changes to Medibank's Executive Leadership Team (ELT) composition and changes in ELT operation effective 1 July 2021, the Board assessed which ELT members had the requisite authority and responsibility within the Medibank Group to meet the definition of key management personnel (KMP) as set out in AASB 124 – *Related Party Disclosures* for the purposes of our remuneration reporting obligations. As a result of these changes, from 1 July 2021, Medibank's Executive KMP are the CEO, Group Executive – CFO & Group Strategy, Group Executive – CEO Ampliar and Group Executive – Customer Portfolios.

Changes to the Board

During September 2021 Medibank announced that non-executive directors Christine O'Reilly and Peter Hodgett would not stand for re-election and would retire from the Board at the conclusion of the Annual General Meeting on the 18 November 2021. Both directors joined prior to Medibank's public listing in 2014 and played a critical role in Medibank's transformation over the past eight years into a health company.

Following the retirements of Peter and Christine, Medibank announced in February 2022 the appointment of Kathryn Fagg AO and Peter Everingham as non-executive directors effective 31 March 2022. Kathryn is a highly respected director and chair with significant, wide-ranging senior commercial and operational experience. Peter brings deep corporate and strategy experience, particularly as an executive in the digital and consumer sectors. As Medibank continues to grow and increase its focus on delivering for our customers, the Board is pleased to be able to appoint two new directors with such extensive experience and proven track records.

Remuneration decisions at a glance

- All Executive KMP met their individual risk, compliance and behaviour gateways for 2022.
- Discretion was exercised to reduce short-term incentive (STI) outcomes to Executive KMP members from an average of 84% to 72% of their maximum opportunity considering the challenging social and economic environment and the expectations of our shareholders, customers and the broader community
- The final vesting outcome for FY20 LTI is pending the release of market share data by APRA, however there will be partial vesting in accordance with the plan rules against the TSR performance hurdle.
- Fixed remuneration for Executive KMP increased by an average of 3.7% for 2023.
- Non-executive director aggregate fees have been increased by 3% for 2023 and remain below the approved total fee pool of \$2,300,000.

The new APRA regulatory standard on remuneration (CPS511) comes into effect on 1 July 2023 for private health insurers. Medibank has begun a conversation with APRA and determined that changes will be required to increase incentive deferral, enhance the use of non-financial performance measures and strengthen our clawback and malus policy to satisfy the new requirements. The Board will consider enhancements to the remuneration framework during 2023 to ensure that it remains competitive whilst meeting regulatory obligations.

Short-term incentives

Medibank delivered another strong result driven by continued policyholder growth, double-digit growth in Medibank Health and remaining disciplined in how we grow and run our business. Consistent with prior years, the Board adjusted outcomes to normalise for COVID-19 related impacts (both negative and positive) to ensure that executives are rewarded fairly for their efforts. Following this assessment, Group operating profit exceeded target, whilst Health Insurance revenue growth and Customer Net Promoter Score (cNPS) exceeded stretch expectations.

With consideration of the challenging social and economic environment and the expectations of our shareholders, customers and the broader community, the Board exercised its discretion to reduce Executive KMP incentive outcomes from 84% to 72% of their maximum opportunity.

Long-term incentives

Testing of the performance hurdles associated with Medibank's FY20 Long Term Incentive (LTI) plan is partially complete and will be finalised following the release of market share data.

Following the three-year performance period which concluded on 30 June 2022 both the EPS and TSR hurdles were tested, with no vesting against the EPS measure and partial vesting against the TSR measure with a performance rank at the 53rd percentile against our comparator group. Performance against the market share hurdle will be tested following the release of June market share data by APRA in late August 2022. Final FY20 LTI vesting results will be mentioned at the 2022 AGM and included in the 2023 remuneration report.

Executive KMP remuneration and non-executive director fees

Following a review of fixed remuneration levels of Executive KMP members against the median of Medibank's market comparator group, the fixed remuneration of Executive KMP was increased by an average of 3.7%, effective 1 July 2022. This includes a remuneration increase for the Chief Executive Officer (CEO), David Koczkar of 3.3%.

Board and committee fees were also reviewed against the median of Medibank's market comparator group with a 3% increase in Board and Committee fees agreed. These changes are the first in three years, and the aggregate fee spend for non-executive directors remains below the total fee pool of \$2,300,000 approved by shareholders in the annual general meeting in 2018.

Shareholders are encouraged to vote to adopt the report at our annual general meeting in November.

Yours sincerely,



Dr Tracey Batten
Chair, People and Remuneration Committee

REMUNERATION REPORT

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1. Key management personnel overview

Medibank's key management personnel (KMP) includes all non-executive directors and executives who have authority and responsibility for planning, directing and controlling the activities of Medibank. In 2022, KMP were as follows:

Key Management Personnel	Position	Term as KMP
David Koczkar	Chief Executive Officer	Full-year
Milosh Milisavljevic	Group Executive - Customer Portfolios	Full-year
Mark Rogers	Group Executive – Chief Financial Officer & Group Strategy	Full-year
Andrew Wilson	Group Executive – CEO Amplar	Full-year
Non-executive directors		
Mike Wilkins	Chair	Full-year
Tracey Batten	Non-executive Director	Full-year
Anna Bligh	Non-executive Director	Full-year
Gerard Dalbosco	Non-executive Director	Full-year
Peter Everingham	Non-executive Director	From 31 March 2022
David Fagan	Non-executive Director	Full-year
Kathryn Fagg	Non-executive Director	From 31 March 2022
Linda Bardo Nicholls	Non-executive Director	Full-year
Former KMP		
Peter Hodgett	Non-executive Director	Retired 18 November 2021
Christine O'Reilly	Non-executive Director	Retired 18 November 2021

2. Summary of remuneration outcomes

Key remuneration outcomes for Executive KMP and non-executive directors during the year are summarised below, with more detailed information contained throughout the report.

Executive Key Management Personnel

<p>Fixed remuneration</p>	<ul style="list-style-type: none"> Fixed remuneration for Executive KMP including the CEO increased by an average of 3.7% effective 1 July 2022. Fixed remuneration of the Chief Executive Officer (CEO), David Koczkar was increased by 3.3% to \$1,550,000, effective 1 July 2022.
<p>Short-term incentive (STI)</p>	<ul style="list-style-type: none"> STI awards for Executive KMP reflected Group operating profit exceeding target expectations and both Health Insurance revenue growth and Customer Net Promoter Score (cNPS) performance exceeding stretch expectations. Discretion was exercised by the Board to reduce the 2022 STI outcomes for Executive KMP from an average of 84% of their maximum opportunity to 72%. 50% of STI awards for Executive KMP are deferred for 12 months in the form of performance rights. STI target percentages for Executive KMP members, including the CEO, have been maintained at current levels.
<p>Long-term incentive (LTI)</p>	<ul style="list-style-type: none"> Testing of the performance hurdles associated with Medibank's FY20 Long Term Incentive (LTI) plan is partially complete and will be finalised following the release of market share data by APRA in late August 2022. There was no vesting against the EPS CAGR measure and partial vesting against the relative TSR measure, with a performance rank at the 53rd percentile against our comparator group. Performance against the market share hurdle will be tested following the release of June market share data by APRA in late August 2022. LTI opportunity percentages for Executive KMP members, including the CEO, have been maintained at current levels.

Non-executive directors

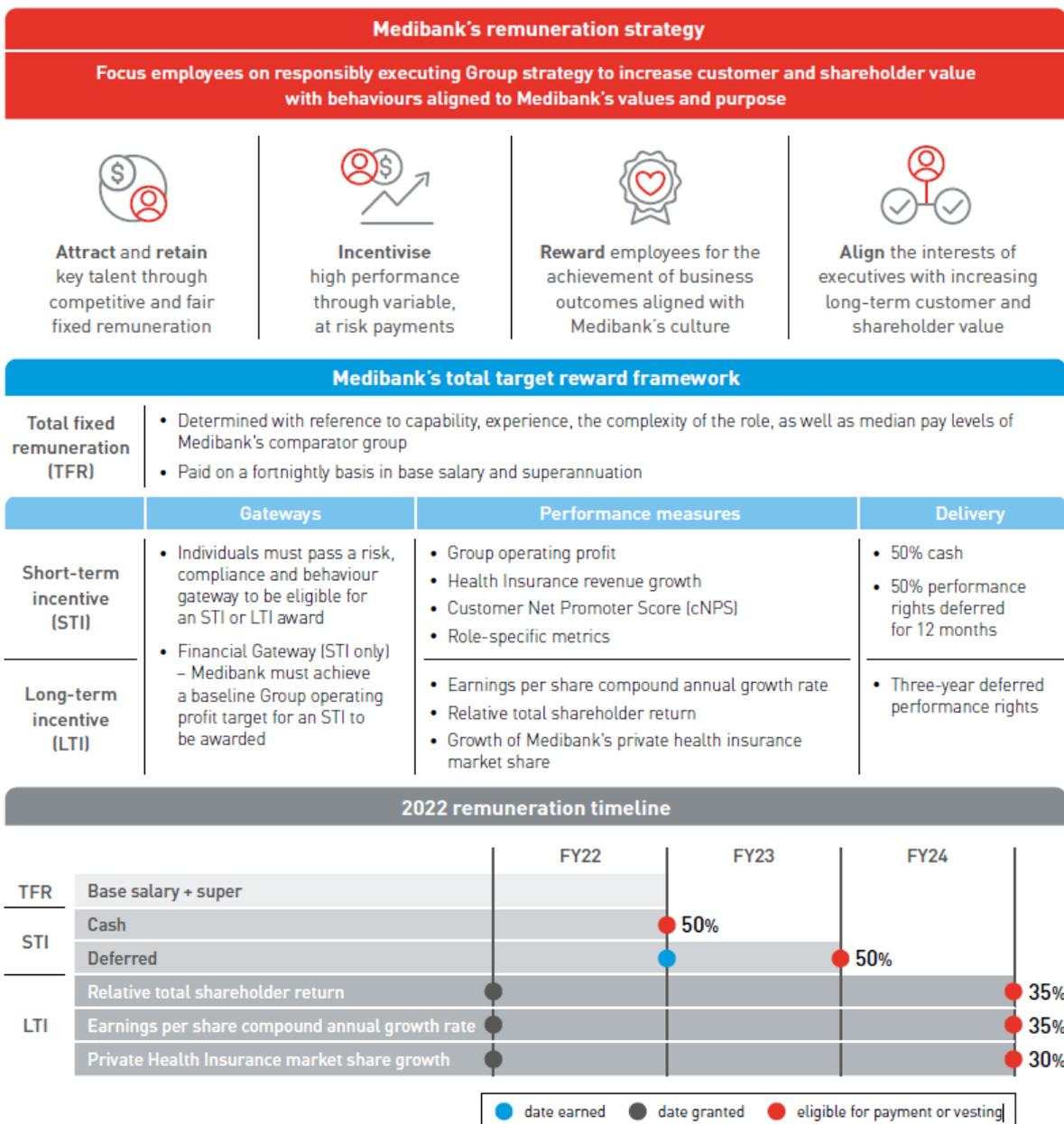
<p>Non-executive director fees</p>	<ul style="list-style-type: none"> The annual base fee for the Chair was increased by 3% to \$458,500, and the annual base fee for other non-executive directors was increased by 3% to \$170,000, both effective 1 July 2022. Committee chair fees and committee membership fees were increased by 3% effective 1 July 2022 to \$41,200 and \$20,600 respectively. The aggregate non-executive director fee spend remains below the approved total fee pool of \$2,300,000.
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3. Medibank's remuneration strategy

At Medibank, we believe that remuneration has a key influence on behaviour and is a valuable tool to reinforce our culture. Our people are guided by our strong set of values which are anchored to the core pillars of our culture – our purpose, our people and customers and our performance. We focus on our values every day to ensure we do the right thing by our customers, our people and the community.

Our remuneration strategy has been developed to focus our people on responsibly executing Medibank's strategy, role-modelling behaviours that strengthen our values-based culture and achieving business objectives that increase value for our customers and shareholders. Supporting this strategy, our remuneration framework is designed to link reward to business outcomes, individual performance and behaviour, and to support Medibank's long-term financial soundness and risk management framework.

The diagram below illustrates the relationship between Medibank's remuneration strategy, reward framework and the timeline of when 2022 remuneration is delivered.

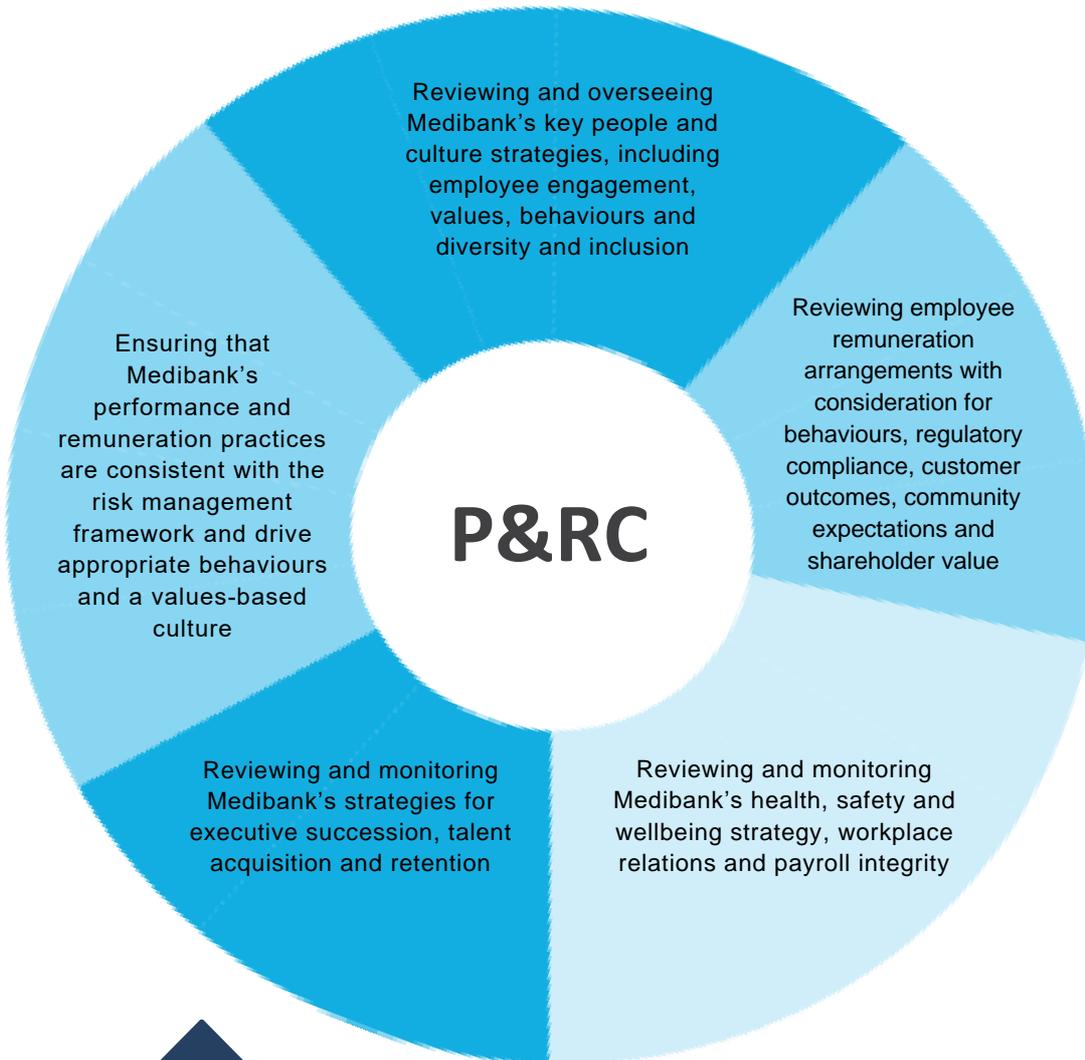


4. Remuneration governance

Medibank has a robust governance framework in place to ensure that our remuneration and performance practices are fair, reasonable and aligned with the requirements outlined in our risk management framework. Our governance framework also considers regulatory compliance, customer outcomes, community expectations and the delivery of sustainable shareholder value.

4.1 The role of the Board in remuneration

The People and Remuneration Committee (P&RC) is a committee of the Board. The diagram below outlines the role of the P&RC in assisting and advising the Board on people and culture policies and practices, including remuneration:



Independent remuneration consultant

- Ernst & Young provides information to assist the P&RC in making remuneration decisions and recommendations to the Board
- The work undertaken by Ernst & Young in 2022 did not constitute a remuneration recommendation

While there are four permanent members of the P&RC, a standing invitation exists to all non-executive directors to attend meetings. The Chief Executive Officer (CEO) and Group Executive – People, Culture & Sustainability are also invited to attend P&RC meetings, except where matters associated with their own performance or remuneration are considered. Specific governance activities with respect to the P&RC include regular reviews of the P&RC Charter to ensure consideration of changing regulations, guidelines and best practice and an annual audit of committee minutes against the P&RC Charter. For P&RC meeting attendance information, refer to the table on page 15 of the directors' report.

4.2 Executive remuneration policies

4.2.1 Performance evaluation of Executive KMP members

At the outset of each performance year, the Board determines the measures against which Executive KMP will be assessed. The measures are a combination of Medibank (Company) and role-specific performance measures that are aligned to the achievement of Medibank's customer and financial milestones set out in the annual report. Aligned with Medibank's Group-wide performance framework 'I Perform Better', the role-specific measures for Executive KMP are known as 'Big Goals' (an acronym for Bold, Impactful Goals). Big Goals are designed to be ambitious, aspirational and shift expectations from delivering at a base level against core job requirements to driving strong, impactful performance. The Big Goals adopted by each Executive KMP then form the basis for the Big Goals adopted by their leadership team members and respective teams to ensure all employees across the Group are working towards a shared and consistent strategy.

At the completion of the performance year, Executive KMP are individually assessed against the risk, compliance and behaviour gateway which is outlined in section 6.3. KMP are then attributed an individual performance outcome against a 5-point rating scale (with a minimum rating of 3 required to receive a short-term incentive (STI) award) that assesses Executive KMP performance and behaviours against business outcomes and achievement of role-specific performance measures. The individual performance ratings of Executive KMP are then combined with performance against Company measures to determine STI outcomes.

With respect to fixed remuneration adjustments, consideration is given to role-specific performance, experience, the complexity of the role and Medibank's market comparator group. Additional detail on STI performance measures are included in sections 6 and 7 of this report and further information on fixed remuneration levels for Executive KMP is outlined in section 6.2.

The CEO provides his performance assessment of each Executive KMP, and other ELT members, to the Board for consideration. The Chair, in consultation with the Board, assesses the performance, behaviour and conduct of the CEO. The Board has ultimate discretion over final individual performance outcomes for all ELT members to ensure alignment with Medibank performance, customer outcomes, community and shareholder expectations.

4.2.2 Clawback and malus of executive performance-based remuneration

Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any performance-based awards made to a senior executive employee in certain circumstances and subject to applicable laws, including the following:

- Serious misconduct, fraud or dishonesty by the employee.
- Any behaviour, act or omission by the employee that impacts on the Group's reputation or long-term financial soundness.
- A material misstatement of the Group's financial statements.
- The Board becomes aware of any other action or behaviour that it determines (acting in good faith) has resulted in the employee receiving an inappropriate benefit.

The Executive Remuneration Clawback Policy provides that if any of these events have occurred in the previous five financial years the Board may, in its absolute discretion, withhold an employee's performance-based payments, require the repayment of all, or part of, previous performance-based awards, lapse previously deferred and unvested performance-based rewards, or otherwise alter an employee's remuneration subject to applicable laws. In addition to a stand-alone policy, Medibank's remuneration clawback provisions are outlined in executive employment contracts and employee equity offer documentation.

While clawback provisions allow an organisation to recover a performance-based award after it has been paid out (or share awards vested), malus provisions allow the organisation to reduce or cancel the award before it has been paid out.

4.2.3 Executive shareholding requirements

Executive KMP are subject to a Minimum Shareholding Policy that is designed to strengthen their alignment with customers and shareholders by requiring them to hold Medibank shares with a value equivalent to 100% of their annual fixed remuneration within five years of appointment to the Executive Leadership Team. The policy does not require a person to purchase shares, however they are restricted from selling their vested employee equity holdings (other than to satisfy income tax obligations) until they meet the minimum shareholding requirement.

All Medibank shares and unvested performance rights that are subject to a tenure-based hurdle held by, or on behalf of, the person (for example within a family trust or self-managed superannuation fund where they are the beneficial owner) will count towards satisfaction of the minimum shareholding requirement.

As at 30 June 2022, progress towards the minimum shareholding requirement for each Executive KMP is provided below:

Executive KMP	Minimum shareholding requirement \$ ¹	Value of eligible shareholdings as at 30 June 2022 \$ ²	Minimum shareholding requirement timeline
David Koczkar	1,500,000	2,790,886	Requirement satisfied
Milosh Milisavljevic	780,000	78,384	22 June 2026
Mark Rogers	1,000,000	1,275,154	Requirement satisfied
Andrew Wilson	1,000,000	3,234,137	Requirement satisfied

1. Minimum shareholding requirement based on each persons' total fixed remuneration (TFR) as at 30 June 2022.
2. Holding value is calculated with reference to the total number of eligible shares or performance rights held by each person, multiplied by the closing price of Medibank's shares on 30 June 2022 (\$3.25).

4.2.4 Share Trading Policy

We have a Share Trading Policy to ensure that non-executive directors and all employees understand their obligations in relation to dealing in Medibank shares. The Share Trading Policy describes restrictions on buying and selling Medibank shares.

In addition, non-executive directors, all senior executives and employees with potential access to inside information are deemed to be 'Restricted Employees.' They are required to seek approval before dealing in Medibank shares and are subject to share trading blackouts prior to financial result announcements and other times, as required. The policy also prohibits employees from entering into transactions relating to Medibank shares which limit their economic risks, including in relation to the long-term incentive (LTI) Plan and equity-based component of the STI Plan.

Our Share Trading Policy can be found within the corporate governance section on our website.

4.2.5 Termination provisions in Executive KMP contracts

All current Executive KMP are employed under ongoing contracts with notice periods set at 3 months (employee) and 6 months (employer), or in the case of the CEO, 6 months (both employee and employer). Termination provisions included in Executive KMP contracts are limited to 6 months payment of fixed remuneration, in lieu of notice.

If an Executive KMP is assessed by the Board as a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the cash STI award in respect of the performance year in which they leave would be paid on a pro rata basis at the end of the STI performance period. The deferred component of the STI award will be paid in cash (rather than performance rights) on a pro rata basis with payment deferred until 12 months following the payment of the cash component. Any previously deferred STI remains restricted until the applicable vesting date, unless determined otherwise by the Board. Performance rights issued as LTI are retained on a pro rata basis by a 'good leaver'. Retained performance rights remain unvested and subject to the same vesting conditions that

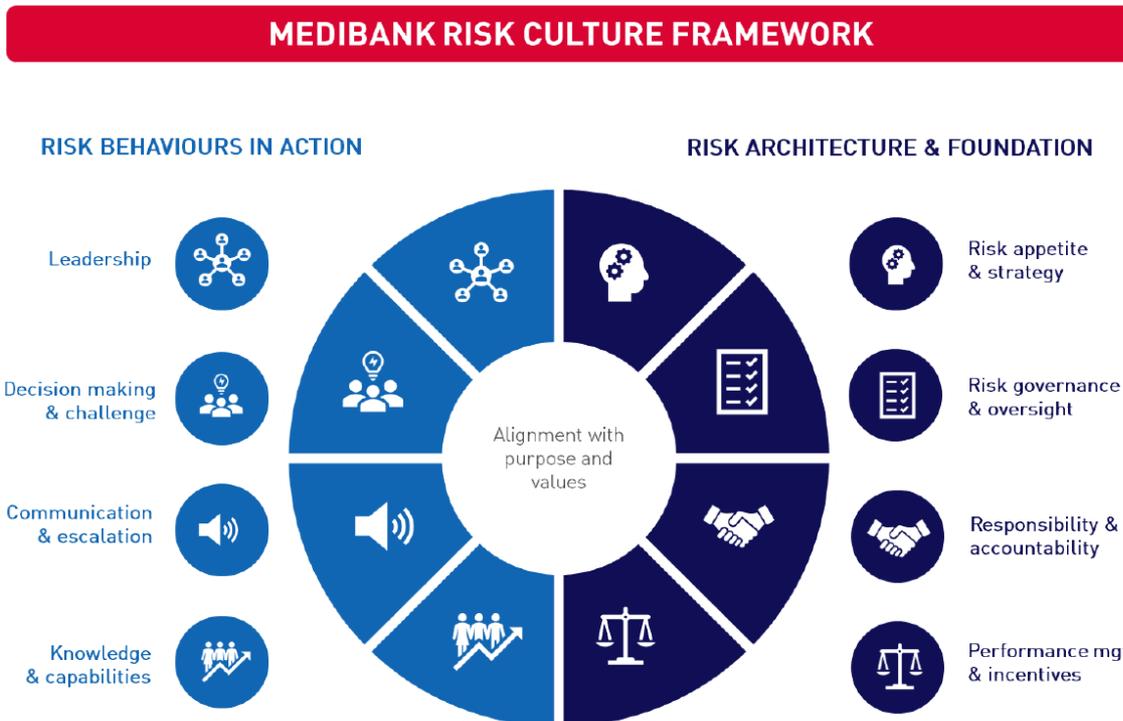
will be assessed at the end of the performance period. Further details of the termination provisions that relate to the STI and LTI plans are detailed in section 6 of this report.

5. Risk and remuneration

A key focus for Medibank’s Board and the P&RC is ensuring our remuneration policies and practices are consistent with our risk management framework, aligned with prudent risk taking and support the effective management of financial and non-financial risks.

5.1 Risk culture

An engaged culture is contingent on alignment between purpose, values, behaviours and strategic direction. With a focus on ensuring we do the right thing for our people, customers and community, Medibank’s purpose and values provide guidance for the behaviours we expect of our employees. We recently updated our Risk Culture Framework, and our current suite of measurements (behavioural metrics and survey responses) fully align with the framework elements and risk behaviours to ensure they provide the right insights and conditions for positive action. The Risk Culture Framework, outlined below, articulates the key elements that influence and shape our risk culture in terms of behaviours and practices.



Our Risk Culture Framework builds on Medibank’s Code of Conduct which sets out the way we work at Medibank and outlines practical principles and standards of behaviour and conduct which are expected of all Medibank employees. As an organisation, we are committed to not only complying with legal obligations, but also acting ethically and responsibly in relation to our people, customers and the community. The behaviours that support our risk culture include:

- We actively challenge risk decisions to ensure benefit for our customers, our employees, our brand and our shareholders
- We escalate risk issues without fear or favour
- We all own risk issues
- We expect that all our risk and reward discussions are viewed through our values and business goals.
- We learn from our experiences and mistakes to ensure we do better

5.2 Alignment of remuneration with prudent risk taking

We believe that the effective alignment of remuneration with the risk appetite set by the Board is critical to our remuneration strategy and framework. Under Medibank's Group-wide performance framework 'I Perform Better', at the end of each financial year all employees are assessed against their personal scorecard, which is a combination of financial and non-financial measures, including performance against their risk, compliance and behaviour obligations. Through the performance assessment process, both positive and negative risk, compliance and behaviour outcomes are considered as part of a holistic performance assessment. Employees are then attributed an outcome against a five-point rating scale (with a minimum rating of three required to receive a short-term incentive (STI) award) that focuses on behaviours, business outcomes and achievement of role-specific performance measures. This then informs remuneration and performance-based incentive outcomes for the period.

The management of financial and non-financial risks by senior executives is reviewed by the Risk Management Committee (RMC). As part of this review the RMC considers the effective operation of divisional risk committees, incident identification, audit findings, remediation actions, health and safety, and feedback on risk culture from employees. In addition, the Chief Risk Officer, Group Executive – People, Culture & Sustainability and Group Executive – Legal, Governance & Compliance are specifically tasked with notifying the Board of any relevant risk and compliance outcomes and/or conduct which may impact performance and remuneration outcomes for Executive KMP (including the CEO) and other senior executives.

Further, as outlined throughout this report, Medibank's executive reward framework includes long-term deferral across both our STI Plan and long-term incentive (LTI) Plan to ensure risk outcomes are considered over extended periods.

5.3 Consequence management

A well understood and consistently applied consequence management process is a key part of our risk culture and ensures risk, compliance and behaviour outcomes are aligned with remuneration outcomes. Consequences of employees breaching Medibank's Code of Conduct are clearly articulated and may include an employee attending further training or counselling, a formal written warning being applied, or in certain circumstances, termination of employment. The issue of a final written warning automatically results in the employee being given an 'unsatisfactory' performance rating for the relevant performance period, meaning the individual is ineligible for any performance-based reward outcome or fixed remuneration increase. Medibank's individual incentive plan rules also clearly articulate that failure to meet the risk, compliance and behaviour gateway in any given performance period will consequently lead to ineligibility for an incentive award for the performance period and potential termination.

In 2022, 5 employees were issued with final written warnings following a breach of Medibank's Code of Conduct, or another Medibank Group policy. In all cases, each employee received a performance rating of 'unsatisfactory' and was ineligible for any applicable performance-based incentive or fixed remuneration increase. A further 4 individuals in 2022 had their employment terminated following an incident of misconduct. Further details on consequence management can be found in our Sustainability Report 2022.

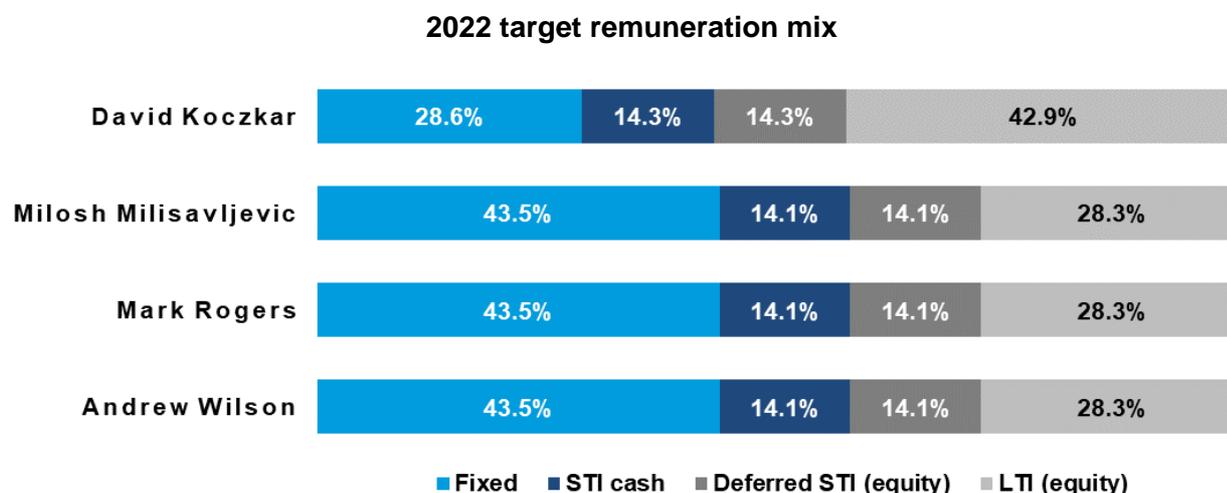
6. Executive KMP remuneration components

Target remuneration for Executive KMP is designed to reward sustained business performance with behaviours aligned with Medibank's values and purpose that benefits both customers and shareholders. The Board aims to find a balance between:

- Fixed and at-risk remuneration.
- Short-term and long-term remuneration.
- Remuneration delivered in cash and deferred equity.

6.1 2022 target remuneration mix

The 2022 target remuneration mix for Medibank's KMP is shown below.



6.2 Total fixed remuneration (TFR)

Total fixed remuneration (TFR) is the fixed portion of remuneration and includes base salary and employer superannuation contributions. Fixed remuneration is determined with reference to the executive's capabilities, experience, the complexity of the role, as well as median pay levels for similar roles at companies in the ASX 11-100 (excluding mining and energy companies). This ensures that fixed remuneration is set at competitive levels and enables Medibank to attract and retain high quality executives. Further details of Medibank's comparator group of companies is outlined in section 14 of this report. The table below outlines the current TFR settings for Executive KMP.

6.2.1 Total fixed remuneration

Executive KMP	30 June 2022 \$	1 July 2022 \$
David Koczkar	1,500,000	1,550,000
Milosh Milisavljevic	780,000	825,000
Mark Rogers	1,000,000	1,035,000
Andrew Wilson	1,000,000	1,020,000

6.3 Short-term incentive (STI)

STI is an at-risk element of remuneration, which is designed to reward executives for the creation of customer and shareholder value during the financial year. Executives must pass two separate gateways to participate in the plan. Once both gateways are achieved, executives have the opportunity to earn a percentage of their fixed remuneration as an incentive, based on company and individual performance.

6.3.1 STI gateways

For an STI award to be made to an executive, the following gateways must be achieved:

Risk, compliance and behaviour gateway

Individually assessed, the risk, compliance and behaviour gateway requires executives to:

- Adhere to Medibank's Code of Conduct which covers standards of behaviour and conduct which includes anti-harassment, anti-discrimination and anti-bribery and corruption obligations. Our Code of Conduct

requires all employees to not only comply with our legal obligations, but also to act ethically and responsibly in relation to our customers, colleagues and the community.

- Complete all mandatory compliance training which includes privacy, cyber-security, health and safety, bullying and harassment, bribery and corruption and meeting our legal, ethical and governance requirements.
- Ensure that the risks in respect of their position are well managed. Multiple factors are considered when assessing risk management (including environment, social and corporate governance and climate risks where relevant), which differ based on an executive's role. Common elements include the effective operation of divisional risk committees, incident identification, audit findings, remediation actions, health and safety, and feedback on risk culture from employees.

Assessment of the risk, compliance and behaviour gateway is also subject to feedback provided by the Chief Risk Officer, Group Executive – People, Culture & Sustainability and Group Executive – Legal, Governance & Compliance as outlined in section 5.2.

Financial gateway

- Assessed at the Group level, Medibank must achieve a baseline Group operating profit target for an STI to be awarded.

6.3.2 STI performance measurement

The Board determines challenging levels of performance for each Medibank and role-specific STI performance measure. When setting performance expectations, the Board considers numerous factors, including Medibank's strategic objectives, prior year performance, the external environment, customer outcomes and shareholder expectations. The Board also ensures that performance levels are set for the current year in the context of achieving longer term customer and financial strategic goals. Further detail on each performance measure is outlined in section 7.1.

At the completion of the performance year, an assessment is first made on the achievement of the STI gateways. If achieved, executives are then assessed against the company and role-specific performance measures to determine STI award outcomes. There is a threshold level of performance for each Medibank and role-specific measure as set by the Board that needs to be achieved for an STI award to be paid (for that element of the award). For an executive to achieve a target STI award, performance against Medibank and role-specific measures must be at the target level of performance as set by the Board (for that element of the award) and delivered with behaviours aligned with Medibank's purpose and values.

For an executive to achieve a stretch STI award (therefore, award at maximum), performance against all Medibank and role-specific measures must be at or above stretch performance as set by the Board (for that element of the award) and delivered with behaviours aligned with Medibank's values and purpose. This would represent exceptional performance, well above that of Medibank's strategic plan.

6.3.3 Key features of the STI plan

Over what period is performance assessed?	The STI performance period is the financial year 1 July to 30 June.
How are STI payments delivered?	50% of STI awarded to Executive KMP is paid as cash, with the remaining 50% deferred for 12 months (deferred STI). Deferred STI is provided in the form of 12-month deferred performance rights.
When are STI payments made?	The cash component of STI is paid following the release of audited financial results, with performance rights for the deferred STI component granted shortly thereafter.

<p>What method is used to determine the number of performance rights granted to each participant as part of the deferred STI?</p>	<p>Performance rights under the STI plan are granted at face value. The deferred STI value for each Executive KMP is divided by the volume weighted average share price (VWAP) of Medibank shares to determine the number of units granted.</p> <p>For the 2022 deferred STI component the VWAP will be calculated on the 10 trading days up to and including 15 September 2022.</p>
<p>Are deferred STI performance rights entitled to receive a dividend payment?</p>	<p>Deferred STI performance rights do not attract dividends during the deferral period. To align participant outcomes with shareholders, on vesting of these performance rights additional Medibank shares are granted to ensure each participant receives a benefit equivalent to any dividends paid during the deferral period.</p>
<p>What gateways apply to the STI plan?</p>	<p>For an STI award to be made to Executive KMP, both the risk, compliance and behaviour gateway, and the financial gateway must be achieved. Further detail on these gateways is outlined in section 6.3.1.</p>
<p>What are the performance measures under the STI plan?</p>	<p>Performance measures under the STI plan are determined by the Board at the commencement of each performance period. For 2022, the performance measures were:</p> <ul style="list-style-type: none"> • Group operating profit (excluding investment income). • Health Insurance premium revenue growth. • Customer Net Promoter Score (cNPS). • Role-specific metrics. <p>Section 7.1 of this report provides a detailed description of Medibank's STI performance measures and a description of how the organisation has performed against each measure in 2022. Actual target values are not disclosed as this is considered commercially sensitive information.</p>
<p>Does Medibank have a clawback policy that applies to the STI plan?</p>	<p>Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any award made under the STI plan to Executive KMP in certain circumstances subject to applicable laws. Further detail on this policy is outlined in section 4.2.2.</p>
<p>What happens to STI entitlements if an executive leaves Medibank?</p>	<p>If an executive is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval), pro rata payment of STI applies.</p> <p>Section 4.2.5 provides additional information on the treatment of STI for people deemed as 'good leavers' by the Board.</p>
<p>In what circumstances are STI entitlements forfeited?</p>	<p>In the event an executive is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the executive will forfeit any payment under the STI plan, including any unvested deferred STI grants, unless otherwise determined by the Board.</p>

6.3.4 Annual STI opportunity

The target and maximum annual STI opportunity as a percentage of total fixed remuneration for each Executive KMP is outlined in the table below.

Executive KMP	2022 & 2023	
	Target	Maximum
David Koczkar	100%	150%
Milosh Milisavljevic	65%	100%
Mark Rogers	65%	120%
Andrew Wilson	65%	120%

6.4 Long-term incentive (LTI)

LTI is an at-risk element of remuneration designed to reward executives for delivering sustainable business performance over the long term. Given the nature of the private health insurance industry and the fact that it is highly regulated, the Board considers it appropriate to measure long term performance over a three-year period. Each year executives are eligible to receive an LTI which is calculated as a percentage of their fixed remuneration. This incentive is subject to performance hurdles that will be tested at the end of the three-year performance period. Based on performance against these hurdles a percentage of the incentive will be retained by the executive with the remainder being forfeited.

6.4.1 Key features of the LTI plan

What is the aim of the LTI plan?	The Medibank LTI plan is designed to: <ul style="list-style-type: none"> Align the interests of executives more closely with the interests of customers and shareholders, by providing an opportunity for those executives to receive an equity interest in Medibank through the granting of performance rights. Assist in the motivation, retention and reward of executives over the three-year deferral period.
What is the performance period for 2022 LTI plan?	The performance period for the 2022 LTI plan is three financial years commencing 1 July 2021. A three-year performance period strikes a balance between providing a reasonable period to align reward with shareholder return and the LTI acting as a vehicle for executive motivation and retention.
What are performance rights?	Performance rights issued to executives under the LTI plan are conditional rights for the participant to subscribe for fully paid ordinary shares in Medibank. Each performance right entitles the executive to subscribe for one ordinary share if the performance hurdles are met at the conclusion of the performance period. No amount is payable by the participant upon exercise of the performance rights once they have vested.
What method is used to determine the number of performance rights granted to each participant?	Performance rights under the LTI plan are granted at face value. Each participant receives a percentage of their fixed remuneration in LTI (refer to section 6.4.2 for details). This amount is then divided by the face value of Medibank shares. For the 2022 LTI plan, the number of performance rights granted to each participant was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including, 30 June 2021. This average price was \$3.13.
What gateways apply to the LTI plan?	Each participant must meet the risk, compliance and behaviour gateway prior to being granted LTI. Further detail on this gateway is outlined in section 6.3.1.

<p>What are the performance hurdles under the 2022 LTI plan?</p>	<p>Performance rights issued under the 2022 LTI plan are subject to 3 separate performance hurdles:</p> <ul style="list-style-type: none"> • 35% of the performance rights are subject to a performance hurdle based on Medibank’s earnings per share compound annual growth rate (EPS CAGR) over the performance period. The starting point for EPS will be calculated using Medibank’s underlying profit as at 30 June 2021 and the performance period for the EPS performance hurdle will run for 3 years from 1 July 2021 through to 30 June 2024. Further detail on the profit measure used in the calculation of EPS is provided in section 6.4.3. • 35% of the performance rights are subject to a relative total shareholder return (TSR) performance hurdle, measured over the performance period. Medibank’s relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 11-100 (excluding mining and energy companies). • 30% of the performance rights are subject to a performance hurdle based on the growth of Medibank’s private health insurance market share (as reported by APRA) over the performance period. <p>These performance hurdles were chosen by the Board as they are aligned with the interests of our customers and shareholders and represent well understood and transparent mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation.</p> <p>The performance hurdles under the 2022 LTI plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the vesting schedule in section 6.4.3.</p>
<p>When do the performance rights vest?</p>	<p>Performance hurdles are assessed as soon as practicable after the completion of the relevant performance period. The number of performance rights that vest (if any) will be relative to the achievement against the performance hurdles. See section 6.4.3 for the vesting schedule associated with each performance hurdle.</p>
<p>Are the performance hurdles re-tested?</p>	<p>No. Performance hurdles are only tested once at the end of the performance period. Any performance rights that remain unvested at the end of the performance period are immediately forfeited.</p>
<p>Are LTI performance rights entitled to receive a dividend payment?</p>	<p>LTI performance rights do not attract a dividend during the performance period, as they are still subject to performance hurdles that will determine the number of rights that convert to ordinary Medibank shares.</p>
<p>Does Medibank have a clawback policy that applies to the LTI plan?</p>	<p>Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any award made under the LTI Plan to an executive in certain circumstances subject to applicable laws. Further detail on this policy is outlined in section 4.2.2.</p>
<p>What happens to LTI entitlements if a participant leaves Medibank?</p>	<p>If a participant is a ‘good leaver’ (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval), a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will be forfeited on a pro rata basis according to a formula which takes into account the length of time the participant has held the performance rights relative to the performance period for the grant. The retained performance rights will remain unvested and will be tested at the end of the performance period against the existing performance hurdles.</p>

In what circumstances are LTI entitlements forfeited?	LTI entitlements are forfeited if performance hurdles are not met. In the event a participant is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will be automatically forfeited.
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The annual LTI allocation value as a percentage of TFR for each Executive KMP is outlined in the table below.

6.4.2 Annual LTI allocation

Executive KMP	2022 & 2023
	LTI allocation value as % of TFR
David Koczkar	150%
Milosh Milisavljevic	65%
Mark Rogers	65%
Andrew Wilson	65%

6.4.3 LTI hurdles explained

Each year, the Board reviews the LTI targets and vesting conditions in the context of Medibank's operating environment. The Board is committed to setting targets which are appropriately challenging for management to meet while not being unattainable and which ultimately support the delivery of strong outcomes for our customers and shareholders. For the 2022 LTI offer, the Board also considered the uncertainty surrounding the economic and social impact of COVID-19 on Medibank's operating environment and the PHI landscape more broadly.

2022 EPS performance rights (35% of award)

In this context, the Board approved maintaining a threshold EPS CAGR target of 3% for the 2022 LTI grant and maintaining the vesting schedule that applied to the 2021 LTI offer. Details of the vesting schedule are outlined in the table below:

Medibank's EPS CAGR over the performance period	Percentage of EPS performance rights that vest
Less than 3% EPS CAGR	Nil
Between 3% and 7% EPS CAGR	Straight-line pro rata vesting between 50% and 100%
7% EPS CAGR or greater	100%

Medibank's performance against the EPS hurdle is calculated based on the compound annual growth rate (CAGR) of Medibank's EPS over the performance period. EPS is based on underlying profit, which adjusts statutory net profit after tax (NPAT) where appropriate, 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, due to the limited control that management has over these outcomes.

2022 TSR performance rights (35% of award)

Medibank's TSR will be compared against companies within the ASX 11-100 (excluding mining and energy companies), which is the same comparator group used for executive and non-executive remuneration benchmarking. For any of the 2022 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2022 TSR performance rights that vest, if any, will be based on Medibank's TSR ranking at the end of the performance period, as set out in the following vesting schedule:

Medibank's TSR rank in the 2022 comparator group	Percentage of TSR performance rights that vest
Less than 50 th percentile	Nil
Between the 50 th and 75 th percentile	Straight-line pro rata vesting between 50% and 100%
At or above 75 th percentile	100%

The TSR of Medibank and other companies within the comparator group, expressed as a compound annual rate of return, will be comprised of:

- a) The change in share price of each company over the performance period. The change in share price is calculated using the volume weighted average price (VWAP) of each entity over the 20 trading days leading up to and including the performance period start and end dates. The VWAP at the end of the performance period will be adjusted for any stock splits that occur during the performance period.
- b) The value of all dividends and other shareholder benefits paid by each company during the performance period assuming that:
 - i. The dividends and shareholder benefits are reinvested in the relevant company at the closing price of the securities on the date the dividend or shareholder benefit was paid.
 - ii. Franking credits are disregarded.

The entities comprising the 2022 comparator group are determined at the commencement of the performance period. If the ordinary shares or stock of a member of the 2022 comparator group is not quoted on the ASX at the end of the performance period (for example if the member has been delisted for any reason), then it will be excluded from calculations of the TSR calculation, unless the Board, acting in good faith and in its absolute discretion, determine otherwise. In exercising its discretion, the Board may have regard to such matters it deems relevant including (but not limited to) the length of time that the member was quoted on the ASX during the performance period.

2022 market share performance rights (30% of award)

The Board approved maintaining a threshold private health insurance (PHI) market share growth target of 25 basis points. Details of the vesting schedule are set out below:

Medibank's PHI market share growth	Percentage of market share performance rights that vest
Less than 25 basis points	Nil
Between 25 basis points 75 basis points	Straight-line pro rata vesting between 50% and 100%
At or above 75 basis points	100%

7. Linking remuneration and performance in 2022

7.1 2022 short-term incentive (STI) performance scorecard

The following table details the 2022 STI performance scorecard measures, weightings and assessment.

Measure	Description	Weighting			2022 Outcomes
		CEO	GE – CEO Amplar	Other Executive KMP	
Risk, compliance and behaviour gateway	Individually assessed, Executive KMP must adhere to Medibank's Code of Conduct, ensure that the risks in respect of their position are well managed and complete all mandatory compliance training. Medibank's Code of Conduct requires all employees to not only comply with our legal obligations, but also to act ethically and responsibly in relation to our customers, colleagues and the community. The management of risks (including environment, social and corporate governance and climate risks where relevant) is reviewed by the Risk Management Committee and considers the effective operation of divisional risk committees, incident identification, audit findings, remediation actions, health and safety, feedback on risk culture from employees, and feedback provided by the Chief Risk Office, Group Executive – People, Culture & Sustainability and Group Executive – Legal, Governance & Compliance as outlined in section 5.2.	Gateway	Gateway	Gateway	<i>All achieved</i>
Financial gateway	Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2022, this baseline financial performance was a Group operating profit target.	Gateway	Gateway	Gateway	<i>Met</i>
Group operating profit	Group operating profit represents the core financial measure for the annual STI Plan and reflects the Board's belief that it is the best measure of underlying business performance and value created for customers and shareholders over the performance period.	45%	22.5%	35%	<i>Above target</i>
Health Insurance premium revenue growth	Measured alongside the core metric of Group operating profit, the focus of this measure is sustainable and profitable revenue growth to ensure optimal value creation for customers and shareholders.	20%	15%	25%	<i>Above stretch</i>
Customer Net Promoter Score (cNPS)	cNPS is a key customer advocacy metric that measures the likelihood of people recommending Medibank or ahm to their families and friends.	20%	12.5%	20%	<i>Above stretch</i>
Role-specific big goals	Aligned to one or more of the following milestones: 1. Deliver leading experiences – Continue to achieve a high level of advocacy by delivering exceptional experiences for our customers and employees. 2. Differentiate our insurance business – we aim to increase market share, achieve net policyholder growth of 3.1% to 3.3% (including continued growth in the Medibank brand) and to deliver FY22 productivity target of \$15 million (plus an additional \$25 million during FY23-FY24) 3. Expand in health – replace the reported FY18 \$30 million operating profit of Garrison and achieve 480,000 customers engaged with Live Better	15%	50%	20%	<i>Ranging between 'on-target' to 'ahead of target'</i>

7.2 Medibank's 2022 financial performance

Medibank's 2022 annual financial performance is provided in the table below in addition to the average 2022 STI award achieved by Executive KMP, as a percentage of maximum opportunity. This table illustrates the relationship between the key indicators of shareholder wealth creation and STI outcomes for Executive KMP.

Measure	2022	2021	2020	2019	2018
Health Insurance premium revenue growth	2.7%	2.1%	1.3%	2.4%	1.2%
Group operating profit ¹	\$594.1m	\$528.3m	\$461.0m	\$558.7m	\$548.8m
Group net profit after tax (NPAT)	\$393.9m	\$441.3m	\$315.0m	\$458.7m	\$445.1m
Dividend	13.4 cents p/s	12.7 cents p/s	12.0 cents p/s	13.1 cents p/s	12.7 cents p/s
Share price as at 1 July	\$3.16	\$2.99	\$3.49	\$2.92	\$2.80
Share price as at 30 June	\$3.25	\$3.16	\$2.99	\$3.49	\$2.92
Average Executive KMP STI as a percentage of maximum opportunity	72%	70%	0%	56%	58%

1. 2019 Group operating profit of \$558.7 million includes \$30.2 million of operating profit attributable to discontinued operations.

7.3 2022 STI awards

The table below provides a summary of STI awards for the 2022 performance year.

Executive KMP	Total STI achieved \$	STI cash (50%) \$	STI deferred (50%) \$	Total STI achieved as % of target	Total STI achieved as % of max opportunity
David Koczkar	1,722,456	861,228	861,228	115%	77%
Milosh Milisavljevic	604,826	302,413	302,413	119%	78%
Mark Rogers	844,084	422,042	422,042	130%	70%
Andrew Wilson	769,912	384,956	384,956	118%	64%

7.4 2020 Long-term incentive plan outcomes

The performance period for the 2020 LTI plan concluded on 30 June 2022. The table below outlines the final outcome against the EPS CAGR and Relative TSR (expressed as a compound annual rate of return) performance hurdles and associated vesting percentage for each. Testing of the market share performance hurdle will be completed following the release of market share information by APRA.

Performance hurdle	Weighting	Outcome	Vesting percentage
EPS CAGR	35%	0.2%	0%
Relative TSR	35%	53rd percentile	56%
Market Share	30%	Pending ¹	Pending
Total 2020 LTI vesting percentage			Pending

1. To be confirmed following the release of APRA market share data in late August 2022

Medibank's 2020 LTI was tested following the completion of the performance period on 30 June 2022. EPS CAGR and Relative TSR hurdles were assessed in line with the terms of the plan and the Board did not exercise discretion in determining the outcome. The total number of rights vesting will be confirmed once testing against the market share hurdle is completed. The performance rights under the 2020 LTI Plan that do not vest as a result of the performance hurdle outcomes not being met will lapse immediately.

The 2021 and 2022 LTI plans remain in restriction and will be assessed against their performance hurdles at the completion of the 2023 and 2024 financial years respectively.

8. 2022 actual remuneration (Non-IFRS disclosure)

The table below represents the 2022 'actual' remuneration for Executive KMP and includes all cash payments made in relation to 2022, in addition to deferred short-term incentive (STI) awards that vested in 2022.

Statutory remuneration disclosures prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards differ to the numbers presented below, as they include (among other benefits) expensing for equity grants that are yet to realise or may never be realised. The statutory remuneration table for Executive KMP is presented in section 9.

Executive KMP	Base salary and superannuation \$	Cash STI for performance to 30 June 2022 \$	Total cash payments in relation to 2022 \$	Deferred equity awards that vested in 2022 ¹ \$	Total 2022 actual remuneration \$	Equity awards that lapsed in 2022 ² \$
David Koczkar	1,500,000	861,228	2,361,228	229,609	2,590,837	487,913
Milosh Milisavljevic	778,825	302,413	1,081,238	34,065	1,115,303	72,379
Mark Rogers	1,000,000	422,042	1,422,042	172,352	1,594,394	366,241
Andrew Wilson	999,846	384,956	1,384,802	242,225	1,627,027	514,720

1. Deferred equity awards that vested in 2022 relate to the 2019 LTI performance rights that vested during the year.
2. Equity awards that lapsed in 2022 relate to the portion of the 2019 long-term incentive (LTI) performance rights that lapsed following the testing of the performance hurdles in July 2021.

9. Statutory remuneration tables

9.1 Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the *Corporations Act 2001* and details the statutory accounting expense of all remuneration-related items for Executive KMP. In contrast to the table in section 8 that details 2022 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2022 that are yet to, and may never, be realised.

Executive KMP	Financial year	Short-term benefits				Post-employment benefits	Long-term benefits		Equity-based benefits	Other	Total remuneration \$
		Salary \$ ¹	Short-term incentive (STI) \$	Other \$	Non-monetary benefits \$ ²	Superannuation \$	Leave \$ ³	Deferred STI \$	Performance rights \$ ⁴	Termination benefits \$	
David Koczkar	2022	1,523,622	861,228	-	21,838	27,500	47,627	-	1,279,338	-	3,761,153
	2021	1,027,440	364,896	-	18,895	22,650	174,791	-	512,839	-	2,121,511
Milosh Milisavljevic ⁵	2022	754,326	302,413	-	14,833	27,500	40,033	-	299,655	-	1,438,760
	2021	21,818	4,772	-	212	740	8	-	1,762	-	29,312
Mark Rogers	2022	980,097	422,042	-	15,836	23,749	64,362	-	649,377	-	2,155,463
	2021	882,649	335,405	-	17,457	21,802	146,945	-	458,958	-	1,863,216
Andrew Wilson	2022	971,537	384,956	-	20,614	25,000	60,576	-	626,895	-	2,089,578
	2021	963,798	331,296	-	22,936	25,096	33,501	-	498,587	-	1,875,214
Former Executive KMP											
Craig Drummond	2021	1,555,477	871,312	-	15,364	25,096	51,868	871,312	1,227,715	-	4,618,144
Total Executive KMP ⁶	2022	4,229,582	1,970,639	-	73,121	103,749	212,598	-	2,855,265	-	9,444,954
	2021	4,451,182	1,907,681	-	74,864	95,384	407,113	871,312	2,699,861	-	10,507,397

- Salary includes annual base salary paid on a fortnightly basis and annual leave entitlements accrued, but not taken, during the year which are expected to be taken in the next 12 months.
- Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.
- Long-term leave comprises an accrual for long service leave and annual leave entitlements accrued, but not taken, during the year which are not expected to be taken in the next 12 months. Comparatives have been revised to represent the movement in annual leave entitlements accruals.
- Performance rights include equity-based remuneration incurred during the relevant financial year. The values are based on the grant date fair value amortised on a straight-line basis over the performance period and any reversals required by *AASB 2 Share-based Payments*.
- The remuneration figures disclosed for Milosh Milisavljevic for 2021 reflect the period from his commencement as a KMP on 22 June 2021.
- Total remuneration for FY2021 is \$3.16 million less than that disclosed in the 2021 Remuneration Report as it does not include the Total Remuneration amounts of \$1.09m for Kylie Bishop, \$1.04m for John Goodall and \$1.03m for Mei Ramsay who were KMP in 2021. Effective 1 July 2021, following changes to ELT operation effective 1 July 2021, they are no longer deemed KMP.

9.2 Performance-related remuneration statutory table

The following table provides an analysis of the non-performance-related (fixed remuneration) and performance-related (short-term incentive (STI) and long-term incentive (LTI) components of the 2022 remuneration mix for Medibank's Executive KMP as detailed in the 'statutory remuneration table'.

Executive KMP	Financial year	<i>Non-performance related</i>	<i>Performance-related</i>			Total performance-related remuneration
		Fixed remuneration ¹	Cash STI	Deferred STI ²	LTI ³	
David Koczkar	2022	43.1%	22.9%	16.3%	17.7%	56.9%
Milosh Milisavljevic	2022	58.2%	21.0%	10.5%	10.3%	41.8%
Mark Rogers	2022	50.3%	19.6%	17.6%	12.5%	49.7%
Andrew Wilson	2022	51.6%	18.4%	17.1%	12.9%	48.4%

1. Fixed remuneration includes the accounting expense from all columns of the 'statutory remuneration table' other than 'cash STI', 'performance rights' and 'deferred STI'.
2. Deferred STI includes the 2022 accounting expense of the 2022 deferred STI components within the 'performance rights' and 'deferred STI' columns of the 'statutory remuneration table'.
3. LTI includes the 2022 accounting expense of the 2020, 2021 and 2022 LTI component within the 'performance rights' column of the 'statutory remuneration table'.

10. Executive KMP equity awards

10.1 Executive KMP equity award transactions

Details of 2022 Executive KMP equity award transactions and outstanding holdings granted in previous years are set out below.

Executive KMP ¹	Award Type ²	Balance 1 July 2021	Acquired During 2022 ³		Vested During 2022 ⁴		Lapsed During 2022 ⁵		Other Changes	Balance 30 June 2022 ⁶	
			Units	Value	Units	Value	Units	Value		Units	Value
David Koczkar	Long-term incentive	590,232	718,849	1,674,918	65,045	229,609	138,219	487,913	-	1,105,817	2,532,485
	Short-term incentive	-	102,787	364,894	-	-	-	-	-	102,787	364,894
	Ordinary shares	793,689	-	-	65,045	229,609	-	-	-	858,734	2,790,886
Milosh Milisavljevic	Long-term incentive	109,948	161,980	377,413	9,650	34,065	20,504	72,379	-	241,774	554,237
	Short-term incentive	-	-	-	-	-	-	-	-	-	-
	Ordinary shares	14,468	-	-	9,650	34,065	-	-	-	24,118	78,384
Mark Rogers	Long-term incentive	501,952	207,667	483,864	48,825	172,352	103,751	366,241	-	557,043	1,257,796
	Short-term incentive	-	94,480	335,404	-	-	-	-	-	94,480	335,404
	Ordinary shares	343,530	-	-	48,825	172,352	-	-	-	392,355	1,275,154
Andrew Wilson	Long-term incentive	601,400	207,667	483,864	68,619	242,225	145,813	514,720	-	594,635	1,341,431
	Short-term incentive	-	93,322	331,293	-	-	-	-	-	93,322	331,293
	Ordinary shares	926,500	-	-	68,619	242,225	-	-	-	995,119	3,234,137

- Effective 1 July 2021, Kylie Bishop, John Goodall and Mei Ramsey were no longer deemed KMP and as such their equity award transactions are not reported in the 2022 period.
- Long-term incentive corresponds to performance rights awarded under the LTI plan that are subject to performance hurdles. Short-term incentive represents performance rights awarded under the STI plan. Ordinary shares include all Medibank shares held by the executive or related parties.
- Represents the maximum number of equity awards that may vest to each Executive in respect to their time as KMP during 2022. The minimum potential outcome for the equity awards is 0. The values are calculated using the fair value as at grant date. The fair value at grant has been based on a valuation by independent external consultants in accordance with accounting standard AASB 2 Share Based Payments. The fair values for the 2020, 2021 and 2022 long-term incentive (LTI) grants are used for accounting purposes only as all LTI grants are made using the face value, as outlined in section 6.4. Unit prices have been rounded to the nearest cent.
- Awards that vested in 2022 relate to the 32% vesting of 2019 LTI award (granted 6 December 2018) following the assessment of performance hurdles. Performance rights that vested were automatically exercised and no payment was required from participants. Executives received one ordinary share for each performance right that vested during the financial year. The value of vested awards is calculated using the closing share price on vesting date.
- Awards that lapsed in 2022 relate to the 68% of the 2019 LTI award that did not meet the performance hurdle and subsequently lapsed.
- The value of unvested STI is determined by the number of units at 30 June 2022 multiplied by the unit price at grant. The value of unvested LTI is determined by the number of units at 30 June 2022 multiplied by the fair value at grant. The value of ordinary shares is determined by multiplying the number of ordinary shares at 30 June 2022 by the closing price of Medibank shares on the same date.

10.2 Overview of unvested equity awards and fair value assumptions

All awards are subject to continued employment, malus and clawback provisions.

Award	Award type	Performance start date	Performance end date ¹	Grant date	Performance measure	Weighting	Unit price at grant	Fair value at grant ²
2022 LTI performance rights	LTI	1/07/2021	30/06/2024	3/12/2021	EPS	35%	3.13	2.72
					Market Share	30%	3.13	2.72
					TSR	35%	3.13	1.62
2021 Deferred STI performance rights	STI	1/07/2021	15/09/2022	3/12/2021	Service	100%	3.55	3.55
2021 LTI performance rights	LTI	1/07/2020	30/06/2023	26/11/2020	EPS	35%	3.02	2.54
					Market Share	30%	3.02	2.54
					TSR	35%	3.02	1.58
2020 LTI performance rights	LTI	1/07/2019	30/06/2022	28/11/2019	EPS	35%	3.46	2.80
					Market Share	30%	3.46	2.80
					TSR	35%	3.46	1.09
2019 LTI performance rights	LTI	1/07/2018	30/06/2021	6/12/2018	EPS	50%	2.91	2.44
					TSR	50%	2.91	1.37

1. The performance end date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board, with Medibank to notify the holder at that time. Performance rights that vest are automatically exercised and no payment is required from participants. Any performance rights that don't vest at this point will immediately expire.
2. Fair value of LTI performance rights has been calculated as at the start of the performance period.

11. Non-executive director remuneration and framework

Non-executive director fees are determined by the Board and reflect the role, market benchmarks and Medibank's objective to attract highly skilled and experienced independent non-executive directors. All non-executive directors are required to hold a minimum number of shares in Medibank to align with shareholder interests.

11.1 Non-executive director remuneration

Component	Delivered	Description
Base fee	Cash and superannuation	The base fee represents remuneration for service on the Medibank Board. The base fee for the Chair represents the entire remuneration for that role.
Committee fees	Cash and superannuation	Committee fees represent remuneration for chairing, or membership of, Board committees.

11.1.1 Non-executive director fee cap

Under Medibank's Constitution, the total fees paid in any financial year to all non-executive directors for their services (excluding, for these purposes, the salary of any executive director) must not exceed, in aggregate, the amount fixed at Medibank's annual general meeting in 2018 at \$2,300,000 per annum (fee cap).

11.1.2 Non-executive director remuneration

Under Medibank's Constitution, the Board is responsible for determining the total amount paid to each non-executive director as remuneration for their services. In making this determination, the Board has taken into account the level of work required for the role and has regard to the median remuneration paid to non-executive directors of companies positioned within the ASX 11-100 (excluding mining and energy companies).

Following the annual benchmarking exercise and the position of non-executive directors against the median of the benchmark group, non-executive director base and committee fees have been increased for 2023. Based on the composition of the Board, non-executive director fee spend for 2023 will be \$2,019,300 against the approved cap of \$2,300,000.

Non-executive director fees applicable throughout 2022 and 2023 are set out in the table below:

Position	2022 \$	2023 \$
Chair	445,000	458,500
Non-executive directors	165,000	170,000
Committee chair fees		
Audit Committee	40,000	41,200
Risk Management Committee	40,000	41,200
People and Remuneration Committee	40,000	41,200
Investment and Capital Committee	40,000	41,200
Committee membership fees		
Audit Committee	20,000	20,600
Risk Management Committee	20,000	20,600
People and Remuneration Committee	20,000	20,600
Investment and Capital Committee	20,000	20,600

11.2 Non-executive director superannuation

Medibank meets its obligations under the Superannuation Guarantee legislation by paying superannuation contributions in respect of non-executive directors to their nominated complying superannuation funds up to the concessional contribution limits. Superannuation contributions for non-executive directors are drawn from the overall fees paid to non-executive directors.

As permitted under the Superannuation Guarantee legislation, people with multiple employers can elect to be exempt from the superannuation guarantee where contributions are likely to take them over the annual concessional contribution cap. If a non-executive director applies and receives an exemption from superannuation guarantee payments, Medibank will make those payments in cash.

11.3 Shareholding policy for non-executive directors

Medibank has a Minimum Shareholding Policy that requires non-executive directors to acquire shares with a value equal to one year's base fee after tax over a period of five years. Non-executive directors do not participate in, or receive, any performance-based remuneration as part of their role and do not participate in any equity plans that operate within Medibank.

As at 30 June 2022, all non-executive directors have met the minimum shareholding requirement. Further details of current non-executive director shareholdings are provided in section 13.

12. 2022 non-executive director remuneration statutory table

Non-executive director	Financial year	Short-term benefits		Post-employment benefits	Total \$
		Cash salary and fees \$	Non-monetary ¹ \$	Superannuation \$	
Mike Wilkins	2022	446,711	4,414	-	451,125
	2021	377,228	3,954	9,352	390,534
Tracey Batten	2022	191,670	2,703	19,196	213,569
	2021	187,935	2,581	17,854	208,370
Anna Bligh	2022	187,054	3,532	18,734	209,320
	2021	187,934	3,296	17,854	209,084
Gerard Dalbosco²	2022	213,703	1,248	4,470	219,421
	2021	20,882	-	1,984	22,866
Peter Everingham⁵	2022	47,308	593	4,731	52,632
David Fagan	2022	215,023	3,019	21,534	239,576
	2021	206,270	2,736	19,596	228,602
Kathryn Fagg⁵	2022	47,308	-	4,731	52,039
Linda Bardo Nicholls	2022	204,643	3,026	-	207,669
	2021	187,456	3,014	18,127	208,597
Former non-executive directors					
Elizabeth Alexander³	2021	107,435	9,434	6,112	122,981
Peter Hodgett⁴	2022	79,846	6,070	8,053	93,969
	2021	206,270	3,849	19,596	229,715
Christine O'Reilly⁴	2022	87,863	5,355	-	93,218
	2021	225,865	2,765	-	228,630
Total non-executive director remuneration	2022	1,721,129	29,960	81,449	1,832,538
	2021	1,707,275	31,629	110,475	1,849,379

1. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all Medibank employees.
2. Gerard Dalbosco's 2021 remuneration reflects his commencement date as a non-executive director of 21 May 2021.
3. Elizabeth Alexander's 2021 remuneration reflects her retirement date from the Medibank Board of 1 October 2020.
4. Peter Hodgett's and Christine O'Reilly's 2022 remuneration reflects their retirement date from the Medibank Board of 18 November 2021.
5. Kathryn Fagg's and Peter Everingham's 2022 remuneration reflects their commencement date as non-executive directors of 31 March 2022.

13. Non-executive director ordinary shareholdings

Non-executive director	Balance 30 June 2021	Acquired during the year	Other changes	Balance 30 June 2022	Minimum shareholding requirement \$ ¹	Shareholding Value at 30 June 2022 \$ ²	Minimum shareholding requirement timeline
Mike Wilkins	100,000	-	-	100,000	222,500	325,000	Requirement satisfied
Tracey Batten	50,000	-	-	50,000	82,500	162,500	Requirement satisfied
Anna Bligh	44,623	-	-	44,623	82,500	145,025	Requirement satisfied
Gerard Dalbosco	24,432	48,400	-	72,832	82,500	236,704	Requirement satisfied
Peter Everingham⁴	-	-	40,000	40,000	82,500	130,000	Requirement satisfied

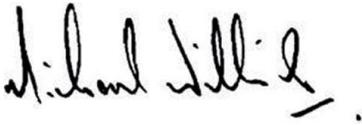
David Fagan	47,016	-	-	47,016	82,500	152,802	Requirement satisfied
Kathryn Fagg ⁴	-	-	32,750	32,750	82,500	106,438	Requirement satisfied
Linda Bardo Nicholls	45,000	-	-	45,000	82,500	146,250	Requirement satisfied
Former non-executive director							
Peter Hodgett ³	67,800	-	(67,800)	-	-	-	Not applicable
Christine O'Reilly ³	69,930	-	(69,930)	-	-	-	Not applicable

1. Minimum shareholding requirement based on annual non-executive director base fees for 2022 and an assumed tax rate of 50%.
2. Value has been calculated with reference to the total number of eligible shares held by each non-executive director, multiplied by the closing price of Medibank's shares on 30 June 2022 (\$3.25).
3. Peter Hodgett and Christine O'Reilly ceased to be a KMP on 18 November 2021 and therefore their balance at 30 June 2022 has been adjusted to reflect no further holdings as a KMP.
4. Peter Everingham and Kathryn Fagg commenced as non-executive directors on 31 March 2022, and therefore their balance at 30 June 2021 was zero. Both Peter and Kathryn held Medibank shares prior to becoming non-executive directors of Medibank.

14. Medibank's comparator group

As outlined throughout this report, Medibank uses a comparator group for the purposes of benchmarking executive and non-executive director remuneration and for the assessment of Medibank's relative total shareholder return (TSR) performance under its long-term incentive (LTI) plan. Medibank's comparator group is the ASX 11-100, excluding mining and energy companies. In any given year, there may be changes in the mining and energy companies excluded from Medibank's comparator group due to companies either falling outside the ASX 11-100 or companies no longer being considered exclusively as a mining or energy company.

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



Mike Wilkins AO
Chair

18 August 2022
Melbourne



David Koczkar
Chief Executive Officer



Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2022, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'C.J. Heath'.

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
18 August 2022

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Consolidated statement of comprehensive income

For the financial year ended 30 June 2022

	Note	2022 \$m	2021 \$m
Revenue			
Health Insurance premium revenue	2(b) 3(a)	6,881.2	6,691.1
Medibank Health revenue		247.3	219.3
		7,128.5	6,910.4
Other income			
		1.0	1.8
Expenses			
Claims expense	3(a)	(5,679.8)	(5,557.9)
Medical services expense		(34.7)	(34.0)
Employee benefits expense	13(a)(ii)	(467.5)	(439.9)
Office and administration expense		(90.1)	(88.6)
Marketing expense		(85.9)	(81.4)
Information technology expense		(73.8)	(72.3)
Depreciation and amortisation expense		(115.0)	(122.0)
Finance expense		(2.4)	(2.8)
Share of net profit/(loss) from equity accounted investments	16(b)	4.5	(1.0)
		(6,544.7)	(6,399.9)
Profit before net investment income and income tax			
		584.8	512.3
Net investment income/(expense)	7(a)	(24.8)	120.0
Profit for the year before income tax			
		560.0	632.3
Income tax expense	15(a)	(166.1)	(191.1)
Profit for the year			
		393.9	441.2
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gain/(loss) on retirement benefit obligation, net of tax		0.2	0.4
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent			
		394.1	441.6
Earnings per share attributable to ordinary equity holders of the Parent - basic and diluted (cents)			
	6(b)	14.3	16.0

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

Consolidated statement of financial position

As at 30 June 2022

	Note	2022 \$m	2021 \$m
Current assets			
Cash and cash equivalents		596.7	671.7
Trade and other receivables	9(b)	225.4	215.9
Financial assets at fair value	7(b)	2,854.5	2,311.9
Deferred acquisition costs	4	35.4	33.6
Tax receivable		-	6.2
Other assets		19.3	18.8
Total current assets		3,731.3	3,258.1
Non-current assets			
Property, plant and equipment	11	88.4	101.7
Intangible assets	12	332.3	345.3
Deferred acquisition costs	4	47.5	47.5
Deferred tax assets	15(c)	243.6	85.9
Equity accounted investments	16(b)	103.7	77.1
Other assets		6.0	8.2
Total non-current assets		821.5	665.7
Total assets		4,552.8	3,923.8
Current liabilities			
Trade and other payables	9(c)	361.4	338.2
Claims liabilities	3(b)	860.9	622.4
Unearned premium liability	5	817.5	697.0
Tax liability		117.0	-
Customer give back provision	13(c)	178.6	103.0
Provisions and employee entitlements	13	104.6	94.7
Total current liabilities		2,440.0	1,855.3
Non-current liabilities			
Trade and other payables	9(c)	56.6	70.2
Claims liabilities	3(b)	10.2	9.1
Unearned premium liability	5	77.3	60.4
Provisions and employee entitlements	13	23.1	22.7
Total non-current liabilities		167.2	162.4
Total liabilities		2,607.2	2,017.7
Net assets		1,945.6	1,906.1
Equity			
Contributed equity	10(a)	85.0	85.0
Reserves	10(b)	25.7	22.3
Retained earnings		1,834.9	1,798.8
Total equity		1,945.6	1,906.1

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

Consolidated statement of changes in equity

For the financial year ended 30 June 2022

	Note	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2020		85.0	22.4	1,690.4	1,797.8
Profit for the year		-	-	441.2	441.2
Other comprehensive income		-	-	0.4	0.4
Total comprehensive income for the year		-	-	441.6	441.6
Dividends paid	6(a)(i)	-	-	(333.2)	(333.2)
Acquisition and settlement of share-based payment, net of tax		-	(5.3)	-	(5.3)
Share-based payment transactions		-	5.2	-	5.2
Balance at 30 June 2021		85.0	22.3	1,798.8	1,906.1
Profit for the year		-	-	393.9	393.9
Other comprehensive income		-	-	0.2	0.2
Total comprehensive income for the year		-	-	394.1	394.1
Dividends paid	6(a)(i)	-	-	(358.0)	(358.0)
Acquisition and settlement of share-based payment, net of tax		-	(2.5)	-	(2.5)
Share-based payment transactions		-	5.9	-	5.9
Balance at 30 June 2022		85.0	25.7	1,834.9	1,945.6

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

Consolidated statement of cash flows

For the financial year ended 30 June 2022

	Note	2022 \$m	2021 \$m
Cash flows from operating activities			
Premium receipts		7,089.4	6,798.8
Medibank Health receipts		274.6	234.9
Other receipts		3.3	3.8
Payments for claims and levies		(5,422.6)	(5,542.7)
Payments to suppliers and employees		(795.9)	(762.5)
Income taxes paid		(200.3)	(250.1)
Net cash inflow from operating activities	9(d)	948.5	482.2
Cash flows from investing activities			
Interest received		14.2	16.0
Investment expenses		(5.0)	(4.6)
Proceeds from sale of financial assets		1,349.6	1,081.1
Purchase of financial assets		(1,926.2)	(1,289.6)
Purchase of equity accounted investments	16(b)	(21.1)	(71.0)
Loan to associate	16(b)	-	(2.9)
Purchase of plant and equipment		(7.0)	(10.9)
Purchase of intangible assets		(28.1)	(24.2)
Net cash outflow from investing activities		(623.6)	(306.1)
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(3.1)	(5.6)
Lease principal and interest payments	14	(38.8)	(37.0)
Dividends paid	6(a)(i)	(358.0)	(333.2)
Net cash outflow from financing activities		(399.9)	(375.8)
Net increase/(decrease) in cash and cash equivalents		(75.0)	(199.7)
Cash and cash equivalents at beginning of the year		671.7	871.4
Cash and cash equivalents at end of the year		596.7	671.7

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

SECTION 1: BASIS OF PREPARATION

Overview

This section outlines the basis on which the Group's financial statements are prepared. Specific accounting policies are described in the note to which they relate.

Note 1: Basis of preparation

(a) Corporate information

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

The financial statements of Medibank for the financial year ended 30 June 2022 were authorised for issue in accordance with a resolution of the directors on 18 August 2022. The directors have the power to amend and reissue the financial statements.

(b) Basis of preparation

The financial statements are general purpose financial statements which:

- Are for the consolidated entity ("the Group") consisting of Medibank ("parent entity") and its subsidiaries. Refer to Note 16(a) for the full group structure.
- Have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the *Corporations Act 2001*.
- Have been prepared under the historical cost convention, with the exception of financial assets measured at fair value, claims liabilities and lease liabilities which are measured at the present value of expected future payments.
- Are presented in Australian dollars, which is Medibank's functional and presentation currency.
- Have been rounded in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* to the nearest hundred thousand dollars unless otherwise stated.
- Adopt all new and amended accounting standards that are mandatory for 30 June 2022 reporting periods. Refer to Note 20(a) for further information.
- Do not apply any pronouncements before their operative date. Refer to Note 20(b) for further information on the new standards and interpretations which have been issued but are not effective for 30 June 2022 reporting periods.
- Include, where necessary, updates to prior year comparatives for changes in classification of amounts in the current reporting period.

(c) 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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the following notes:

- Note 3: Insurance underwriting result.
- Note 4: Deferred acquisition costs.
- Note 12: Intangible assets.
- Note 15: Income tax.

SECTION 2: OPERATING PERFORMANCE

Overview

This section explains the operating results of the Group for the year, and provides insights into the Group's result by reference to key areas, including:

- Results by operating segment.
- Insurance underwriting result.
- Shareholder returns.

Note 2: Segment information

Segment Reporting Accounting Policy

Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Chief Executive Officer (CEO) in assessing performance and determining the allocation of resources across the Group.

(a) Description of segments

Segment information is reported on the same basis as the Group's internal management reporting structure at the reporting date. Transactions between segments are carried out on an arm's length basis and are eliminated on consolidation. The Group is not reliant on any one major customer.

For the financial year ended 30 June 2022, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Medibank Health.

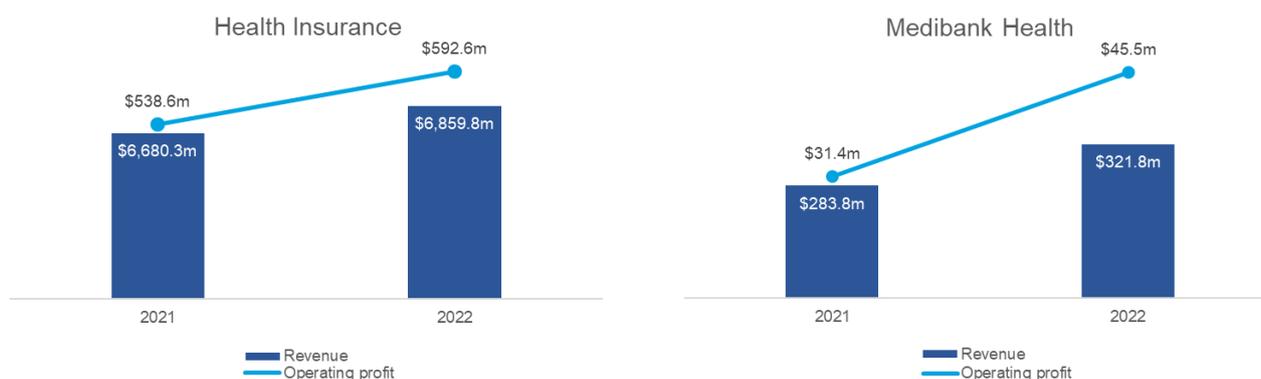
<p>Health Insurance</p>	<p>Offers private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas ancillary cover provides members with health cover for healthcare services such as dental, optical and physiotherapy. The segment also offers health insurance products to overseas visitors and overseas students.</p>
	<p>Private Health Insurance Premium Revenue Recognition Accounting Policy</p> <p>Premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight-line basis between the date Medibank accepts the insurance risk and the date the premium has been paid up to. Premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.</p>
<p>Medibank Health</p>	<p>Derives its revenue from a range of activities including contracting with government and corporate customers to provide health management and in-home care services, as well as providing a range of telehealth services in Australia. In addition, the Group distributes travel, life and pet insurance products on behalf of other insurers as part of a broader strategy to retain members and leverage its distribution network.</p>
	<p>Medibank Health Revenue Recognition Accounting Policy</p> <p>Medibank Health revenue is recognised when services are provided to the customer and at an amount the Group will be entitled to receive in relation to providing the services. A contract liability is recognised within trade and other payables in the consolidated statement of financial position when the Group has an obligation to transfer services to a customer for which it has already received consideration from the customer (or an amount of consideration is receivable). Contract liabilities are recognised as Medibank Health revenue when the services are provided.</p>

SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(b) Segment information provided to the 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 year ended 30 June 2022 is as follows.



	Note	Health Insurance \$m	Medibank Health \$m	Total \$m
30 June 2022				
Revenue				
Total segment revenue	2(c)(iii)	6,859.8	321.8	7,181.6
Inter-segment revenue		-	(53.1)	(53.1)
Revenue from external customers		6,859.8	268.7	7,128.5
Operating profit				
<i>Items included in segment operating profit:</i>				
Depreciation and amortisation		(101.6)	(7.3)	(108.9)
Interest income from loans to associates		-	0.2	0.2
Share of profit/(loss) from equity accounted investments	16(b)	-	4.5	4.5
30 June 2021				
Revenue				
Total segment revenue	2(c)(iii)	6,680.3	283.8	6,964.1
Inter-segment revenue		-	(53.7)	(53.7)
Revenue from external customers		6,680.3	230.1	6,910.4
Operating profit				
<i>Items included in segment operating profit:</i>				
Depreciation and amortisation		(104.8)	(8.3)	(113.1)
Interest income from loans to associates		-	0.2	0.2
Share of profit/(loss) from equity accounted investments	16(b)	-	(1.0)	(1.0)

SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(c) Other segment information

(i) Segment operating profit or loss

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

	Note	2022 \$m	2021 \$m
Total segment operating profit		638.1	570.0
<i>Unallocated to operating segments:</i>			
Corporate operating expenses		(44.0)	(41.7)
Group operating profit		594.1	528.3
Net investment income/(expense)	7(a)	(24.8)	120.0
Acquisition intangible amortisation		(2.0)	(4.6)
Mergers and acquisitions expenses		(1.7)	(5.5)
Other income/(expenses)		(5.6)	(5.9)
Profit for the year before income tax		560.0	632.3

(ii) Other items

Segment operating profit excludes the following:

- Corporate operating expenses of \$44.0 million (2021: \$41.7 million) relating to the Group's corporate function.
- Net investment income/(expense), which comprises:
 - Interest and distribution income and related investment management expenses (refer to Note 7(a)), as this arises from investments which are managed by a central treasury function.
 - Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 7(a)), as they are not indicative of the Group's long-term performance.
- Acquisition intangible amortisation of \$2.0 million (2021: \$4.6 million) not allocated to segments.
- Expenses in relation to mergers and acquisitions of \$1.7 million (2021: \$5.5 million) which are not allocated to the operating activities of the Group's segments.
- Other income/(expenses) of \$5.6 million (2021: \$5.9 million) which do not relate to the current period's trading activities of the Group's segments, comprising primarily net sublease rent.

(iii) Loyalty program

Segment private health insurance premium revenue is after \$21.4 million (2021: \$10.8 million) of transfers between the Group's other operating segments in relation to the loyalty program.

(iv) Segment assets and segment liabilities

No information regarding segment assets and segment liabilities has been disclosed, as these amounts are not reported to the CEO for the purpose of making strategic decisions.

(v) Geographic information

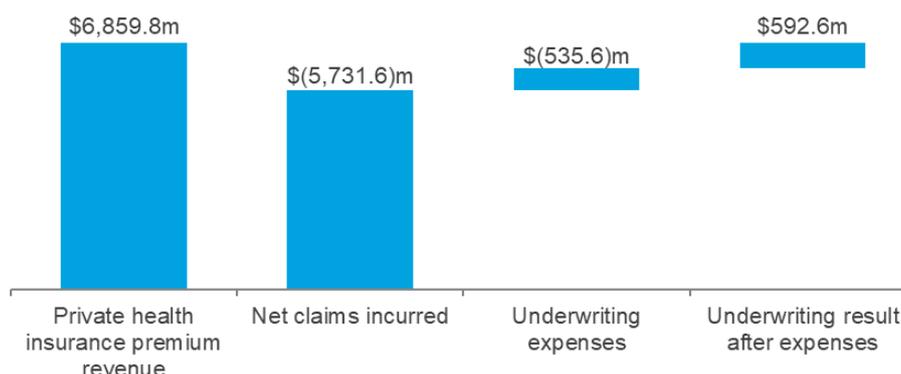
Segment revenue based on the geographical location of customers has not been disclosed, as the Group derives all of its revenues from its Australian operations.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result

This note presents the Group's insurance underwriting result and provides information on the Group's claims liabilities, which comprise the outstanding claims liability, the COVID-19 claims liability and the provision for bonus entitlements.

2022 underwriting result after expenses



Insurance Contracts Accounting Policy

An insurance contract arises when the Group accepts significant insurance risk from another party by agreeing to compensate them from the adverse effects of a specified uncertain future event. The significance of insurance risk depends on both the probability and magnitude of an insurance event.

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk significantly reduces during the period. With the exception of travel, life and pet insurance, for which the Group does not act as an underwriter, all other types of insurance cover are insurance contracts.

A COVID-19 claims liability has been recorded for deferred claims that were a result of surgeries and other health services which were inaccessible to policyholders due to COVID-19 restrictions. Medibank has an obligation to settle these claims when they occur in future periods.

(a) Insurance underwriting result

	Note	2022 \$m	2021 \$m
Private health insurance premium revenue	(i)	6,859.8	6,680.3
Claims expense			
Claims incurred	(ii)	(5,415.0)	(5,606.2)
(Increase)/decrease in COVID-19 claims liability	(iv)	(224.5)	73.3
State levies		(55.5)	(53.3)
Net Risk Equalisation Special Account payments		(36.1)	(24.6)
Net claims incurred excluding claims handling costs		(5,731.1)	(5,610.8)
Movement in claims handling costs on outstanding claims liabilities		(0.5)	0.2
Net claims incurred	(iii)	(5,731.6)	(5,610.6)
Underwriting expenses		(535.6)	(531.1)
Underwriting result after expenses		592.6	538.6

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(a) Insurance underwriting result (continued)

- (i) Private health insurance premium revenue is after \$21.4 million (2021: \$10.8 million) of transfers between the Group's other operating segments in relation to the loyalty program and \$369.4 million (2021: \$103.0 million) in relation to the recognition of customer give backs publicly announced by the Group during the period to return permanent net COVID-19 savings to eligible policyholders (refer to Note 5 and Note 13(c) for further information).
- (ii) Claims incurred are prior to elimination of transactions with the Group's other operating segments of \$51.8 million (2021: \$52.7 million).
- (iii) Net claims incurred consists of amounts paid and payable to hospital, medical and ancillary providers which consists of claims paid and payable, changes in claims liabilities, change in amounts receivable from and payable to the Risk Equalisation Special Account, applicable state levies, costs incurred in health management services and the COVID-19 claims liability.
- (iv) This balance relates to the COVID-19 claims liability. Refer to Note 3(b) for further information.

Health Insurance Premium Revenue Recognition Accounting Policy

Premium revenue is recognised in the consolidated statement of comprehensive income when it is earned. Premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight-line basis between the date Medibank accepts the risk from the insured under the insurance contract and the date the premium has been paid up to. Adjustments made to past premiums are recognised as a reduction in premium revenue. See Note 5 and Note 13(c) for further information.

Premium revenue includes the movement in the premiums in arrears which is assessed based on past experience of the likelihood of collection. Premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.

The Australian Government contributes a rebate towards eligible policyholder's premium and pays this directly to the Group. This rebate is recognised within premium revenue in the consolidated statement of comprehensive income. Rebates due from the government but not received at balance date are recognised as trade and other receivables in the consolidated statement of financial position.

Net Risk Equalisation Special Account Levies and Rebates Accounting Policy

Under legislation, all private health insurers must participate in the Risk Equalisation Special Account in which all private health insurers share the cost of the eligible claims of members aged 55 years and over, and claims meeting the high cost claim criteria.

The Australian Prudential Regulation Authority (APRA) determines the amount payable to or receivable from the Risk Equalisation Special Account after the end of each quarter. Estimates of amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unrepresented and outstanding claims.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liabilities

	Note	2022 \$m	2021 \$m
Current			
Outstanding claims liability - central estimate	(i,ii)	359.3	347.2
COVID-19 claims liability	(vi)	448.3	223.8
Risk margin	(i,iii)	35.1	33.2
Claims handling costs	(iv)	8.9	8.5
		851.6	612.7
Claims liability - provision for bonus entitlements	(v)	9.3	9.7
Gross claims liabilities	(c)	860.9	622.4
Non-current			
Outstanding claims liability - central estimate	(i,ii)	3.1	1.8
Risk margin	(i,iii)	0.3	0.2
Claims handling costs	(iv)	0.1	-
		3.5	2.0
Claims liability - provision for bonus entitlements	(v)	6.7	7.1
Gross claims liabilities	(c)	10.2	9.1

Claims Liability Accounting Policy

The outstanding claims liability provides for claims received but not assessed and claims incurred but not received. It is based on an actuarial assessment that considers historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by the Medibank health fund, plus a risk margin reflecting the inherent uncertainty in the central estimate. The expected future payments are discounted to present value using a risk-free rate.

The liability also allows for an estimate of claims handling costs, 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 negotiation and settlement of claims.

COVID-19 Claims Liability

The COVID-19 claims liability is based on the best estimate, taking into account relevant risks and uncertainties, of expenditure required to settle claims deferred as a result of surgeries and other health services restricted for policyholders as a result of the COVID-19 pandemic. Medibank has an obligation to settle these claims when they occur in future periods. The liability is calculated by comparing the difference between the actual and expected claims since the commencement of COVID-19 restrictions from March 2020. The expected claims level is based on the estimated underlying claims growth per Single Equivalent Unit per policy (PSEU) that would have occurred if the COVID-19 pandemic did not eventuate, taking into account changes in the customer base. The key judgements and inputs to determine the expected claims level are detailed in Note 3(b)(vi).

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability (continued)

Key estimate

The outstanding claims liability estimate 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 in determining the outstanding claims liability 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 outstanding claims liability 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.

(i) Outstanding claims liability - central estimate	<p>The central estimate is an estimate of the level of the outstanding claims liability.</p> <p>Key estimate</p> <p>The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of this analysis and other qualitative information, such as claims processing delays and pre-admission hospital eligibility check volumes. The central estimate excludes the impact of the Risk Equalisation Special Account. A separate estimate is made of levies payable to and recoveries from the Risk Equalisation Special Account.</p>
(ii) Discounting	<p>The outstanding claims liability central estimate is discounted to present value using the three-month risk-free rate of 1.81% per annum which equates to a reduction in the central estimate of \$0.9 million (2021: 0.03%, less than \$0.1 million).</p>
(iii) Risk margin	<p>An overall risk margin considers the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 30 June 2022 is 9.4% (2021: 9.4%).</p> <p>Key estimate</p> <p>The risk margin is based on an analysis of past experience, including comparing the volatility of past payments to the adopted central estimate. The risk margin has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 95% (2021: 95%). This risk margin is only applied to the outstanding claims liability, however relevant risks and uncertainties have been taken into account in key assumptions used to estimate the COVID-19 claims liability.</p>
(iv) Claims handling costs	<p>The allowance for claims handling costs at 30 June 2022 is 2.5% of the outstanding claims liability (2021: 2.5%).</p>

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability (continued)

<p>(v) Claims liability – provision for bonus entitlements</p>	<p>Certain private health insurance products (Package Bonus, Ultra Bonus and Membership Bonus) include benefits that carry forward. Package Bonus carries forward unused benefit entitlements in a calendar year for five calendar years. Membership Bonus carries forward unused benefit entitlements in a calendar year for 10 calendar years. Ultra Bonus carries forward unused benefit entitlements without limit.</p> <p>The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership.</p> <p>Key estimate</p> <p>The bonus provision includes the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, with a probability of utilisation based on past experience and current claiming patterns applied. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.</p>
<p>(vi) COVID-19 claims liability</p>	<p>The COVID-19 claims liability represents the continued and prolonged impact of the COVID-19 pandemic during the period on availability and accessibility to surgeries and other health services. The COVID-19 claims liability includes hospital claims of \$405.6 million (2021: \$220.2 million), which includes surgical and non-surgical claims, and ancillary claims of \$42.6 million (2021: \$3.6 million).</p> <p>Key estimate</p> <p>The liability is calculated by comparing the difference between the actual and expected volume of insured surgical, non-surgical and ancillary procedures since the commencement of COVID-19 restrictions from March 2020. Any shortfall is deferred into the liability at the applicable claims deferral rate. Utilisation of the liability occurs where actual claims exceed expected claims.</p> <p>The liability has been assessed by geography and modality (claim type) with the deferral of claims (and any subsequent utilisation) varying based on the extent of COVID-19 restrictions. The ancillary liability resets for ancillary claims with expired limits.</p> <p>Risks and uncertainties have been taken into account in the measurement of the liability and are reflected in the key inputs and judgements. The key judgements and inputs into this liability estimate include:</p> <ul style="list-style-type: none"> • The expected claims level at the Single Equivalent Unit per policy (PSEU), which is based on statistical analysis of the estimated underlying claims growth per 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. • The expected rate at which deferred insured surgical and non-surgical procedures will be caught up, which is based on the analysis and expert opinion of the Chief Medical Officer and internal analysis. The expected claims deferral rate is analysed based on modality and is 85% (2021: 85%) for surgical claims, 40% (2021: 50%) for non-surgical claims and 50% (2021: 50%) for ancillary claims. • This liability only includes insured surgeries and other health services that will ultimately be performed for policyholders of the Group. Given the extended duration of the COVID-19 pandemic, a policyholder lapse rate has been applied to the surgical and non-surgical claims. This rate is based on the average lapse rate since the commencement of the COVID-19 pandemic. The ancillary liability does not include a lapse rate as it resets when limits expire.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(c) Reconciliation of movement in claims liabilities

	Note	2022 \$m	2021 \$m
Balance at 1 July		631.5	639.2
Claims incurred during the period		5,369.8	5,496.1
Increase/(decrease) in COVID-19 claims liability	(i)	224.5	(73.3)
Claims paid during the period		(5,348.1)	(5,414.4)
Amount (over)/under provided on central estimate		(8.2)	(22.0)
Risk margin		2.0	6.1
Claims handling costs		0.5	(0.2)
Movement in discount rate		(0.9)	-
Balance at 30 June		871.1	631.5

Note: Movement includes both current and non-current. Claims incurred and claims paid exclude levies and rebates.

(i) Reconciliation of movement in COVID-19 claims liability

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

	Hospital \$m	Ancillary \$m	Total \$m
Balance at 1 July 2021	220.2	3.6	223.8
Change in respect of previous period	(8.5)	(0.2)	(8.7)
Net change in assumptions ⁽¹⁾	(42.2)	-	(42.2)
Net deferral/(utilisation) during the period	236.1	39.3	275.4
Balance at 30 June 2022	405.6	42.7	448.3

(1) Includes change in expected deferral rate of \$19.2 million and changes in other assumptions, including policyholder lapse rate and price indexation.

(d) Impact of changes in key variables on the claims liabilities

Outstanding claims liability

The central estimate, discount rate, risk margin and weighted average term to settlement are the key outstanding claims variables. A 10% increase/decrease in the central estimate would result in a \$25.4 million decrease/increase to profit after tax and equity (2021: \$24.4 million). A 1% movement in other key outstanding claims variables, including discount rate, risk margin and weighted average term to settlement, would result in an insignificant decrease/increase to profit after tax and equity.

COVID-19 claims liability

The following describe the individual impacts of changes in the key estimate on the COVID-19 claims liability:

- A 4% increase/decrease in the expected claims level would result in a \$117.9 million decrease/increase to profit after tax and equity (2021: \$67.0 million).
- An increase/decrease of 10 percentage points in the adopted deferral rate for COVID-19 hospital claims would result in a \$54.2 million decrease/increase to profit after tax and equity (2021: \$26.8 million). The reasonable possible range for the hospital deferral assumption is 75-100% for surgical claims (2021: 75-100%) and 30-70% for non-surgical and ancillary claims (2021: 30-70%).

(e) Insurance risk management

The Group provides private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two, for Australian residents, overseas students studying in Australia and overseas visitors to Australia. These services are categorised as two types of contracts: hospital and/or ancillary cover.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(e) Insurance risk management (continued)

The table below sets out the key variables upon which the cash flows of the insurance contracts are dependent.

Type of contract	Detail of contract workings	Nature of claims	Key variables that affect the timing and uncertainty of future cash flows
Hospital cover	Defined benefits paid for hospital treatment, including accommodation, medical and prostheses costs.	Hospital benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.
Ancillary cover	Defined benefits paid for ancillary treatment, such as dental, optical and physiotherapy services.	Ancillary benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.

Insurance risks and the holding of capital in excess of prudential requirements are managed through the use of claims management procedures, close monitoring of experience, the ability to vary premium rates, and risk equalisation.

Mechanisms to manage risk

Claims management	Strict claims management ensures the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored monthly to track the experience of the portfolios.
Experience monitoring	Monthly financial and operational results, including portfolio profitability and prudential capital requirements, are reported to management committees and the Board. Results are also monitored against industry for insurance risks and experience trends as published by the regulator, APRA. Monitoring of claims experience since the commencement of the COVID-19 pandemic includes daily and weekly dashboard reports.
Prudential capital requirements	All private health insurers must comply with prudential capital requirements to provide a buffer against certain levels of adverse experience. The Board has a target level of capital which exceeds the regulatory requirement.
Ability to vary premium rates	The Group can vary future premium rates subject to the approval of the Minister for Health.
Risk equalisation	Private health insurance legislation requires resident private health insurance contracts to meet community rating requirements. This prohibits discrimination between people on the basis of their health status, gender, race, sexual orientation, religious belief, age (except as allowed under Lifetime Health Cover provisions), increased need for treatment or claims history. To support these restrictions, all private health insurers must participate in the Risk Equalisation Special Account.
Concentration of health risk	The Group has health insurance contracts covering hospital and ancillary cover, and private health insurance for overseas students and visitors to Australia. There is no significant exposure to concentrations of risk because contracts cover a large volume of people across Australia.
COVID-19 claims liability	The Group's Capital Management Policy requires a sufficient level of capital to be held by the Group. The Group also created a sub-portfolio within the Health Fund Investment Portfolio with the express purpose of funding the COVID-19 claims liability and customer give backs.

SECTION 2: OPERATING PERFORMANCE

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2022 \$m	2021 \$m
Balance at 1 July	81.1	78.1
Costs deferred during the year	39.6	42.3
Amortisation expense	(37.8)	(39.3)
Balance at 30 June	82.9	81.1

Note: Movement includes both current and non-current.

Deferred Acquisition Costs Accounting Policy

Costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected retention period of the insurance contracts to which they relate. This is in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate and corresponds to the earning pattern of the corresponding actual and expected premium revenue. The Group amortises these costs on a straight-line basis over a period of four years (2021: four years). The recoverability of deferred acquisition costs is considered as part of the liability adequacy test (refer to Note 5). Deferred acquisition costs which are not included in this test are separately assessed for recoverability in accordance with the Group's accounting policy set out in Note 20(c).

Key judgement and estimate

The amortisation period of four years has been determined based on the average expected retention period of members. The actual retention period of a member can be longer or shorter than four years. The straight-line method systematically follows the initial period of customer tenure with some customers remaining with Medibank over a longer period of time. The Group maintains data on the retention period of all members, and performs a retention period analysis of those who are subject to these acquisition costs to ensure the period of amortisation remains appropriate.

Note 5: Unearned premium liability

Movements in the unearned premium liability are as follows:

	2022 \$m	2021 \$m
Balance at 1 July	757.4	746.1
Deferral of premium on contracts written during the year	700.9	682.4
Earning of premiums deferred in prior years	(697.0)	(671.1)
Movement in provision for premium deferral	133.5	-
Balance at 30 June	894.8	757.4

Note: Movement includes both current and non-current.

The unearned premium liability balance at 30 June 2022 includes a provision for premium deferral of \$133.5 million (2021: nil). This balance is comprised of an initial recognition of \$184.8 million during the period, offset by \$51.3 million utilisation. The provision for premium deferral represents amounts owed at balance date in relation to the announcements made by the Group during the period to return permanent net COVID-19 savings to eligible policyholders via a 7 month deferral of the 1 April 2022 premium increase.

A separate customer give back provision of \$178.6 million (2021: \$103.0 million) is recognised in the statement of consolidated position. Refer to Note 13(c) for further information.

SECTION 2: OPERATING PERFORMANCE

Note 5: Unearned premium liability (continued)

(a) Liability adequacy test

The expected cash outflows and the risk margin in the 30 June 2022 liability adequacy test (LAT) includes the impacts of COVID-19. The LAT did not result in the identification of any deficiency as at 30 June 2022 and 2021. The LAT is not sensitive to reasonably plausible changes in key assumptions applied.

Unearned Premium Liability Accounting Policy

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as an unearned premium liability. The unearned premium liability is released to the consolidated statement of comprehensive income as revenue in accordance with Note 3(a) over the term of the insurance cover.

Unexpired Risk Liability Accounting Policy

At each balance date, a liability adequacy test is performed to determine whether the unearned premium liability, net of related deferred acquisition costs, is adequate to cover expected future claims arising from current insurance coverage. An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

The unearned premium liability is deemed to be deficient where the present value of the expected future claims, including a risk margin, exceeds the net unearned premium liability. The entire deficiency is recognised immediately in the statement of comprehensive income by first writing down any related intangible assets and then related deferred acquisition costs, with any excess being recognised in the consolidated statement of financial position as an unexpired risk liability.

Deferred acquisition costs which are not included in this test are separately assessed for recoverability and are amortised in accordance with the Group's accounting policy set out in Note 4.

Note 6: Shareholder returns

(a) Dividends

(i) Dividends paid or payable

	Cents per fully paid share	\$m	Payment date
2022			
2021 final fully franked dividend	6.90	190.0	30 September 2021
2022 interim fully franked dividend	6.10	168.0	24 March 2022
2021			
2020 final fully franked dividend	6.30	173.5	24 September 2020
2021 interim fully franked dividend	5.80	159.7	25 March 2021

(ii) Dividends not recognised at the end of the reporting period

On 18 August 2022, the directors determined a final fully franked ordinary dividend for the six months ended 30 June 2022 of 7.30 cents per share. The dividend is expected to be paid on 29 September 2022 and has not been provided for as at 30 June 2022.

(iii) Franking account

Franking credits available at 30 June 2022 for subsequent reporting periods based on a tax rate of 30% are \$372.7 million (2021: \$324.2 million).

SECTION 2: OPERATING PERFORMANCE

Note 6: Shareholder returns (continued)

(a) Dividends (continued)

(iv) Calculation of dividend paid

Medibank's target dividend payout ratio for the 2022 financial year is 75-85% (2021: 75-85%) of full year normalised net profit after tax (underlying NPAT). Normalised net profit after tax 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 movement in credit spreads, and for one-off items, especially those that are non-cash, such as impairments.

	2022 \$m	2021 \$m
Profit for the year - after tax	393.9	441.2
Normalisation for growth asset returns	22.7	(31.2)
Normalisation for defensive asset returns – credit spread movement	18.5	(11.3)
Underlying NPAT	435.1	398.7

Dividends Accounting Policy

A liability is recorded for any dividends determined on or before the reporting date, but that have not been distributed at that date.

(b) Earnings per share

	2022	2021
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (cents)	14.3	16.0
Profit for the year attributable to ordinary equity holders of the parent (\$m)	393.9	441.2
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	2,754,003,240	2,754,003,240

Basic Earnings Per Share Accounting Policy

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of Medibank, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period and excluding treasury shares.

Diluted Earnings Per Share Accounting Policy

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account:

- The after income tax effect of any interest and other financing costs associated with dilutive potential ordinary shares.
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Overview

This section provides insights into the Group's exposure to market and financial risks and outlines how these risks are managed. This section also describes how the Group's capital is managed.

Note 7: Investment portfolios

This note provides information on the net investment income/(expense) and the carrying amounts of the financial assets residing in the two investment portfolios; the Health Fund Investment Portfolio (including the sub-portfolio) and the Non-Health Fund Investment Portfolio.

Health Fund Investment Portfolio

The Health Fund Investment Portfolio is managed in accordance with the requirements of the Board approved Capital Management Policy, APRA regulatory requirements and the overall objective of achieving a capital base that is both stable and liquid. Consequently, the asset allocation of the Health Fund Investment Portfolio is skewed towards defensive assets (less risky and generally lower returning) rather than growth assets (riskier but potentially higher returning). The Board approved short-term target asset allocation (TAA) for the Health Fund Investment Portfolio is 20%/80% for growth and defensive assets, and the long-term TAA is 25%/75% for growth and defensive assets.

During, and because of, the COVID-19 pandemic, the Short-term Operational Cash (STOC) sub-portfolio was created with the purpose of funding the COVID-19 claims liability and the customer give backs. Given the sub-portfolio's short-term nature, it is managed separately from the TAA framework. This sub-portfolio is permitted to invest in bank deposits, short-term domestic money market securities with a minimum credit rating of A-1+ and Fixed Income assets with a minimum credit rating of AA-.

Non-Health Fund Investment Portfolio

The Non-Health Fund Investment Portfolio is designed to provide the Group with additional liquidity and financial flexibility. The portfolio resides outside of the health fund and is not subject to the same regulatory requirements as the Health Fund Investment Portfolio. The CFO has delegation from the Investment and Capital Committee to manage the portfolio in accordance with the Board approved Investment Management Policy and investment strategy. The Non-Health Fund Investment Portfolio is permitted to invest in bank deposits, short-term domestic money market securities with a minimum credit rating of A-1+ and Fixed Income assets with a minimum credit rating of AA-.

Portfolio composition 30 June 2022 (\$m)

	Health Fund Investment Portfolio ⁽¹⁾	Short-term Operational Cash (STOC)	Non-Health Fund Investment Portfolio	Total
<i>Cash portfolio</i>				
Cash and cash equivalents (as reported in the statement of financial position) ⁽²⁾	232.2	326.6	13.6	572.4
Cash investments with longer maturities	322.2	199.4	19.8	541.4
Less cash allocated to the Fixed income portfolio	(14.4)	-	-	(14.4)
<i>Fixed income portfolio</i>				
Fixed income (as reported in the statement of financial position)	1,769.8	433.8	176.2	2,379.8
Less cash investments with longer maturities	(322.2)	(199.4)	(19.8)	(541.4)
Cash allocated to the Fixed income portfolio	14.4	-	-	14.4
<i>Growth portfolio</i>				
Equities and investment trusts	474.7	-	-	474.7
Total investment portfolio	2,476.7	760.4	189.8	3,426.9

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolios (continued)

Portfolio composition 30 June 2021 (\$m)

	Health Fund Investment Portfolio ⁽¹⁾	Short-term Operational Cash (STOC)	Non-Health Fund Investment Portfolio	Total
<i>Cash portfolio</i>				
Cash and cash equivalents (as reported in the statement of financial position) ⁽²⁾	428.8	178.2	52.9	659.9
Cash investments with longer maturities	179.0	-	-	179.0
Less cash allocated to the Fixed income portfolio	(37.3)	-	-	(37.3)
<i>Fixed income portfolio</i>				
Fixed income (as reported in the statement of financial position)	1,563.6	148.6	111.2	1,823.4
Less cash investments with longer maturities	(179.0)	-	-	(179.0)
Cash allocated to the Fixed income portfolio	37.3	-	-	37.3
<i>Growth portfolio</i>				
Equities and investment trusts	488.5	-	-	488.5
Total investment portfolio	2,480.9	326.8	164.1	2,971.8

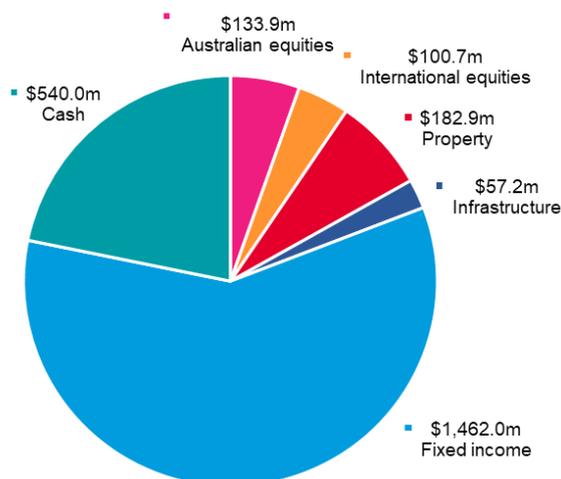
(1) The Health Fund Investment Portfolio excludes the Short-term Operational Cash (STOC) sub-portfolio.

(2) Cash and cash equivalents as reported in the statement of financial position also include operational cash of \$24.3 million (2021: \$11.8 million).

The Health Fund Investment Portfolio excluding the Short-term Operational Cash sub-portfolio comprises the following:

	Portfolio composition 30 June 2022	Portfolio composition 30 June 2021	Target asset allocation
Growth			
Australian equities	5.4%	4.8%	6.0%
International equities	4.1%	6.0%	5.0%
Property	7.4%	6.9%	7.0%
Infrastructure	2.3%	2.1%	2.0%
	19.2%	19.8%	20.0%
Defensive			
Fixed income	59.0%	57.8%	60.0%
Cash	21.8%	22.4%	20.0%
	80.8%	80.2%	80.0%
	100.0%	100.0%	100.0%

Health Fund Investment Portfolio



SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolios (continued)

Financial Assets at Fair Value Accounting Policy

Investments in listed and unlisted equity securities held by the Health Fund Investment Portfolio are accounted for at fair value through profit or loss (FVTPL). Fixed income investments held by the Health Fund Investment Portfolio are also accounted for at FVTPL, as the Group applies the fair value option to eliminate an accounting mismatch. Transaction costs relating to these financial assets are expensed in the consolidated statement of comprehensive income. These assets are subsequently carried at fair value, with gains and losses recognised within net investment income in the consolidated statement of comprehensive income.

Non-Health Fund Investment Portfolio

Fixed income assets held by the Non-Health Fund Investment Portfolio are accounted for at fair value through other comprehensive income (FVOCI) as the objective of these assets is to collect contractual cash flows and to sell the assets if required, and the contractual cash flows are solely payments of principal and interest. These assets are measured at fair value, with unrealised gains and losses recognised within equity in other comprehensive income. When the assets are derecognised, the cumulative unrealised gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income is recognised within net investment income/(expense) in the consolidated statement of comprehensive income using the effective interest method.

For financial assets measured at FVOCI, the Group applies the general impairment approach under AASB 9, which requires the recognition of a loss allowance based on either 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk since initial recognition. Expected credit losses do not reduce the carrying amount of the financial asset in the statement of financial position, which remains at fair value. Instead, a loss allowance is recognised in other comprehensive income as the accumulated impairment amount.

Key judgement and estimate

Fair value measurement may be subjective, and investments are categorised into a hierarchy depending on the level of subjectivity involved in the valuation techniques used to measure fair value. The hierarchy is described in Note 7(b).

The fair value of level 2 financial instruments is determined using a variety of valuation techniques, which make assumptions based on market conditions existing at the end of each reporting period. Valuation methods include quoted market prices or dealer quotes for similar instruments, yield curve calculations using the mid yield, vendor or independent developed models.

The fair value of level 3 financial instruments is determined using inputs that are not based on observable market data.

(a) Net investment income/(expense)

Net investment income/(expense) is presented net of investment management fees in the consolidated statement of comprehensive income.

	2022	2021
	\$m	\$m
Interest income ⁽¹⁾	17.9	17.7
Trust distributions	43.1	38.0
Net gain/(loss) on fair value movements on financial assets	(93.0)	47.8
Net gain/(loss) on disposal of financial assets	12.3	21.2
Investment management expenses	(5.1)	(4.7)
Net investment income/(expense)	(24.8)	120.0

(1) Includes interest income of \$1.0 million (2021: \$0.7 million) relating to financial assets at fair value through other comprehensive income (Non-Health Fund Investments).

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolios (continued)

(a) Net investment income/(expense) (continued)

Net Investment Income/(Expense) Accounting Policy

Net investment income/(expense) includes:

- Interest income, which is recognised using the effective interest method.
- Trust distribution income derived from financial assets at FVTPL, which is recognised when the Group's right to receive payments is established.
- Gains or losses arising from changes in the fair value of financial assets measured at FVTPL.
- Investment management fees.

(b) 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.

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
30 June 2022				
Financial assets at fair value through profit or loss				
Australian equities ⁽¹⁾	-	133.9	-	133.9
International equities ⁽¹⁾	-	100.7	-	100.7
Property ⁽¹⁾	-	-	182.9	182.9
Infrastructure ⁽¹⁾	-	-	57.2	57.2
Fixed income	53.0	2,150.6	-	2,203.6
Financial assets at fair value through other comprehensive income - Fixed income	-	176.2	-	176.2
Balance at 30 June 2022	53.0	2,561.4	240.1	2,854.5

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
30 June 2021				
Financial assets at fair value through profit or loss				
Australian equities ⁽¹⁾	-	119.3	-	119.3
International equities ⁽¹⁾	-	147.4	-	147.4
Property ⁽¹⁾	-	-	169.3	169.3
Infrastructure ⁽¹⁾	-	-	52.5	52.5
Fixed income	82.0	1,630.2	-	1,712.2
Financial assets at fair value through other comprehensive income - Fixed income	-	111.2	-	111.2
Balance at 30 June 2021	82.0	2,008.1	221.8	2,311.9

(1) Australian equities, international equities, property and infrastructure are indirectly held through unit trusts.

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.

Transfers between fair value hierarchy levels are recognised from the date of effect of the transfer. There were no transfers between the fair value hierarchy levels during the year.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolios (continued)

(b) 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 2021	52.5	169.3	221.8
Acquisitions	4.3	6.5	10.8
Net unrealised gain/(loss) on fair value movements	0.4	7.1	7.5
Balance at 30 June 2022	57.2	182.9	240.1

A 10% increase/decrease in the redemption price would decrease/increase the fair value of the level 3 financial assets by \$24.0 million.

Note 8: Financial risk management

This note reflects risk management policies and procedures associated with financial instruments. The Group's principal financial instruments comprise cash and cash equivalents (short-term money market instruments), fixed income assets (floating rate notes, asset-backed securities, syndicated loans, fixed income absolute return funds and hybrid investments), property assets, infrastructure assets, Australian equities and international equities.

A strategic asset allocation is set and reviewed at least annually by the Board, and establishes the maximum and minimum exposures in each investment class. Transacting in individual investments is subject to the delegation of authorities and approval process that is established and reviewed by the Investment and Capital Committee (ICC). Trading of derivative instruments for purposes other than risk management cannot be undertaken, unless explicitly approved by the ICC. The Group was in compliance with this policy during the current and prior reporting periods.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. Primary responsibility for the consideration and control of financial risks rests with the ICC under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified, including the setting of limits for trading in derivatives, foreign currency contracts and other instruments. Limits are also set for credit exposure and interest rate risk.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Interest rate risk

Description	The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.
Exposure	The Group has exposure to Australian variable and global fixed interest rate risk in respect of its cash and cash equivalents (2022: \$596.7 million, 2021: \$671.7 million) and fixed income assets (2022: \$2,379.8 million, 2021: \$1,823.4 million). Both classes of financial assets have variable interest rates and are therefore exposed to cash flow movements if these interest rates change. The Group regularly analyses its interest rate exposure and resets interest rates on longer-term investments every 90 days on average. At balance date, the Group's fixed income assets had a modified duration of 0.3 years (2021: 0.5 years).
Sensitivity	A 50bps increase/decrease in interest rates for the entire reporting period, with all other variables remaining constant, would have resulted in a \$6.9 million increase/decrease to profit after tax and equity (2021: \$4.4 million). The sensitivity analysis has been conducted using assumptions from published economic data.

(ii) Foreign currency risk

Description	The risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates.
Exposure	All of the Group's financial assets with a non-AUD currency exposure are fully economically hedged, except for International equities which are unhedged. At balance date, international equities financial assets (2022: \$100.7 million, 2021: \$147.4 million) had net exposure to foreign currency movements.
Sensitivity	A 10% increase/decrease in foreign exchange rates, with all other variables remaining constant, would have resulted in a \$7.8 million decrease/increase to profit after tax and equity (2021: \$11.5 million) in the AUD valuation of international equities financial assets. Balance date risk exposures represent the risk exposure inherent in the financial instruments.

(iii) Price risk

Description	The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
Exposure	The Group is exposed to price risk in respect of its fixed income assets primarily due to movements in credit spreads. This risk is managed through active management of credit exposures and credit spread duration. The Group's equity price risk arises from investments in property, infrastructure, Australian equities and international equities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(a) Market risk (continued)

(iii) Price risk (continued)

Sensitivity	These investments are exposed to short-term fluctuations in price with their fair value movements being recorded in the consolidated statement of comprehensive income. Price risk is managed by taking a longer-term view of the investment portfolio.				
	The following sensitivity analysis is based on the equity price risk exposures on the average monthly balances during the period and shows the impact on profit after tax and equity if market prices had moved, with all other variables held constant.				
		2022 \$m		2021 \$m	
	+10.0%	-10.0%	+10.0%	-10.0%	
Australian equities	9.1	(9.1)	8.7	(8.7)	
International equities	8.3	(8.3)	10.1	(10.1)	
Property	12.3	(12.3)	11.6	(11.6)	
Infrastructure	3.8	(3.8)	2.1	(2.1)	

In relation to fixed income assets, a 25bps increase/decrease in credit spreads, with all other variables remaining constant, would have resulted in a \$5.8 million decrease/increase to profit after tax and equity (2021: \$5.9 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.

(b) Credit risk

(i) Cash and cash equivalents and financial assets at fair value

Description	The risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments.
Exposure	<p>Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.</p> <p>The Investment Management Policy limits the majority of internally managed credit exposure to A- or higher rated categories for long-term investments, and A2 or higher for short-term investments (as measured by external rating agencies such as Standard & Poor's). Departures from this policy and the appointment of external managers require Board approval.</p> <p>The Group does not have any financial instruments to mitigate credit risk and all investments are unsecured (except for covered bonds, asset-backed securities and mortgage-backed securities). However, the impact of counterparty default is managed through the use of Board approved limits by counterparty and rating and diversification of counterparties.</p>
Sensitivity	The Group's cash and fixed income portfolios are subject to counterparty exposure limits. These limits specify that no more than 50% (2021: 50%) of the cash portfolio can be invested in any one counterparty bank and no more than 10% (2021: 10%) in any one counterparty corporate entity. In the Group's fixed income portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50% (2021: 50%) and 15% (2021: 15%) of the portfolio respectively. As at 30 June 2022 and 2021, the counterparty exposure of the Group was within these limits.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(b) Credit risk (continued)

(ii) Trade and other receivables

Description	Due to the nature of the industry and value of individual policies, the Group does not request any collateral nor is it the policy to secure its premiums in arrears and trade and other receivables. The Group regularly monitors its premiums in arrears and trade and other receivables, with the result that exposure to bad debts is not significant. The credit risk in respect to premiums in arrears, incurred on non-payment of premiums, will only persist during the grace period of 63 days as specified in the Fund Rules, after which the policy may be terminated. The Group is not exposed to claims whilst a membership is in arrears, although a customer can settle their arrears up to the 63 day grace period and a claim for that arrears period will then be paid. Trade and other receivables are monitored regularly and escalated when they fall outside of terms. The use of debt collection agencies may be used to obtain settlement.
Exposure	There are no significant concentrations of credit risk on trade and other receivables within the Group.

(iii) Counterparty credit risk ratings

The following tables outline the Group's credit risk exposure by classifying assets according to the short-term and equivalent long-term credit ratings (as per published Standard & Poor's correlations) of the counterparties. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets in the consolidated statement of financial position.

Short-term rating Long-term rating 2022	A-1+ AAA \$m	A-1+ AA \$m	A-1 A \$m	A-2 BBB \$m	B & below BB & below \$m	Not rated \$m	Total \$m
Cash and cash equivalents	-	596.7	-	-	-	-	596.7
Premiums in arrears	-	-	-	-	-	6.3	6.3
Trade and other receivables	-	-	-	-	-	219.1	219.1
Financial assets							
Australian equities	-	-	-	-	-	133.9	133.9
International equities	-	-	-	-	-	100.7	100.7
Property	-	-	-	-	-	182.9	182.9
Infrastructure	-	-	-	-	-	57.2	57.2
Fixed income	285.5	819.9	378.8	329.2	7.6	382.6	2,203.6
Financial assets at fair value through other comprehensive income	-	176.2	-	-	-	-	176.2
Total	285.5	1,592.8	378.8	329.2	7.6	1,082.7	3,676.6

Short-term rating Long-term rating 2021	A-1+ AAA \$m	A-1+ AA \$m	A-1 A \$m	A-2 BBB \$m	B & below BB & below \$m	Not rated \$m	Total \$m
Cash and cash equivalents	-	671.7	-	-	-	-	671.7
Premiums in arrears	-	-	-	-	-	8.5	8.5
Trade and other receivables	-	-	-	-	-	207.4	207.4
Financial assets							
Australian equities	-	-	-	-	-	119.3	119.3
International equities	-	-	-	-	-	147.4	147.4
Property	-	-	-	-	-	169.3	169.3
Infrastructure	-	-	-	-	-	52.5	52.5
Fixed income	183.2	528.4	293.0	301.3	7.9	398.4	1,712.2
Financial assets at fair value through other comprehensive income	-	111.2	-	-	-	-	111.2
Total	183.2	1,311.3	293.0	301.3	7.9	1,102.8	3,199.5

The not rated fixed income assets relate to investments in unrated unit trusts. The majority of the underlying securities held by these unit trusts are investment grade assets and Senior Loans.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

In order to maintain appropriate levels of liquidity, the Health Fund Investment Portfolio's target asset allocation is to hold 20% (2021: 20%) of its total investment assets in cash/bank deposits and highly liquid short-term money market instruments and fixed income securities. The Non-Health Fund Investment Portfolio provides the Group with additional liquidity and financial flexibility over and above the Fund's target allocation.

Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered by the Group in the overall liquidity risk. To monitor existing financial liabilities as well as to enable an effective overall controlling of future risks, the Group has established comprehensive risk reporting that reflects expectations of management of expected settlement of financial liabilities.

The tables below reflect all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2022, as well as the respective undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2022.

	Under 6 months \$m	6 to 12 months \$m	1 to 2 years \$m	Over 2 years \$m	Total contractual cash flows \$m	Carrying amount \$m
2022						
Other trade and other payables ⁽¹⁾	329.8	1.4	2.5	7.4	341.1	341.1
Lease liabilities ⁽²⁾	17.7	17.4	31.8	15.9	82.8	76.9
Total trade and other payables	347.5	18.8	34.3	23.3	423.9	418.0
Claims liabilities	389.8	23.8	6.8	3.3	423.7	422.8
COVID-19 claims liability ⁽³⁾	95.9	352.4	-	-	448.3	448.3
Total claims liabilities	485.7	376.2	6.8	3.3	872.0	871.1
2021						
Other trade and other payables ⁽¹⁾	309.4	0.7	1.1	3.8	315.0	315.0
Lease liabilities ⁽²⁾	16.1	15.4	29.7	36.4	97.6	93.4
Total trade and other payables	325.5	16.1	30.8	40.2	412.6	408.4
Claims liabilities	376.7	21.9	5.5	3.6	407.7	407.7
COVID-19 claims liability ⁽³⁾	63.5	160.3	-	-	223.8	223.8
Total claims liabilities	440.2	182.2	5.5	3.6	631.5	631.5

(1) Contractual cash flows greater than 6 months primarily relate to the loyalty program.

(2) Refer to Note 14 for further information on lease liabilities.

(3) The COVID-19 claims liability is specifically funded by the Short-term Operational Cash (STOC) sub-portfolio (refer to Note 7 for further information). Refer to Note 3(b) for further information on the COVID-19 claims liability.

It is not possible for a company primarily transacting in insurance business to predict the requirements of funding with absolute certainty. The theory of probability is applied based on past observed practices. The amounts and maturities in respect of insurance liabilities are therefore based on management's best estimate which incorporates statistical techniques and past experience. It is not possible for the Group to predict the ongoing restrictions on surgeries and other health services due to COVID-19 which could result in the maturity profile of the COVID-19 claims liability extending beyond 12 months. This liability is specifically funded by the STOC sub-portfolio.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital

The Group's working capital balances are summarised in this note.

(a) Capital management

Medibank's health insurance fund is required to maintain sufficient capital to comply with APRA's solvency and capital adequacy standards. The solvency standard aims to ensure that the fund has enough cash or liquid assets to meet all of its liabilities as they become due, even if the cash flow is 'stressed'. The standard consists of a requirement to hold a prescribed level of cash, and also mandates a Liquidity Management Plan.

The capital adequacy standard aims to ensure that there is sufficient capital within a health insurance fund to enable the ongoing conduct of the business of the fund. The standard consists of a requirement to hold a prescribed level of assets to be able to withstand adverse experience, and also mandates a Capital Management Policy. The Capital Management Policy includes target capital levels, capital trigger points and corrective action plans.

The health insurance fund is required to comply with these standards on a continuous basis and report results to APRA on a quarterly basis. The fund has been in compliance with these standards throughout the year.

The Board has established a Capital Management Policy for the health insurance fund. Capital is managed against this policy and performance is reported to the Board on a monthly basis.

(b) Trade and other receivables

	Note	2022 \$m	2021 \$m
Premiums in arrears		11.9	13.2
Allowance for impairment loss		(5.6)	(4.7)
	(i)	6.3	8.5
Trade receivables		66.7	59.0
Allowance for impairment loss		(2.1)	(2.2)
	(ii)	64.6	56.8
Government rebate scheme		137.7	133.8
Accrued revenue		13.4	13.2
Other receivables		3.4	3.6
		154.5	150.6
Total trade and other receivables		225.4	215.9

Note: Government rebate scheme is non-interest bearing and generally on 15-day terms.

Past due but not considered impaired

- (i) Premiums in arrears past due but not impaired are \$6.3 million (2021: \$8.5 million).
- (ii) Trade receivables past due but not impaired are \$8.0 million (2021: \$8.3 million). Each business unit of the Group has reviewed their individual debtors and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(b) Trade and other receivables (continued)

Trade and Other Receivables Accounting Policy

Trade and other receivables are non-interest bearing and generally due for settlement within 7 - 30 days. These receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method, less a loss allowance for expected credit losses. The carrying value of trade and other receivables is considered to approximate fair value, due to the short-term nature of the receivables.

Collectability of trade receivables is reviewed on an ongoing basis. The Group applies the simplified impairment approach under AASB 9, where expected lifetime losses are assessed based on historical bad and doubtful debt roll rates and adjusted for forward looking information where required. Uncollectible trade receivables are written off against the allowance account when identified. Any impairment loss on trade receivables is recognised within other expenses in the consolidated statement of comprehensive income. Any impairment loss on premiums in arrears is offset against health insurance premium revenue.

(c) Trade and other payables

	Note	2022 \$m	2021 \$m
Current			
Trade creditors		241.4	239.9
Other creditors and accrued expenses		66.2	55.6
Lease liabilities	14	30.2	28.1
Risk Equalisation Special Account		16.7	7.7
Other payables ⁽¹⁾		6.9	6.9
Total current		361.4	338.2
Non-current			
Lease liabilities	14	46.7	65.3
Other payables ⁽¹⁾		9.9	4.9
Total non-current		56.6	70.2

(1) Other payables include a contract liability in relation to the loyalty program.

Trade and Other Payables Accounting Policy

Trade and other payables, with the exception of lease liabilities, are non-interest bearing and are initially measured at fair value and subsequently at amortised cost using the effective interest method. The carrying value of trade and other payables is considered to approximate fair value, due to the short-term nature of the payables.

Refer to Note 3(a) for the Risk Equalisation Special Account accounting policy.

Refer to Note 14 for the accounting policy for lease liabilities.

Loyalty Program Accounting Policy

Where the amount of health insurance premium revenue includes a loyalty component, revenue is allocated to this component based on the relative estimated stand-alone selling price. The component of loyalty revenue is initially deferred as a liability on the consolidated statement of financial position, and subsequently recognised in the consolidated statement of comprehensive income upon redemption when Medibank is obliged to provide the specified goods or services itself.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(d) Reconciliation of profit after income tax to net cash flow from operating activities

	Note	2022 \$m	2021 \$m
Profit for the year		393.9	441.2
<i>Non-cash items</i>			
Depreciation and amortisation		115.0	122.0
Non-cash share-based payments expense		5.9	5.2
Share of (profit)/loss from equity accounted investments	16(b)	(4.5)	1.0
Other non-cash items		1.6	-
<i>Investing and financing items</i>			
Net realised loss/(gain) on financial assets		(12.3)	(21.2)
Net unrealised loss/(gain) on financial assets		93.0	(47.8)
Interest income		(17.9)	(17.7)
Trust distributions		(43.1)	(38.0)
Investment management expenses		5.1	4.7
Interest paid - leases	14	2.4	2.8
<i>(Increase)/decrease in operating assets</i>			
Trade and other receivables		(11.1)	(8.8)
Deferred acquisition costs		(39.6)	(42.3)
Other assets		1.7	6.2
Income tax receivable/liability		123.2	(63.9)
Net deferred tax assets		(157.1)	4.3
<i>Increase/(decrease) in operating liabilities</i>			
Trade and other payables		34.2	15.7
Unearned premium liability		137.4	11.3
Claims liabilities		239.6	(7.7)
Provisions and employee entitlements		81.1	115.2
Net cash inflow from operating activities		948.5	482.2

Cash and Cash Equivalents Accounting Policy

Cash and cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant change in value. These investments have original maturities of three months or less and include cash on hand, short-term bank bills, term deposits and negotiable certificates of deposit.

Amounts in cash and cash equivalents are the same as those included in the consolidated statement of cash flows.

Note 10: Contributed equity and reserves

(a) Contributed equity

Contributed equity consists of 2,754,003,240 fully paid ordinary shares at \$0.03 per share. Ordinary shares entitle their holder to one vote, either in person or by proxy on a poll, at a general meeting of Medibank, and in a reduction of capital, the right to repayment of the capital paid up on the shares.

Ordinary shares entitle their holders to receive dividends and, in the event of winding up Medibank, entitle their holders to participate in the distribution of the surplus assets of Medibank.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 10: Contributed equity and reserves (continued)

(b) Reserves

	2022	2021
	\$m	\$m
Equity reserve ⁽¹⁾	17.8	17.8
Share-based payments reserve ⁽²⁾	7.9	4.5
Total	25.7	22.3

- (1) During the 2009 financial year, the parent entity entered into a restructure of administrative arrangements, which gave rise to an equity reserve representing the difference between the book value of the net assets acquired from Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd) and the total purchase consideration.
- (2) The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to participating employees. Refer to Note 18 for further information.

SECTION 4: OTHER ASSETS AND LIABILITIES

Overview

This section provides insights into the operating assets used and liabilities incurred to generate the Group's operating result.

Note 11: Property, plant and equipment

(a) Closing net carrying amount

	Note	2022 \$m	2021 \$m
Plant and equipment		10.0	10.2
Leasehold improvements		16.8	23.7
Assets under construction		7.1	4.5
Right-of-use assets	14	54.5	63.3
Total property, plant and equipment		88.4	101.7

(b) Reconciliation of the net carrying amount

	Plant and equipment \$m	Leasehold improvements \$m	Assets under construction \$m	Total \$m
2022				
Gross carrying amount	23.6	96.0	7.1	126.7
Accumulated depreciation and impairment	(13.6)	(79.2)	-	(92.8)
Net carrying amount	10.0	16.8	7.1	33.9
Net carrying amount at 1 July	10.2	23.7	4.5	38.4
Additions	-	0.4	6.4	6.8
Transfers in/(out)	1.1	2.7	(3.8)	-
Depreciation expense	(1.3)	(10.0)	-	(11.3)
Net carrying amount at 30 June	10.0	16.8	7.1	33.9
2021				
Gross carrying amount	22.9	95.0	4.5	122.4
Accumulated depreciation and impairment	(12.7)	(71.3)	-	(84.0)
Net carrying amount	10.2	23.7	4.5	38.4
Net carrying amount at 1 July	6.1	31.0	3.0	40.1
Additions	6.2	1.0	4.4	11.6
Transfers in/(out)	1.7	1.2	(2.9)	-
Depreciation expense	(3.8)	(9.5)	-	(13.3)
Net carrying amount at 30 June	10.2	23.7	4.5	38.4

(c) Property, plant and equipment capital expenditure commitments

	2022 \$m	2021 \$m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	2.0	0.2

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 11: Property, plant and equipment (continued)

Property, Plant and Equipment Accounting Policy

Refer to Note 14 for the accounting policy for right-of-use assets.

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item and any subsequent expenditure eligible for capitalisation. Repairs and maintenance costs are recognised in the consolidated statement of comprehensive income during the period in which they are incurred.

Depreciation

Property, plant and equipment is depreciated using the straight-line method over the estimated useful life as follows:

Plant and equipment	3 - 15 years
Leasehold improvements	the lease term
Assets under construction	not depreciated until in use

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Disposal

The gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). These gains or losses are included in the consolidated statement of comprehensive income.

Note 12: Intangible assets

	Goodwill \$m	Customer contracts and relationships \$m	Software \$m	Assets under construction \$m	Total \$m
2022					
Gross carrying amount	282.9	89.7	479.4	26.3	878.3
Accumulated amortisation and impairment	(78.4)	(88.0)	(379.6)	-	(546.0)
Net carrying amount	204.5	1.7	99.8	26.3	332.3
Net carrying amount at 1 July	204.5	3.7	111.9	25.2	345.3
Additions	-	-	4.5	20.5	25.0
Transfers in/(out)	-	-	19.4	(19.4)	-
Amortisation expense	-	(2.0)	(36.0)	-	(38.0)
Net carrying amount at 30 June	204.5	1.7	99.8	26.3	332.3
2021					
Gross carrying amount	282.9	89.7	455.5	25.2	853.3
Accumulated amortisation and impairment	(78.4)	(86.0)	(343.6)	-	(508.0)
Net carrying amount	204.5	3.7	111.9	25.2	345.3
Net carrying amount at 1 July	204.5	8.3	124.7	26.2	363.7
Additions	-	-	4.1	19.7	23.8
Transfers in/(out)	-	-	20.7	(20.7)	-
Amortisation expense	-	(4.6)	(37.6)	-	(42.2)
Net carrying amount at 30 June	204.5	3.7	111.9	25.2	345.3

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

Goodwill Accounting Policy

Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortised and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Key estimate

Refer to Note 12(a) for further information on the assumptions used in the recoverable amount calculations.

Software Accounting Policy

Software is carried at cost less accumulated amortisation and impairment losses. Costs capitalised include external direct costs of acquiring software, licences and service, and payroll related costs of employees' time spent on the project. Assets are capitalised where there is control of the underlying software asset and where they will contribute to future financial benefits, through revenue generation and/or cost reduction.

Amortisation is calculated on a straight-line basis over the expected useful lives of the software (1.5 to 10 years).

Customer Contracts and Relationships Accounting Policy

Customer contracts and relationships acquired as part of a business combination are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful lives (5 to 12 years).

Customer contracts and relationships are assessed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(a) Impairment tests for goodwill – key assumptions and judgements

Below is a summary of the Group's goodwill allocation to cash generating unit (CGU) and the key assumptions made in determining the recoverable amounts.

	2022			2021		
	Goodwill allocation	Growth rate %	Pre-tax discount rate %	Goodwill allocation	Growth rate %	Pre-tax discount rate %
	\$m			\$m		
Health Insurance	96.2	2.5	11.6	96.2	2.5	10.5
Medibank Health Telehealth	11.1	1.0	12.4	11.1	1.0	11.3
Medibank Health Home Care	97.2	2.5	12.4	97.2	2.5	11.3

Forecast future cash flows

The recoverable amounts of the CGUs are based on value in use (VIU) calculations, which use a three-year cash flow projection per the Group's Board approved Corporate Plan. A terminal value has been assumed in all the VIU calculations, except for the Medibank Health Telehealth CGU VIU calculation which is based on the expected tenure of current contracts.

Discount rates

Estimated future cash flows are discounted using post-tax discount rates which reflect risks specific to each CGU. The equivalent pre-tax discount rates are disclosed above.

Growth rates

The growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate as per industry forecasts.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(a) Impairment tests for goodwill – key assumptions and judgements (continued)

Other key assumptions

The key assumptions underpinning the cash flows are specific to each CGU and the industry in which it operates. The assumptions applied are based on management's past experience and knowledge in the market in which the CGU operates. They include the following:

- Health Insurance CGU: Key assumptions include policyholder growth and future premium revenue rate rises, along with claims growth and claims inflation.
- Medibank Health Telehealth CGU: The business model of the CGU is contract based by nature and the forecast cash flows contain key assumptions for key customer contracts, including contract renewals, new wins and losses.
- Medibank Health Home Care group of CGUs: Comprises acquired and internally developed in-home care businesses. Goodwill has been allocated to the Home Care CGUs as the Group derives strategic and operational synergies, and the Group monitors business performance at the combined Home Care level. The forecast cash flows contain key assumptions around volumes of services performed across geographic areas, expected contract renewals and new wins and losses.

There are no reasonably possible changes in key assumptions that could have resulted in an impairment loss for the Health Insurance CGU, Medibank Health Telehealth CGU or the Medibank Health Home Care group of CGUs in the current or prior reporting periods.

Impairment Accounting Policy

For the purposes of assessing impairment, goodwill is allocated to the CGU, or group of CGUs, at which the goodwill is monitored and where the synergies of the combination are expected. A CGU is the smallest group of assets that generate separately identifiable cash inflows.

An impairment loss is recognised if the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and VIU. In assessing VIU, estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

(b) Intangible assets capital expenditure commitments

	2022 \$m	2021 \$m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	0.7	1.9

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements provision

	2022	2021
	\$m	\$m
Current	72.4	69.7
Non-current	13.8	13.0
Total employee entitlements	86.2	82.7

This provision incorporates annual leave, long service leave, bonus plans and termination payments.

(ii) Employee benefits expense

Included in the Group's employee benefits expense are the following:

	2022	2021
	\$m	\$m
Superannuation expense	31.0	30.4
Other long-term benefits expense	4.9	5.4
Termination benefits expense	3.3	3.7
Share-based payment expense	5.9	5.2

Employee Entitlements Accounting Policy

<i>Short-term obligations</i>	Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.
<i>Other long-term employee benefit obligations</i>	<p>Liabilities for employee entitlements includes long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period. The liabilities are measured at the present value of expected future payments using the projected unit credit method, taking into account:</p> <ul style="list-style-type: none"> • Expected future wage and salary levels. • Experience of employee departures. • Periods of service. <p>Expected future payments are discounted using market yields at the end of the reporting period, using corporate bonds with terms to maturity that closely match the estimated future cash outflows. The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.</p>
<i>Bonus plans</i>	Liabilities for bonuses are based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, the profit of the Group and other financial and non-financial key performance indicators. The Group recognises a provision when it is contractually obliged or where there is a past practice that has created a constructive obligation.
<i>Termination benefits</i>	<p>Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:</p> <ul style="list-style-type: none"> • When the Group can no longer withdraw the offer of those benefits. • When the Group recognises costs for a restructuring that is within the scope of AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and involves the payment of termination benefits. <p>In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.</p>

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(b) Provisions

Movements in provisions are as follows:

	Commissions \$m	Make good \$m	Workers compensation \$m	Corporate loyalty benefits \$m	Contingent consideration \$m	Other \$m	Total \$m
Balance at 1 July 2021	8.9	5.0	5.3	10.0	2.7	2.8	34.7
Additional provision	7.2	-	0.5	4.2	5.4	2.8	20.1
Amounts utilised during the year	(7.4)	(0.8)	(1.3)	(3.1)	-	(0.3)	(12.9)
Reversal of unused provision	-	-	-	(0.4)	-	-	(0.4)
Balance at 30 June 2022	8.7	4.2	4.5	10.7	8.1	5.3	41.5
Balance comprised of:							
Current	8.7	1.4	0.7	10.7	5.4	5.3	32.2
Non-current	-	2.8	3.8	-	2.7	-	9.3

(i) Commissions provision

This provision relates to estimated commissions payable to third parties in relation to the acquisition of health insurance contracts.

(ii) Make good provision

In accordance with certain lease agreements, the Group is obligated to restore leased premises to their original condition at the end of the lease term. Due to the long-term nature of the liability, there is uncertainty in estimating the ultimate amount of these costs. The provision has been discounted to take into account the time value of money throughout the remaining term of the lease.

(iii) Workers compensation provision

The parent entity is self-insured for workers' compensation claims. Provisions are recognised based on claims reported and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuarial valuation performed at each reporting date. The parent entity has entered into \$10.0 million (2021: \$10.0 million) of bank guarantees in relation to its self-insured workers compensation obligations.

(iv) Corporate loyalty benefits provision

This provision relates to estimated incentives payable to third parties in relation to the acquisition of corporate health insurance contracts.

(v) Contingent consideration provision

Contingent consideration relates to the investment in East Sydney Day Hospital Pty Limited (refer to Note 16(b) for further information).

(c) Customer give back provision

Movement in the customer give back provision is as follows:

	Total \$m
Balance at 1 July 2021	103.0
Additional provision	184.6
Amounts utilised during the year	(109.0)
Balance at 30 June 2022	178.6

During the current and prior periods, the Group has announced various customer give backs as part of its commitment to return permanent net COVID-19 savings to eligible policyholders. These give backs are initially recognised as a reduction to Health Insurance premium revenue in the consolidated statement of comprehensive income with the corresponding liability recognised in either the customer give back provision or provision for premium deferral in the unearned premium liability (refer to Note 5) depending on the mechanism used to provide the give back to eligible policyholders. One-time cash payments are recognised in the customer give back provision, and premium deferrals are recognised within the unearned premium liability.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(c) Customer give back provision (continued)

The 2021 give back of \$103.0 million that was recognised at 30 June 2021 has all been returned to eligible policyholders during the period. The total amount given back was \$104.6 million, with the additional \$1.6 million recognised in the current period consolidated statement of comprehensive income.

Further customer give backs totalling \$367.8 million were announced during the current period in relation to a 7 month deferral of the 1 April 2022 premium increase and a one-time cash payment. Of this, \$183.0 million has been recognised within the customer give back provision, with \$4.4 million of this being paid during the current period. The remaining give back amount of \$184.8 million has been recognised in the provision for premium deferral in the unearned premium liability (refer to Note 5).

Provisions Accounting Policy

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events.
- It is probable that an outflow of resources will be required to settle the obligation.
- The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The increase in the provision due to the passage of time is recognised as interest expense.

(d) Contingent liabilities

From time to time, the Group is exposed to contingent liabilities which arise from the ordinary course of business, including:

- Losses which might arise from litigation.
- Investigations from internal reviews and by state and federal regulators such as the ACCC, ASIC, APRA 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 is either remote or not material.

The Group has issued \$17.6m of bank guarantees to third parties for various operational and legal purposes, including \$10.0 million (2021: \$10.0 million) in relation to its self-insured workers compensation obligations (refer to Note 13(b)(iii)) and other guarantees relating to conditions set out in property agreements.

It is not expected that these guarantees will be called upon.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 14: Leases

(a) Group as a lessee

Leases are entered into as a means of acquiring access to corporate and retail property. Rental payments are generally fixed, with differing clauses to adjust the rental to reflect increases in market rates. These clauses include fixed incremental increases, market reviews and inflation escalation clauses during a lease on which contingent rentals are determined. No operating leases contain restrictions on financing or other leasing activities. The Group leases unused office space under non-cancellable leases agreements. The leases have varying terms, escalation clauses and renewal rights.

As at 30 June 2022, management have determined it is not reasonably certain that any of its leases will be extended or terminated.

The table below sets out the carrying amounts of the right-of-use asset and the movements during the year.

	2022 \$m	2021 \$m
Balance at 1 July	63.3	72.1
Net additions	19.1	18.4
Depreciation expense	(27.9)	(27.2)
Balance at 30 June	54.5	63.3

The table below sets out the carrying amounts of the lease liabilities and the movements during the year.

	2022 \$m	2021 \$m
Balance at 1 July	93.4	109.2
Additions	19.9	18.4
Accretion of interest	2.4	2.8
Lease payments	(38.8)	(37.0)
Balance at 30 June	76.9	93.4
Balance comprised of:		
Current	30.2	28.1
Non-current	46.7	65.3

The maturity profile of the Group's lease liabilities based on contractual undiscounted payments is provided in Note 8(c).

Leases Accounting Policy

As a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease by determining whether:

- The contract involves the use of an identified asset.
- The Group has the right to direct the use of the asset.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use or the end of the lease term. In addition, the right-of-use is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 14: Leases (continued)

(a) Group as a lessee (continued)

Leases Accounting Policy (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. In determining the incremental borrowing rate, the following components are considered:

- Reference rate (incorporating currency, environment, term).
- Financing spread adjustment (incorporating term, indebtedness, entity, environment).
- Lease specific adjustment (incorporating asset type).

The interest expense recognised on the lease liability is measured at amortised cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments, with a corresponding adjustment made to the carrying amount of the right-of-use asset (or profit or loss if the carrying amount of the right-of-use asset has been reduced to zero).

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) Group as a Lessor

Finance lease receivables of \$4.9 million have been recognised by the Group at 30 June 2022 (2021: \$7.0 million). These are presented within other assets in the consolidated statement of financial position.

Leases Accounting Policy

As a lessor

The Group acts as an intermediate lessor for two subleases. The Group's interest in the head lease and sublease are accounted for separately. At the sublease commencement, the Group determines whether it is a finance or operating lease by assessing whether the lease transfers substantially all of the risks and rewards of ownership to the lessee, with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

SECTION 5: OTHER

Overview

This section includes additional information that must be disclosed to comply with Australian Accounting Standards, the *Corporations Act 2001* and the Corporations Regulations.

Note 15: Income tax

Tax consolidation legislation

Medibank and its wholly owned Australian controlled entities are members of a tax consolidated group. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements.

The entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Medibank.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Medibank for any current tax payable and are compensated by Medibank for any current tax receivable.

(a) Income tax expense

	2022 \$m	2021 \$m
Current tax	322.0	182.2
Deferred tax ⁽¹⁾	(156.6)	8.6
Adjustment for tax of prior period	0.7	0.3
Income tax expense	166.1	191.1

(1) Current period includes deferred tax of \$130.2 million in relation to the movements in the COVID-19 claims liability and provision for customer givebacks (including premium deferral). Refer to Note 15(c).

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2022 \$m	2021 \$m
Profit for the year before income tax expense	560.0	632.3
Tax at the Australian tax rate of 30%	168.0	189.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	0.9	2.8
Tax offset for franked dividends	(1.6)	(1.2)
Share of (profit)/loss from equity accounted investments	(1.3)	0.3
Other items	(0.6)	(0.8)
	165.4	190.8
Adjustment for tax of prior period	0.7	0.3
Income tax expense	166.1	191.1

SECTION 5: OTHER

Note 15: Income tax (continued)

(c) Deferred tax assets and liabilities

Deferred tax balances comprise temporary differences attributable to following items.

	2022 \$m	2021 \$m
<i>Recognised in the income statement</i>		
Trade and other receivables	2.3	2.0
Financial assets at fair value through profit or loss	(4.2)	(28.4)
Deferred acquisition costs	(24.9)	(24.3)
Property, plant and equipment	(17.2)	(19.6)
Intangible assets	(11.1)	(13.0)
Trade and other payables	26.9	30.6
Employee entitlements	25.8	24.8
Claims liabilities ⁽¹⁾	139.3	72.2
Provisions ⁽²⁾	104.1	40.6
Business capital costs	0.1	0.3
Other (liabilities)/assets	2.1	0.3
	243.2	85.5
<i>Recognised directly in other comprehensive income</i>		
Actuarial loss on retirement benefit obligation	0.4	0.4
	0.4	0.4
Net deferred tax assets	243.6	85.9

(1) Includes deferred tax of \$134.5 million (2021: \$67.1 million) in relation to the COVID-19 claims liability. Refer to Note 3(b) for further information.

(2) Includes deferred tax of \$53.6 million (2021: \$30.9 million) in relation to the customer give back provision and \$40.1 million in relation to the provision for premium deferral recognised in the unearned premium liability. Refer to Note 5 and Note 13(c) for further information.

Income Tax Accounting Policy

Current Taxes Accounting Policy

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred Taxes Accounting Policy

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of each reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled. Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, other than for the following:

- Where they arise from the initial recognition of goodwill.
- Where they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.
- For temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

SECTION 5: OTHER

Note 15: Income tax (continued)

Income Tax Accounting Policy (continued)

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Offsetting balances

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Key judgement

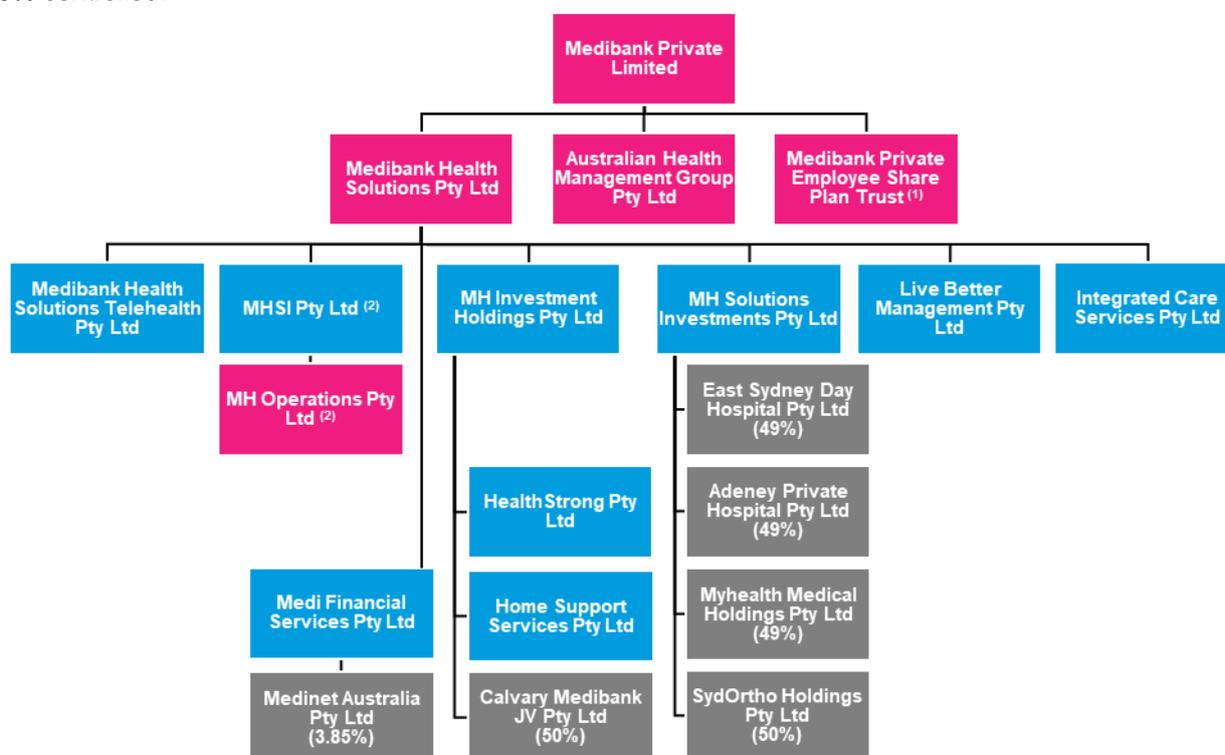
The deferred tax asset in relation to the COVID-19 claims liability has been recognised in the consolidated statement of financial position. Recognition is on the basis that the Group can demonstrate that:

- The temporary difference will reverse when the expected deferred claims are incurred.
- Sufficient profits are forecast to exist to utilise the tax asset in the future.

Note 16: Group structure

(a) Group structure

The consolidated financial statements incorporate the following entities. All entities, unless otherwise stated, are 100% controlled.



These subsidiaries are wholly owned by Medibank Health Solutions Pty Ltd and have been granted relief from the necessity to prepare financial reports in accordance with the *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*.

These entities are equity accounted investments. Refer to Note 16(b) for further information.

(1) Refer to Note 18(a) for further information on the Employee Share Plan Trust.

(2) MHSI Pty Ltd and MH Operations Pty Ltd were registered on 9 May 2022.

SECTION 5: OTHER

Note 16: Group structure (continued)

(a) Group structure (continued)

Consolidation Accounting Policy

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) Equity accounted investments

As at 30 June 2022 the Group held the following investments in associates and joint ventures:

Name of company	Principal activity	Place of incorporation	Type	Ownership interest %	
				2022	2021
East Sydney Day Hospital Pty Ltd ⁽ⁱⁱⁱ⁾	Short stay hospital	Australia	Associate	49.00%	49.00%
Calvary Medibank JV Pty Ltd	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 ⁽ⁱⁱⁱ⁾	Short stay hospital	Australia	Associate	49.00%	49.00%
Medinet Australia Pty Ltd ⁽ⁱ⁾	Digital health services	Australia	Associate	3.85%	-
SydOrtho Holdings Pty Ltd ⁽ⁱⁱⁱ⁾	Short stay hospital	Australia	Joint Venture	50.00%	-

The following table shows the Group's aggregated interests in equity accounted investments.

	2022	2021
	\$m	\$m
Balance at 1 July	77.1	-
Additions	22.1	78.1
Share of net profit/(loss) for the year	4.5	(1.0)
Balance at 30 June	103.7	77.1

(i) Medinet Australia Pty Ltd

On 15 March 2022, Medi Financial Services Pty Ltd acquired a 3.85% shareholding in Medinet Australia Pty Ltd, a digital health service provider, for \$10.0 million. The Group has significant influence over Medinet as it has 28.5% of the voting power.

SECTION 5: OTHER

Note 16: Group structure (continued)

(b) Equity accounted investments (continued)

(ii) SydOrtho Holdings Pty Ltd

On 16 March 2022, MH Solutions Investments Pty Ltd acquired a 50% shareholding in SydOrtho Holdings Pty Ltd (SydOrtho) for \$1.5 million, to develop a hospital in Sydney for short stay surgical procedures. As part of the purchase agreement, the Group may make future equity purchases in SydOrtho up to \$13.3 million. These future equity purchases are contingent on SydOrtho achieving certain milestones in the development of the hospital and therefore will only be recognised when the milestones are achieved.

(iii) Other

Other additions during the period comprised:

- Non-cash addition of \$5.4 million in relation to the increase in the East Sydney Day Hospital Pty Ltd contingent consideration provision (refer to Note 13(b)(v)).
- Subscription for an additional \$5.2 million of shares in Adeney Private Hospital Pty Ltd (APH) in line with APH's achievement of milestones.

Equity Accounted Investments Accounting Policy

The Group's associates and joint ventures, which are entities over which the Group has significant influence or joint control, are accounted for using the equity method. Under this method, the investment associate or joint venture is initially recognised at cost and is increased or decreased to recognise the Group's share of profit or loss. Equity accounting of losses is restricted to the Group's interest in the associate or joint venture. The Group's share of profit or loss for the period is reflected in the consolidated statement of comprehensive income. Investments in associates and joint ventures are tested for impairment if an event occurs that has an impact on the estimated future cash flows from the net investment.

(c) Parent entity financial information

(i) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2022 \$m	2021 \$m
Statement of financial position		
Current assets	3,441.7	3,186.5
Total assets	4,192.8	3,794.7
Current liabilities	2,207.1	1,832.2
Total liabilities	2,355.8	1,980.2
<i>Shareholders' equity</i>		
Issued capital	85.0	85.0
Reserves		
Equity reserve	6.3	6.3
Share-based payment reserve	7.9	4.5
Retained earnings	1,737.8	1,718.7
Total shareholders' equity	1,837.0	1,814.5
Profit for the year	377.1	432.7
Total comprehensive income	377.1	432.7

SECTION 5: OTHER

Note 16: Group structure (continued)

(c) Parent entity financial information (continued)

(ii) Guarantees entered into by parent entity

The parent entity has entered into \$10.0 million (2021: \$10.0 million) of bank guarantees in relation to its self-insured workers compensation obligations. Refer to Note 13(b)(iii) for further information on the provision for workers compensation.

(iii) Contingent liabilities of the parent entity

Refer to Note 13(d) for details of the contingent liabilities of the parent entity.

(iv) Parent entity capital expenditure commitments

	2022 \$m	2021 \$m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities		
Property, plant and equipment	2.0	0.2
Intangible assets	0.4	1.6

Parent Entity Financial Information Accounting Policy

The financial information for the parent entity, Medibank, has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of Medibank.
- Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised by Medibank as current assets or current liabilities.

Note 17: Related party transactions

(a) Transactions with equity accounted investments

	2022 \$m	2021 \$m
Transactions with equity accounted investments		
Claims incurred	(3.8)	(2.9)
Services provided	26.6	1.7
Interest received	0.2	0.2
Outstanding balances with related parties		
Amounts payable	(0.1)	-
Amounts receivable	1.5	1.5
Loan receivable	2.9	2.9

The Group has entered into the following transactions with its equity accounted investments during the year:

- Payment of policyholder claims. These transactions are under normal commercial terms.
- Receipts in relation to services rendered, largely comprised of services provided to Calvary Medibank JV Pty Ltd for the COVID Care at Home programs.
- Reimbursement of costs incurred.

SECTION 5: OTHER

Note 17: Related party transactions (continued)

(b) Key management personnel remuneration

	2022	2021
	\$	\$
Short-term benefits	8,024,431	10,300,436
Post-employment benefits	185,198	281,954
Long-term benefits	212,598	1,420,495
Share-based payments	2,855,265	3,515,299
Total key management personnel	11,277,492	15,518,184

Refer to the Remuneration Report for further details of the composition of the key management personnel.

(c) Transactions with other related parties

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the current and prior reporting periods. All transactions that occurred were in the normal course of business on terms and conditions no more favourable than those available on an arm's length basis.

Note 18: Share-based payments

(a) Share-based payments arrangements

Performance rights to acquire shares in Medibank are granted to members of the Executive Leadership Team (ELT), Senior Executive Group (SEG) and other selected senior employees as part of Medibank's short-term incentive (STI) and long-term incentive (LTI) plans. These plans are designed to:

- Align the interests of participating employees more closely with the interests of customers and shareholders by providing an opportunity for those employees to receive an equity interest in Medibank through the granting of performance rights.
- Assist in the motivation, retention and reward of participating employees.

Performance rights granted do not carry any voting rights.

Medibank has an Employee Share Plan Trust to manage its share-based payments arrangements. Shares allocated by the trust to the employees are acquired on-market prior to allocation. The Trust held nil shares at 30 June 2022.

(i) LTI offer

Under the LTI Plan, performance rights were granted to members of the ELT, SEG and other selected senior employees as part of their remuneration. Performance rights granted under the LTI Plan are subject to the following performance hurdles:

- 35% of the performance rights will be subject to a vesting condition based on Medibank's earnings per share compound annual growth rate (EPS CAGR) over the performance period.
- 35% of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period against a comparator group of companies.
- 30% of the performance rights will be subject to a performance hurdle based on the growth of Medibank's private health insurance market share (as reported by APRA) over the performance period.

SECTION 5: OTHER

Note 18: Share-based payments (continued)

(a) Share-based payments arrangements (continued)

(i) LTI offer (continued)

Each performance hurdle under the LTI Plan has a threshold level of performance which needs to be achieved before vesting commences. Details of these thresholds are outlined in the remuneration report. The vesting conditions for performance rights in grants will be tested over a three-year performance period commencing on 1 July of the relevant period. The vesting conditions must be satisfied for the performance rights to vest. On satisfaction of the vesting conditions, each performance right will convert into a fully paid ordinary share on a one-for-one basis.

The number of rights granted in the 2022 grants were determined based on the monetary value of the LTI award, divided by the volume-weighted average share price of Medibank shares on the ASX during the 10 trading days up to and including 30 June 2021. This average price was \$3.13.

(ii) Annual STI offer

Under the Group's STI Plan, 50% of STI awarded to ELT members is paid in cash after the announcement of financial results. The remaining 50% is deferred for 12 months in the form of performance rights granted under the Performance Rights Plan. Vesting of deferred performance rights is conditional on the participant remaining employed by Medibank until the end of the 12-month deferral period.

On vesting of the performance rights, each performance right will convert into a share on a one-for-one basis, subject to any adjustment required to ensure that the participant receives a benefit equivalent to any dividends paid by Medibank during the deferral period.

The number of rights to be granted will be determined based on the monetary value of the STI award, divided by the volume-weighted average share price over the 10 trading days up to and including the payment date of cash STI.

Share-based Payments Accounting Policy

The fair value of the performance rights is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest.

The total expense is recognised over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

SECTION 5: OTHER

Note 18: Share-based payments (continued)

(b) Performance rights - Group

	Number of equity instruments	
	2022	2021
Outstanding at 1 July	8,079,042	8,938,073
Granted	3,542,600	3,168,794
Forfeited ⁽¹⁾	(1,371,837)	(624,784)
Exercised ⁽²⁾	(825,420)	(1,980,272)
Lapsed ⁽³⁾	(1,753,932)	(1,422,769)
Outstanding at 30 June	7,670,453	8,079,042
Exercisable at 30 June	-	-

- (1) Forfeited relates to instruments that lapsed on cessation of employment.
(2) Performance rights are exercised as soon as they vest.
(3) Lapsed relates to instruments that lapsed on failure to meet the performance hurdles.

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2021 and 2022 LTI plans and the key assumptions used in determining the valuation. The fair value was determined in consultation with the Group's professional service advisors, KPMG, including key inputs and the valuation methodology for the performance rights granted. The fair value at grant date differs for each grant primarily due to the Medibank share price on that grant date and for the TSR performance rights, the Medibank share price relative to the comparator group.

	TSR performance rights		EPS and market share performance rights	
	2022	2021	2022	2021
Grant date	1 July 2021	1 July 2020	1 July 2021	1 July 2020
Date of commencement of service and performance period	1 July 2021	1 July 2020	1 July 2021	1 July 2020
Expected vesting date	30 June 2024	30 June 2023	30 June 2024	30 June 2023
Fair value at grant date	\$1.62	\$1.58	\$2.72	\$2.54
Share price at grant date	\$3.14	\$2.97	\$3.14	\$2.97
Dividend yield (per annum effective)	3.7%	4.0%	3.7%	4.0%
Franking rate	100.0%	100.0%	100.0%	100.0%
Risk free discount rate (per annum)	0.2%	0.3%	n/a	n/a
Valuation method	Monte Carlo simulation	Monte Carlo simulation	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
<i>Volatility assumptions (per annum)</i>				
Medibank	20%	28%	n/a	n/a
Comparator group average	32%	35%	n/a	n/a
Correlation between comparator companies' TSR	30%	25%	n/a	n/a

SECTION 5: OTHER

Note 19: Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of Medibank, its related practices and non-related audit firms:

Note	2022 \$	2021 \$
PricewaterhouseCoopers Australia (PwC):		
Amounts received or due and receivable by the Company's auditor for:		
- An audit or review of the financial report of the Company and any other entity within the Group	1,693,192	1,570,108
Other assurance services in relation to the Company and any other entity within the Group:		
- Audit of regulatory compliance returns	281,550	231,830
- Accounting and other assurance services	248,280	15,530
Other services in relation to the Company and any other entity within the Group:		
- Health consulting services	229,780	199,517
Total remuneration of PwC	2,452,802	2,016,985

Note 20: Other

(a) New and amended standards adopted

Certain new accounting standards and amendments became effective for the annual reporting period commencing on 1 July 2021 but did not have a material impact on the Group's accounting policies or on the consolidated financial report.

(b) New accounting standards and interpretations not yet adopted

Certain new accounting standards have been published that are not mandatory for 30 June 2022 reporting periods but will be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

(i) AASB 17: Insurance Contracts

AASB 17 *Insurance Contracts* is effective for reporting periods beginning on or after 1 January 2023 and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Group will apply AASB 17 for the annual period beginning 1 July 2023.

The standard introduces a new general measurement model for accounting for insurance contracts. However, a simplified premium allocation approach, similar in nature to the Group's existing measurement basis under AASB 1023 is permitted in certain circumstances (such as for short-duration contracts).

The Group has a comprehensive project underway to assess the potential impact on its consolidated financial statements. This includes identifying changes to the Group's accounting policies, reporting requirements, systems, processes and controls and consideration of industry interpretations and regulatory responses.

The Group expects to apply the simplified premium allocation approach to all of its insurance contracts. The Group is considering applying the option provided under AASB 17 for groups of contracts that apply the simplified approach (and have a coverage period of less than one year) to recognise insurance acquisition cash flows as expenses when incurred. This is different to the current approach of amortising acquisition costs over the average expected retention period, however this potential change in treatment is not expected to result in a significant change to measurement. The impact of AASB 17 on the recognition, measurement and classification of the COVID-19 deferred claims liability and customer give backs is currently being evaluated by the Group.

All other key estimates and judgements in relation to the measurement of the Group's claim liabilities are expected to remain largely the same under the new standard. However, it is expected that under AASB 17 there will be substantial changes in presentation of the financial statements and disclosures.

SECTION 5: OTHER

Note 20: Other (continued)

(b) New accounting standards and interpretations not yet adopted (continued)

(ii) Other accounting standards or amendments that will become applicable in future reporting periods

Other accounting standards or amendments that will become applicable in future reporting periods are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

(c) Other accounting policies

Impairment of Tangible and Intangible Assets (other than Goodwill) Accounting Policy

Assets other than goodwill and financial assets classified at fair value through other comprehensive income, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs).

Financial Assets and Financial Liabilities Accounting Policy

The Group's financial assets consist of cash and cash equivalents, financial assets at fair value and trade and other receivables. Management determines the classification of its financial assets at initial recognition based on the business model test and cash flow characteristics. Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred. The Group's financial liabilities comprise trade and other payables. Financial liabilities are classified and measured at amortised cost and derecognised when the Group's contractual obligations are discharged, cancelled or expired.

Goods and Services Tax (GST) Accounting Policy

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(d) Events occurring after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Group's financial statements at 30 June 2022.

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

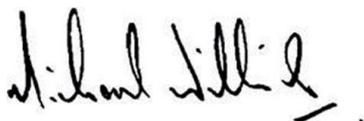
- (a) the financial statements and notes set out on pages 50 to 100 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
 - (ii) complying 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.

Note 1(b) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2022.

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

18 August 2022
Melbourne



Independent auditor's report

To the members of Medibank Private Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Medibank Private Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<p>For the purpose of our audit we used overall Group materiality of \$27 million, which represents approximately 5% of the Group's profit before tax.</p> <p>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</p> <p>We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</p> <p>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</p>	<p>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</p> <p>We performed:</p> <ul style="list-style-type: none"> • an audit of the financially significant component of the Group, being the Health Insurance segment. • specific audit procedures over significant risks and financially significant balances of the Medibank Health segment. 	<p>Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee:</p> <ul style="list-style-type: none"> • Continued impact of the COVID-19 pandemic • Estimation of the outstanding claims liability • Impairment test of goodwill allocated to the Home Care group of Cash Generating Units (CGUs) • Reliance on automated processes and controls <p>These are further described in the <i>Key audit matters</i> section of our report.</p>



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>Continued impact of the COVID-19 pandemic</p> <p><i>Estimation of the COVID-19 deferred claims liability</i> (Refer to Note 3: \$448.3m)</p> <p>The COVID-19 claims liability relates to expected future payments to customers as a result of the Coronavirus pandemic (COVID-19) preventing access to surgery and other health services (referred herein as ‘COVID-19 restrictions’).</p> <p>The COVID-19 claims liability is calculated by considering:</p> <ul style="list-style-type: none"> the difference between actual claims service levels and estimated underlying claims growth that would have occurred in the absence of COVID-19 restrictions (expected claims service level) the rate at which deferred surgical and non-surgical procedures will catch up in future periods (deferral rate) variations in the above key assumptions by geography and modality (claim type) average policyholder lapse rate. <p>Utilisation of the COVID-19 claims liability is assessed with reference to claims levels and the extent of COVID restrictions by geography and modality.</p> <p>The COVID-19 deferred claims liability is included in the financial statement line item titled ‘Claims liabilities’ recognised on the consolidated statement of financial position but does not form part of the outstanding claims liability (refer to the Key Audit Matters titled ‘<i>Estimation of outstanding claims liability</i>’).</p> <p>We considered this a key audit matter due to the:</p> <ul style="list-style-type: none"> complexity, significant uncertainties and subjectivity impacting the Group’s estimate of the liability, including: 	<p>We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> Evaluated the design of the Group’s relevant key controls over the COVID-19 provisioning process. Evaluated the Group’s accounting policy for the deferral of claims due to the COVID-19 pandemic against applicable Australian Accounting Standard requirements, Private Health Insurance (PHI) industry practices and publicly available health services data. Assessed, on a sample basis, significant data inputs used in the Group’s modelling and estimation of the COVID-19 claims liability (including relevance and reliability of data, appropriateness of data in the context of the applicable financial reporting framework, and potential indicators of management bias). Analysed claims patterns across key claims attributes (e.g. hospital versus ancillary claims and surgical versus non-surgical). Together with PwC actuarial experts, we: <ul style="list-style-type: none"> Assessed significant assumptions, and any changes to these assumptions, adopted by the Group in determining the impact of continued COVID-19 restrictions on claims deferred to future periods with reference to PHI trends, clinical analysis of deferral expectations and claims patterns with and without COVID-19 restrictions. Considered the appropriateness of the Group’s methodologies used to determine claims deferred to future periods with reference to PHI actuarial practices.



Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> ○ the impact and variability of disruptions to planned insured surgeries and other insured procedures arising from COVID-19 restrictions ○ an absence of historical precedent on which to analyse data due to the impact of COVID-19 on claims patterns ○ the determination of the proportion of claims not incurred that is attributable to COVID-19 restrictions ○ the estimation of the proportion of deferred claims expected to be made post balance date. ● the focus on disclosures that are fundamental to understanding the impact of COVID-19 on the Group’s financial report, including the methodology and key assumptions used to estimate the COVID-19 deferred claims liability and the impact of changes in key variables on the COVID-19 deferred claims liability. 	<ul style="list-style-type: none"> ○ On a sample basis, performed recalculations over the mathematical accuracy of the Group’s COVID-19 claims liability model. ● Assessed the reasonableness of disclosure of the COVID-19 claims liability in the financial report against the requirements of the applicable Australian Accounting Standards.
<p><i>Recognition of COVID-19 customer give backs</i> <i>(Refer to Note 3: \$369.4m, Note 5: \$133.5m and Note 13(c): \$178.6m)</i></p> <p>The COVID-19 customer give backs represent the Group’s commitments to return permanent net COVID-19 savings to eligible customers arising from COVID-19 restrictions.</p> <p>COVID-19 customer give backs are recognised with reference to the Group’s publicly announced customer initiatives representing a return of past premiums to eligible policyholders prevented from accessing insured services during the period.</p> <p>The Group’s COVID-19 customer give backs announced during the year are recognised as a reduction in the financial statement line item ‘Health Insurance premium revenue’ on the consolidated statement of comprehensive income. The portion of COVID-19 customer give backs owed to customers as at 30 June 2022 is included in the consolidated statement of financial position as ‘Unearned premium liability’ (Note 5) or ‘Customer give back provision’ (Note 13(c)), depending on the mechanism used to give back to customers.</p>	<p>We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> ● Developed an understanding of the Group’s public announcements and commitments to financial analysts, shareholders and policyholders during the year. ● Develop an understanding of the Group’s key controls relevant to estimating and processing the COVID-19 customer give backs. ● Assessed the reasonableness of accounting treatment and disclosure of the COVID-19 customer give backs within the Group’s financial report against the requirements of the applicable Australian Accounting Standards, having regard to the Group’s public announcements, give back mechanisms and policyholder eligibility. ● Reconciled the amount and nature of customer give back public announcements made by the Group during the year with amounts recognised and disclosed in the Group’s financial report.



Key audit matter	How our audit addressed the key audit matter
<p>We considered this a key audit matter due to the impact of the Group’s public announcements on:</p> <ul style="list-style-type: none"> • key recognition criteria under applicable Australian Accounting Standards with reference to the nature of commitments made by the Group and eligibility of policyholders • the classification and disclosure of customer give backs with reference to specific characteristics of the give back mechanisms. 	<ul style="list-style-type: none"> • Performed analytics over the proportion of COVID-19 customer give backs recognised as an unearned premium liability (Note 5) versus a customer give back provision (Note 13(c)) by comparing to the give back mechanisms publicly announced by the Group during the year.
<p>Estimation of the outstanding claims liability <i>(Refer to Note 3: \$406.8m)</i></p> <p>The liability for outstanding claims relates to claims incurred during the financial year or prior periods but either not assessed or received by the Group at year end.</p> <p>The liability for outstanding claims is estimated by the Group as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. There is also additional uncertainty relating to the continued impact of the COVID-19 pandemic on claims patterns.</p> <p>A risk margin is applied by the Group to reflect the uncertainty in the estimate. The central estimate and risk margin combined, which are estimated based on judgements and actuarial expertise, are intended to achieve an actuarially defined probability of adequacy (PoA) of 95% (2021: 95%).</p> <p>The estimation of the outstanding claims liability involves complex and subjective judgements about future events, both internal and external to the business. Primarily, judgement is required by the Group in order to estimate the:</p> <ul style="list-style-type: none"> • type and amount of claims incurred during the last two months of financial year but not received or processed by year end • speed of processing claims by providers issuing claims on behalf of policyholders • claims cost inflation and medical trends impacting utilisation of benefits by members • impact of the COVID-19 pandemic on claims patterns. 	<p>We performed the following audit procedures, amongst others:</p> <p>Controls design and operating effectiveness</p> <ul style="list-style-type: none"> • We evaluated the design of the Group’s relevant key controls over the claims reserving process (including data reconciliation, data inputs, data quality, and the Group’s review of the estimate) and assessed, on a sample basis, whether these controls were operating effectively throughout the year <p>Use of actuarial expertise</p> <p>Together with PwC actuarial experts, we:</p> <ul style="list-style-type: none"> • Assessed, on a sample basis, significant data inputs used in the Group’s modelling and measurement of the central estimate (including relevance and reliability of data, appropriateness of data in the context of the applicable financial reporting framework, and potential indicators of management bias). • Considered whether the Group’s actuarial methodologies were consistent with actuarial practices and those used in the PHI industry. • On a sample basis, performed recalculations over the mathematical accuracy of the Group’s actuarial models. • Considered the impact on the estimate of reasonably plausible alternative assumptions such as changes in service levels, payment history, recent claims trends and COVID-19 environmental factors.



Key audit matter	How our audit addressed the key audit matter
<p>We considered this a key audit matter because of the significant judgement required by the Group in estimating claims liabilities, including continued uncertainty on member claiming patterns due to impact of the COVID-19 pandemic, and because a small change in assumptions can result in a material change in the estimated liability and corresponding charge to profit for the year.</p>	<ul style="list-style-type: none">Assessed the significant actuarial assumptions used by the Group in forecasting expected claims, particularly those relating to the two months prior to the year end. This included comparing the significant actuarial assumptions to the Group's historical experience, observable market trends, environmental factors, estimated payment patterns, member claiming patterns, and our industry knowledge.Assessed the Group's approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, including an assessment of the reasonableness of the Group's actuarial calculation of the PoA.Assessed the reasonableness of disclosure of the outstanding claims liability in the financial report against the requirements of the applicable Australian Accounting Standards. <p>Claims received after the year end</p> <ul style="list-style-type: none">We considered whether actual claims activity after year end supported the key assumptions used by the Group to estimate the outstanding claims liability at year end.
<p>Impairment test of goodwill allocated to the Home Care group of Cash Generating Units (CGUs)</p> <p><i>(Refer to Note 12: \$97.2m)</i></p> <p>The Group recognised goodwill of \$97.2 million in respect of a number of in-home care businesses. This goodwill has been allocated to a group of Cash Generating Units (CGUs) referred to as the Home Care CGU (Home Care).</p> <p>An impairment test of Home Care is performed annually by the Group by comparing the carrying value of Home Care to the recoverable amount.</p> <p>We considered this to be a key audit matter due to the:</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none">Developed an understanding of the process by which the projected future cash flows of Home Care were developed, including consideration of expected operational, productivity and financial synergies and realisation of planned strategic objectives.Considered the level of business performance monitoring by the Group and assessed whether the monitoring was performed at the Home Care level.Compared the cash flows included in the impairment assessment with the three-year business plan presented to and approved by the Board.



Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> financial significance of the goodwill allocated to Home Care which accounts for 48% of the goodwill balance recognised by the Group fact that the recoverable amount of Home Care is determined using a value-in-use model that requires significant judgement by the Group to estimate future cash flows based on a number of key assumptions, including revenue forecasts and expected synergies judgements and assumptions applied by the Group in performing the impairment test, including cash flows forecasts related to the realisation of planned strategic objectives for Home Care over the next three years, discount rates and growth rates. 	<ul style="list-style-type: none"> Considered whether the cash flow forecasts were reasonable and were based on supportable assumptions by comparing the forecasts to actual cash flows from previous years. Considered the impact on the impairment test of reasonably plausible alternative assumptions, such as achieving cash flow forecasts and changes in the discount rate. On a sample basis, tested the mathematical accuracy of the value-in-use model. Assessed the reasonableness of disclosure of the impairment test for Home Care goodwill in the Group financial report against the requirements of the applicable Australian Accounting Standards. <p>Together with PwC valuation experts, we:</p> <ul style="list-style-type: none"> Developed an understanding of the Group’s impairment test methodology and key assumptions. Evaluated the valuation methodology supporting the Group’s impairment analysis against applicable Australian Accounting Standards. Compared the growth rate assumed in the cash flow projections extrapolated beyond three years to market data and industry research. Evaluated the Group’s discount rate assumptions against market data, comparable data and industry research.
<p>Reliance on automated processes and controls</p> <p>The Group utilises a number of complex and interdependent Information Technology (IT) systems to capture, process and report a high volume of transactions.</p> <p>We considered this a key audit matter because the:</p> <ul style="list-style-type: none"> operations and financial reporting processes of the Group are heavily reliant on IT systems underlying IT controls over business processes are significant to the financial reporting process 	<p>We developed an understanding of the Group’s IT governance framework, as well as performing testing over the information technology internal controls designed to mitigate the risk of material errors in the Group’s financial report:</p> <ul style="list-style-type: none"> program development and changes access to programs and data computer operations business process key automated controls and reports.



Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none">data migration activities which occurred during the year impacted the key IT processes, systems and controls relevant to the financial reporting process.	Together with PwC IT specialists, we have evaluated the design and assessed, on a sample basis, the operating effectiveness of key IT controls relevant to the Group's financial reporting processes.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Operating and Financial Review and the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

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



Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 18 to 46 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in black ink that reads "CJ Heath".

CJ Heath
Partner

Melbourne
18 August 2022