

ASX release

22 January 2024

AASB 17 transition update

Medibank Private Limited (Medibank) (ASX: MPL) plans to announce its and its subsidiaries (Group) half year 2024 financial results on 22 February 2024. In advance of this and to assist investors, Medibank is today releasing unaudited comparative financial results restated for the impact of the new insurance accounting standard, AASB 17 *Insurance Contracts* (AASB 17).

Summary of impacts of AASB 17

- AASB 17 does not impact Medibank's underlying economics or cash flows.
- Medibank has adopted AASB 17 from 1 July 2023, and will present restated comparative period financial results within its upcoming 2024 half year financial statements. Comparative restated financial information will be presented for the 6 months ending 31 December 2022 (1H23), the financial year ending 30 June 2023 (FY23) and as at the transition date of 1 July 2022.
- Changes to COVID-19 accounting will result in short-term impacts to the Group's statutory results, however for transparency the impacts of COVID-19 will be separately reported outside Group Operating Profit within one line, Movement in COVID-19 reserve.
- Other accounting changes are minor, with restated FY23 Underlying Group Net Profit after Tax (NPAT), which excludes the impacts of COVID-19, changing by only \$0.5 million to \$500.1 million.
- Restated 1H23 and FY23 financial information is provided below to illustrate how Medibank's financial information will be presented for the half-year 2024 financial results.

Accounting changes

The key impacts of AASB 17 on our comparative financial results are outlined below with the unaudited impacts of these changes on our FY23 and 1H23 Group Management Income Statement provided in Attachment A. Most of the impacts of AASB 17 relate to COVID-19 accounting, with other minor changes.

1. COVID-19 accounting

The impact of COVID-19 on the Group saw the recognition of a **deferred claims liability** and **giveback provisions** in prior periods, both of which are impacted by the adoption of AASB 17.

- The **deferred claims liability**, which represented claims that have been deferred as a result of COVID-19, is no longer able to be recognised under AASB 17. This has led to the derecognition of the deferred claims liability balance at 1 July 2022 and the creation of a COVID-19 equity reserve. The 1H23 and FY23 results have been restated to remove the change in the deferred claims liability balance over the respective period.
- The cost of the deferral of premium increases (**premium deferrals**) provided to policyholders were previously recognised as an expense upfront when announced, however under AASB 17 premium deferrals will now be recognised on a passage of time basis over the policy coverage period, typically 12 months from 1 April. This change in revenue recognition will result in a pre-tax amount of \$39.9 million (post-tax \$27.9 million) of previously announced premium deferrals to be recognised in FY24 statutory profit. This will be reported below Group Operating profit within the Movement in COVID-19 reserve line. Of this amount, \$26.6 million (post-tax \$18.6 million) will be recognised in the 6 months ending 31 December 2023 (1H24), with a corresponding reduction to the COVID-19 equity reserve.

The COVID-19 equity reserve will enable investors to reconcile between the Group's statutory NPAT and underlying NPAT, whilst also providing transparency on Medibank's commitment to return any permanent net claims savings due to COVID-19 to policyholders. Going forward any further such claims savings or use of the COVID-19 equity reserve (such as higher claims than expected or further customer givebacks) will be reconciled within the COVID-19 equity reserve, and the corresponding short-term impact on the income statement reported within one line, Movement in COVID-19 reserve, in the Group financial summary.

The unaudited COVID-19 equity reserve balance and movements for the restated periods are detailed in Attachment B.

2. Other accounting practice changes:

Except for the COVID-19 related adjustments noted above, AASB 17 has a minor impact on our prior period restated financial results. Restatements arising from changes to accounting practices were:

- The provision for **product bonus** entitlements for products that allow unused benefit entitlements for specific products to be carried forward into future periods has been derecognised under AASB 17. Claims arising for customers holding these policies will now be recognised as incurred, consistent with other policyholder claims.
- Resident **acquisition costs** will be expensed upfront when incurred, rather than being amortised over the expected 4-year retention period.

Approach to external reporting

Our core metrics and management disclosures are unchanged. We will continue to report on the existing metrics of resident policyholder growth, underlying claims per policy unit and PHI management expenses. Reconciliations of the movement in the COVID-19 equity reserve will be provided to the market and our core segment metric calculations remain unchanged.

Underlying NPAT is based on statutory NPAT 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. Underlying NPAT will also be adjusted for any movement in the COVID-19 equity reserve.

Restated financial information

The unaudited FY23 and 1H23 Group financial summary comparatives have been restated for the impact of applying AASB 17 in Attachment A. The unaudited impact on statutory financial information is set out in the tables contained in Attachment B.

All figures are provisional and are subject to change following final external auditor review.

This announcement has been authorised for release by the Board.

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Attachment A – restated Group Management Income Statement

Full Year 2023 restatements

		Restatements					COVID-19 impacts				
\$m	FY23 as reported	Premium deferral	Deferred claims liability	Product bonus	Acquisition costs	FY23 restated, before COVID-19 impacts	Cash giveback	Premium deferral	Claims savings	Other	FY23 restated
Health Insurance result											
HI Premium revenue	7,148.7	(95.6)	-	-	-	7,053.1	332.0	215.3	-	-	7,600.4
Net claims expense (incl. risk equalisation)	(5,925.9)	-	(194.5)	(2.9)	-	(6,123.3)	-	-	(256.9)	(0.3)	(6,380.5)
HI Gross profit	1,222.8	(95.6)	(194.5)	(2.9)	-	929.8	332.0	215.3	(256.9)	(0.3)	1,219.9
HI Management expenses	(572.4)	-	-	-	3.8	(568.6)	-	-	-	-	(568.6)
HI Operating profit	650.4	(95.6)	(194.5)	(2.9)	3.8	361.2	332.0	215.3	(256.9)	(0.3)	651.3
HI Gross margin	17.1%					13.2%					16.1%
HI MER	8.0%					8.1%					7.5%
HI Operating margin	9.1%					5.1%					8.6%
Group Financial Summary											
Group Revenue	7,355.3	(95.6)	-	-	-	7,259.7	332.0	215.3	-	-	7,807.0
Health Insurance operating profit	650.4	(95.6)	(194.5)	(2.9)	3.8	361.2	332.0	215.3	(256.9)	(0.3)	651.3
Medibank Health segment profit	44.2	-	-	-	-	44.2	-	-	-	-	44.2
Segment operating profit	694.6	(95.6)	(194.5)	(2.9)	3.8	405.4	332.0	215.3	(256.9)	(0.3)	695.5
Corporate overheads	(47.1)	-	-	-	-	(47.1)	-	-	-	-	(47.1)
Group operating profit	647.5	(95.6)	(194.5)	(2.9)	3.8	358.3	332.0	215.3	(256.9)	(0.3)	648.4
Net investment income	138.6	-	-	-	-	138.6	-	-	-	-	138.6
Other income / expenses	(12.6)	-	-	-	-	(12.6)	-	-	-	-	(12.6)
Cyber incident cost	(46.4)	-	-	-	-	(46.4)	-	-	-	-	(46.4)
Profit before tax, before movement in COVID-19 reserve	727.1	(95.6)	(194.5)	(2.9)	3.8	437.9	332.0	215.3	(256.9)	(0.3)	728.0
Movement in COVID-19 reserve	-	-	-	-	-	-	(332.0)	(215.3)	256.9	0.3	(290.1)
Profit before tax	727.1	(95.6)	(194.5)	(2.9)	3.8	437.9	-	-	-	-	437.9
Income tax expense	(216.0)	28.7	58.4	0.8	(1.2)	(129.3)	-	-	-	-	(129.3)
NPAT	511.1	(66.9)	(136.1)	(2.1)	2.6	308.6	-	-	-	-	308.6
Normalisation for growth asset returns ¹	(4.7)	-	-	-	-	(4.7)	-	-	-	-	(4.7)
Normalisation for defensive asset returns ¹	(6.8)	-	-	-	-	(6.8)	-	-	-	-	(6.8)
Normalisation for COVID-19 reserve movements ¹	-	-	-	-	-	-	232.4	150.7	(179.8)	(0.3)	203.0
Underlying NPAT	499.6	(66.9)	(136.1)	(2.1)	2.6	297.1	232.4	150.7	(179.8)	(0.3)	500.1
EPS (cents)	18.6					11.2					11.2
Underlying EPS (cents)	18.1					10.8					18.2
DPS (cents)	14.6					14.6					14.6

¹The normalisation adjustments are calculated net of tax.

FY23 AASB 17 restatements:

- **Premium deferral restatement** represents the change in the timing of recognition of premium deferral givebacks. The \$95.6 million decrease in operating profit for the period largely arises due to the cost of the 1 April 2022 premium deferral that was previously recognised in the FY22 results now being recognised on a straight-line basis over the 12-month period beginning on 1 April 2022.
- **Deferred claims liability restatement** of \$194.5 million arises from the decrease in the derecognised deferred claims liability balance during the period (Jun 23: \$253.8 million, Jun 22: \$448.3 million).
- **Product bonus restatement** of \$2.9 million arises from the decrease in the derecognised product bonus provision during the period (Jun 23: \$13.1 million, Jun 22: \$16.0 million).
- **Acquisition costs restatement** of \$3.8 million represents the difference between acquisition costs that have been incurred during the period of \$35.1 million, and the previously recognised acquisition cost amortisation of \$38.9 million.

FY23 COVID-19 impacts: The statutory result adjusted for the movement in the COVID-19 equity reserve as follows:

- **Cash giveback:** the cost of cash givebacks announced during the period, as previously reported. The recognition of cash givebacks remains unchanged under AASB 17.
- **Premium deferrals:** the \$215.3 million premium deferral expense relates to the 1 April 2022 and 1 April 2023 premium deferrals and is comprised of the previously reported premium deferral expense of \$119.7 million and the \$95.6 million restatement included above.
- **Claims savings:** claims that were lower than underlying claims expectations, as previously reported.
- **Other:** relates to the net COVID-19 impact recognised in FY23, as previously reported.

Attachment A – restated Group Management Income Statement (continued)

Half Year 2023 restatements

		Restatements				1H23 restated, before COVID-19 impacts	COVID-19 impacts				1H23 restated
\$m	1H23 as reported	Premium deferral	Deferred claims liability	Product bonus	Acquisition costs		Cash giveback	Premium deferral	Claims savings	Other	
Health Insurance result											
HI Premium revenue	3,521.8	(53.8)	-	-	-	3,468.0	207.0	114.5	-	-	3,789.5
Net claims expense (incl. risk equalisation)	(2,942.7)	-	(36.7)	(5.7)	-	(2,985.1)	-	-	(230.5)	(0.5)	(3,216.1)
HI Gross profit	579.1	(53.8)	(36.7)	(5.7)	-	482.9	207.0	114.5	(230.5)	(0.5)	573.4
HI Management expenses	(273.9)	-	-	-	4.3	(269.6)	-	-	-	-	(269.6)
HI Operating profit	305.2	(53.8)	(36.7)	(5.7)	4.3	213.3	207.0	114.5	(230.5)	(0.5)	303.8
HI Gross margin	16.4%					13.9%					15.1%
HI MER	7.8%					7.8%					7.1%
HI Operating margin	8.7%					6.2%					8.0%
Group Financial Summary											
Group Revenue	3,629.4	(53.8)	-	-	-	3,575.6	207.0	114.5	-	-	3,897.1
Health Insurance operating profit	305.2	(53.8)	(36.7)	(5.7)	4.3	213.3	207.0	114.5	(230.5)	(0.5)	303.8
Medibank Health segment profit	24.6	-	-	-	-	24.6	-	-	-	-	24.6
Segment operating profit	329.8	(53.8)	(36.7)	(5.7)	4.3	237.9	207.0	114.5	(230.5)	(0.5)	328.4
Corporate overheads	(22.0)	-	-	-	-	(22.0)	-	-	-	-	(22.0)
Group operating profit	307.8	(53.8)	(36.7)	(5.7)	4.3	215.9	207.0	114.5	(230.5)	(0.5)	306.4
Net investment income	55.9	-	-	-	-	55.9	-	-	-	-	55.9
Other income / expenses	(5.4)	-	-	-	-	(5.4)	-	-	-	-	(5.4)
Cyber incident cost	(26.2)	-	-	-	-	(26.2)	-	-	-	-	(26.2)
Profit before tax, before movement in COVID-19 reserve	332.1	(53.8)	(36.7)	(5.7)	4.3	240.2	207.0	114.5	(230.5)	(0.5)	330.7
Movement in COVID-19 reserve	-	-	-	-	-	-	(207.0)	(114.5)	230.5	0.5	(90.5)
Profit before tax	332.1	(53.8)	(36.7)	(5.7)	4.3	240.2	-	-	-	-	240.2
Income tax expense	(98.8)	16.1	11.0	1.7	(1.3)	(71.3)	-	-	-	-	(71.3)
NPAT	233.3	(37.7)	(25.7)	(4.0)	3.0	168.9	-	-	-	-	168.9
Normalisation for growth asset returns ¹	(3.9)	-	-	-	-	(3.9)	-	-	-	-	(3.9)
Normalisation for defensive asset returns ¹	(2.7)	-	-	-	-	(2.7)	-	-	-	-	(2.7)
Normalisation for COVID-19 reserve movements ¹	-	-	-	-	-	-	144.9	80.2	(161.3)	(0.4)	63.4
Underlying NPAT	226.7	(37.7)	(25.7)	(4.0)	3.0	162.3	144.9	80.2	(161.3)	(0.4)	225.7
EPS (cents)											
EPS (cents)	8.5					6.1					6.1
Underlying EPS (cents)	8.2					5.9					8.2
DPS (cents)	6.3					6.3					6.3

¹The normalisation adjustments are calculated net of tax.

1H23 AASB 17 restatements

- **Premium deferral restatement** represents the change in the timing of recognition of premium deferral givebacks. The \$53.8 million decrease in operating profit for the period largely arises due to the cost of the 1 April 2022 premium deferral that was previously recognised in the FY22 results now being recognised on a straight-line basis over the 12-month period beginning on 1 April 2022.
- **Deferred claims liability restatement** of \$36.7 million arises from the decrease in the derecognised deferred claims liability balance during the period (Dec 22: \$411.6 million, Jun 22: \$448.3 million).
- **Product bonus restatement** of \$5.7 million arises from the decrease in the derecognised product bonus provision during the period (Dec 22: \$10.3 million, Jun 22: \$16.0 million). The profile of the previously recognised product bonus provision means that the half year impact is larger than for the full year.
- **Acquisition costs restatement** of \$4.3 million represents the difference between acquisition costs that have been incurred during the period of \$15.2 million, and the previously recognised acquisition cost amortisation of \$19.5 million.

1H23 COVID-19 impacts: The statutory result adjusted for the movement in the COVID-19 equity reserve as follows:

- **Cash giveback:** the cost of cash givebacks announced during the period, as previously reported. The recognition of cash givebacks remains unchanged under AASB 17.
- **Premium deferrals:** the \$114.5 million premium deferral expense relates to the 1 April 2022 premium deferral and is comprised of the previously reported premium deferral expense of \$60.7 million and the \$53.8 million restatement included above.
- **Claims savings:** claims that were lower than underlying claims expectations, as previously reported.
- **Other:** relates to the net COVID-19 impact recognised in 1H23, as previously reported.

Attachment B – restated summary statutory financial information

The unaudited restatements of the Group's NPAT as reported in the Statutory Consolidated Statement of Comprehensive Income are contained within the restated financial information in Attachment A.

The table below sets out the unaudited restatements of the Group's net assets as reported in the Statutory Consolidated Statement of Financial Position for the periods ended 30 June 2023 and 31 December 2022 and as at the transition date of 1 July 2022.

	Net Assets as at 1 Jul 2022 \$m	Net Assets as at 31 Dec 2022 \$m	Net Assets as at 30 Jun 2023 \$m
As previously reported	1,945.6	1,976.5	2,084.4
Derecognition of the deferred claims liability	448.3	411.6	253.8
Adjustment to the premium deferral provision	135.5	81.7	39.9
Derecognition of deferred acquisition costs	(82.9)	(78.6)	(79.1)
Derecognition of the provision for bonus entitlements	16.0	10.3	13.1
Tax effects of the above adjustments	(155.1)	(127.6)	(68.4)
Restated	2,307.4	2,273.9	2,243.7

The AASB 17 impacts on the deferred claims liability and the premium deferral provision have been separately recognised in a newly created COVID-19 equity reserve. Other transition adjustments for deferred acquisition costs and provision for bonus entitlements have been recognised within retained earnings. The unaudited COVID-19 equity reserve balance and movements for the restated periods are detailed below.

COVID-19 equity reserve balance

	6 months ending 31 Dec 2022 \$m	12 months ending 30 Jun 2023 \$m
\$m	\$m	\$m
Derecognition of the deferred claims liability	448.3	448.3
Adjustment to the premium deferral provision	135.5	135.5
Tax effects of the above adjustments	(175.2)	(175.2)
Opening balance at 1 July 2022	408.6	408.6
<i>Movement during the period</i>		
Lower / (higher) than expected claims	230.5	256.9
Premium deferral cost	(114.5)	(215.3)
Cash giveback cost	(207.0)	(332.0)
Net COVID-19 impact on operating profit	0.5	0.3
Movement during the period (exc. Tax)	(90.5)	(290.1)
Tax effect of movements	27.1	87.1
Total movement during the period	(63.4)	(203.0)
Closing balance	345.2	205.6

Important notice

General & Summary Information

The information in this release provides an unaudited overview of certain financial results of Medibank Private Limited ("MPL") and its subsidiaries (together, "MPL Group") for the 6 months ended 31 December 2022 and the financial year ended 30 June 2023 respectively restated for the impact of AASB 17 *Insurance Contracts* ("AASB 17"). These restatements of prior period results have not been subject to external review and are subject to change following a review by MPL's external auditor.

In addition, there is inherent uncertainty surrounding the interaction between tax laws and the implementation of AASB 17. The information in this release may be subject to change as new tax laws and regulations take effect.

This information in this release is given in summary form and does not purport to be complete. It is intended to be read in conjunction with MPL's other periodic and continuous disclosure announcements lodged with the ASX or released on the MPL's website, including without limitation its Appendix 4D and Financial Report for the half year ended 31 December 2022 and Appendix 4E and Financial Report for the financial year ended 30 June 2023, which are available at www.medibank.com.au.

Not advice

The information in this release is not investment, accounting, legal, tax or other advice and has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. You should make your own assessment and seek independent professional advice in connection with any investment decision. Past performance information in this release is given for illustrative purposes only. It is not, and should not be relied upon as, an indication of future performance.

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Forward-looking statements

This release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the MPL Group and certain plans and objectives of the management of MPL. Forward-looking statements can be identified by the use of forward-looking terminology, including without limitation the terms "believes", "estimates", "anticipates", "expects", "predicts", "intends", "plans", "goals", "targets", "aims", "outlook", "aspiration", "guidance", "forecasts", "continue", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Statements about market and industry trends are also forward-looking statements.

These forward-looking statements are provided as a general guide only and are not guarantees or predictions of future performance. They are based on information, expectations and assumptions known to MPL as at the date of this release regarding MPL's present and future business strategies and the future political, regulatory and economic environment in which MPL will operate.

MPL believes the expectations reflected in these forward-looking statements are reasonable as at the date of this release, but acknowledge they involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of MPL, which may cause the actual results or performance of MPL to be materially different from the results or performance expressed or implied by such forward-looking statements. These factors include general economic conditions in Australia, exchange rates, the market environment in which MPL operates and inherent regulatory risks in MPL's business.

You are therefore cautioned not to place undue reliance on any forward-looking statements regarding our belief, intent or expectations with respect to the MPL Group's businesses, market conditions and/or results of operations.

No representation or warranty is made by any legal or natural person in relation to the accuracy, likelihood of achievement or reasonableness of any of these forward-looking statements, forecasts, prospects or results (express or implied). MPL and its Related Parties assume no obligation to update any forward-looking statement and to the full extent permitted by law, MPL and its Related Parties disclaim any obligation or undertaking to release any updates or revisions to information to reflect any change in any of the information contained in this release (including but not limited to any assumptions or expectations set out in the release).

Financial data and rounding

Unless stated otherwise, all figures in the release are unaudited and in Australian dollars. Some figures, amounts, percentages, estimates, calculations of value and fractions are subject to rounding. Accordingly, the actual calculations of these figures may differ from figures set out in this release. Further, some balances subject to rounding may not add consistently throughout this release.

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