23 February 2023

2023 half year results

A solid result with business momentum returning

CEO commentary

"Today we have delivered a solid result driven by our commitment to support our customers. It is this focus that continues to drive our business and inform the decisions we make.

"We recognise the significant impact the cybercrime event has had on our customers. We will continue to support them through our Cyber Response Support Program, which includes mental health and wellbeing support, identity protection and financial hardship measures.

"There is more work to do, and the lessons we have learnt from the cybercrime will continue to shape our response and we will emerge stronger.

"We are a resilient business with great people, a unique offering in health, and a track record of responding to whatever challenge is in front of us. Whether it be COVID, inflation, cost-of-living pressures or the cybercrime event, our strategy has and will continue to put our customers and their needs at the heart of our business.

"While we did see some impacts to resident policyholder growth in the second quarter, there are positive signs of recovery. The performance in Medibank Health was steady despite the external environment.

"Over the past 12 months our resident policyholder numbers increased by almost 35,000.

"While our first quarter growth was strong, we shifted our focus to supporting our customers through the cybercrime event.

"The loss of almost 13,000 resident policies in the second quarter led to subdued growth of 1,700 policyholders over the past 6 months.

"With more normal business operations resuming in January, early signs of improvement in policyholder trajectory gives us confidence in regaining our growth momentum in the resident business. Last month net resident policyholder loss slowed to 1,100, while this month up to 18 February we have seen net growth of 200.

"The resident health insurance market remains buoyant, with growing numbers of younger adults and those taking out cover for the first time despite the challenging economic conditions.

Investor briefing

The investor briefing will be held today at 9.30am AEDT. The investor presentation and webcast will be accessible on Medibank's investor centre. A video featuring CEO David Koczkar is available on our newsroom.

Key numbers

$3.0b
total claims paid

$233.3m +5.9%
Group net profit after tax

+1.7k +0.1%
net resident policyholder growth

+33.4k +17%
net non-resident policy unit growth

6 months to 31 December 2022

$26.2m
non-recurring cybercrime costs

Medibank	ahm
42.7 -3.3	40.9 -4.3

customer advocacy (average Service NPS)
Change represents movement from 31 December 2021

c. $1.01b
total COVID financial support package to date

6.3 cents per share
interim ordinary dividend fully franked

Financial summary

Group NPAT up 5.9% to **$233.3 million**

Group operating profit up 7.4% to **$307.8 million**

Health Insurance
- Operating profit up 8.7% to **$305.2 million**
- Premium revenue up 2.0% to **$3,521.8 million**
- Management expense ratio up 60bps to **7.8%**

Medibank Health
- Segment profit down 4.3% to **$24.6 million**

Net investment income up 80.9% to **$55.9 million**

"We recognise many household budgets are under pressure, and we have worked hard to deliver our lowest premium increase in 22 years. We have also continued to meet our commitment to not profit from COVID, with our customer support now exceeding $1 billion.

"The significant growth in our international business has been a standout, with a 33,400 or 17% increase in non-resident policy units. We will continue to focus on growing our share in this market as more international students, visitors and workers return to Australia.

"While our short-term focus is on regaining momentum in our core resident business, our strategy to grow as a health company has not changed.

"We remain focused on ways to support our customers and provide them greater value, choice and control.

"Live Better Rewards enrolments were up 52% compared to the prior period, our Members' Choice Advantage network – which includes dental, optical and physio – saved customers around $12 million in out-of-pocket costs, and we delivered around 1.3 million virtual health interactions to our customers and the community.

"Our no gap program continues to provide choice and cost savings for customers undergoing common procedures such as joint replacements and endoscopies. This growing network now extends to 27 hospitals across the country with 300% growth in no gap procedures compared to the same time last year.

"Our Medibank Health business, including Amplar Health, continues to invest in prevention, new care settings and a more integrated experience across the health system.

"We are also offering the benefits of these services directly back to our customers.

"The expertise within Amplar Health is also being extended to the public system, which is looking at new and innovative ways to support the community and reduce pressure on over-stretched public hospitals. Through this business, we will continue to work alongside governments and others to deliver integrated care options across triage, primary care and acute care.

"Looking ahead, there are multiple avenues for our business to grow. We will continue to use our strong balance sheet to invest in opportunities to support our ambitions in areas such as health and wellbeing, primary care, and new care models including additional short stay hospitals.

"We have an incredible team of people at Medibank and I thank them for the support they continue to show to our customers and each other."

David Koczkar
Chief Executive Officer

Dividend

The Board has determined a fully franked interim ordinary dividend of 6.3 cents per share. This dividend represents a 76.5% payout ratio of underlying NPAT, which normalises for investment market returns. This is within our target payout ratio range of between 75%-85% of underlying NPAT.

Dividend dates

Ex-dividend Date	2	Thursday **March 2023**
Record Date	3	Friday **March 2023**
Payment Date	22	Wednesday **March 2023**

Performance in detail

Group

This result shows continued momentum in the Health Insurance business, solid performance in Medibank Health despite the external environment, and a strong capital position.

Group operating profit increased 7.4% to $307.8 million (1H22: $286.5 million), with an increase of 8.7% in Health Insurance operating profit and a decline of 4.3% in Medibank Health segment profit. Medibank Health transitioned out of two telehealth contracts during the last half and excluding these contracts, segment profit increased 7.4%.

Investment income increased by $25.0 million to $55.9 million (1H22: $30.9 million), however this increase was offset by $26.2 million of non-recurring costs associated with the cybercrime event.

Group NPAT increased 5.9% to $233.3 million (1H22: $220.2 million). Underlying NPAT, which normalises for investment market returns, increased 6.7% to $226.7 million.

Health Insurance

Health Insurance operating profit was up 8.7% to $305.2 million (1H22: $280.9 million). This reflects continued policyholder growth, subdued downgrading in the resident business, and very strong policy unit growth and margin recovery in the non-resident business following the reopening of borders.

Health Insurance revenue increased 2.0% to $3,521.8 million, with underlying revenue up 5.6% to $3,789.5 million when adjusted for our COVID customer support measures of $267.7 million in 1H23 and $136.6 million in 1H22.

The resident health insurance market remains buoyant with continued growth in new to industry and younger customers. Over the past 12 months we grew resident policyholders by almost 35,000 or 1.8%, although the loss of almost 13,000 policies since the end of September resulted in growth of 0.1% or 1,700 policyholders in the past 6 months, well below 1H22 (1.5%).

Lapse and acquisition deteriorated during this period, with customer retention impacted by the diversion of resources to support higher call volumes following the cybercrime event. Medibank acquisition was marginally lower than the prior period, indicative of the positioning and resilience of the brand and although ahm saw a greater impact to acquisition, this was mainly due to lower aggregator sales. We have seen the policyholder trajectory improve since 31 December with acquisition rates recovering and retention rates stabilising.

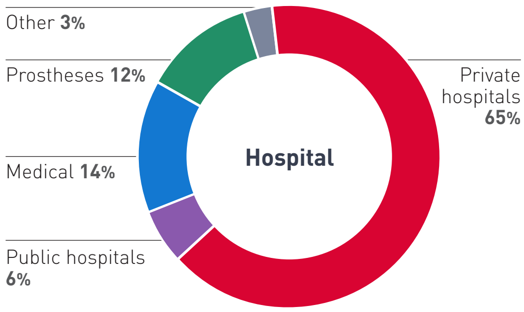
In the non-resident business we saw continued momentum with policy units increasing by 34.4%, with strong policy unit growth continuing in January 2023. We see growth opportunities in this market, enabled by our integrated health offering, improving product value – including in virtual health – and further investment.

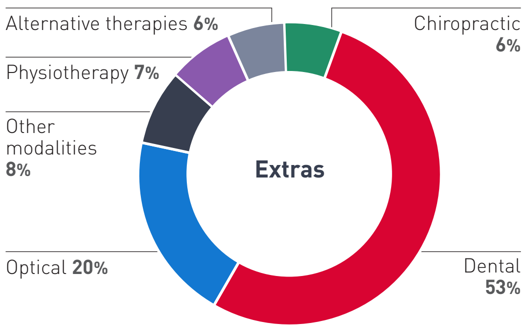
The total claims expense during the period was $2.9 billion with gross claims up 0.5%. Net claims, which includes risk equalisation, was up 0.7%. Risk equalisation had a 20 basis point impact on claims growth, consistent with the growth in ahm policies which are skewed to younger and lower claiming customers, and our continued below-industry claims growth.

The COVID deferred claims liability, which is in recognition of claims that have likely been deferred since the commencement of COVID restrictions, decreased $36.7 million to $411.6 million. This was due to the impact of lapsed customers and the expiration of Medibank extras limits. Due to resident claims being below our expectations and the absence of government restrictions on hospital admissions, claims deferral was ceased from 30 June 2022.

Gross profit increased 9.3% to $579.1 million. The return of $267.2 million in permanent net claims savings due to COVID through $267.7 million of give back initiatives resulted in COVID having a modest $0.5 million negative impact on profit. Adjusting for this impact, underlying gross profit increased 8.8% to $579.6 million.

Indicative composition of resident customer claims (per policy unit)





Gross margin increased 100 basis points to 16.4% and underlying gross margin increased 50 basis points to 15.3%. This was due to a 10 basis point increase in the resident business underlying gross margin, and favourable tenure and mix impacts in the non-resident business.

Management expenses were up 10% to $273.9 million, largely driven by non-resident sales commissions growing with customer acquisition. Operating expenses were up 7% with cost inflation of approximately 4% and modest volume impacts, partially offset by approximately $4 million of productivity savings. While the underlying management expense ratio increased 30 basis points to 7.2%, the operating margin increased 60 basis points to 8.7% and underlying operating margin increased 20 basis points to 8.1%.

Medibank Health

Medibank Health operating profit increased 0.9% and segment profit, which includes our share of Myhealth and other investments, decreased 4.3% to $24.6 million (1H22: $25.7 million).

Despite reduced COVID impacts on Medibank Health this period compared to prior periods, the homecare business continued to be impacted by subdued private hospital admissions and higher labour costs, and telehealth was impacted by the transition out of the 1800RESPECT and Beyond Blue contracts in 2H22.

Excluding the impact of the contract transitions, operating profit increased 14.6% and segment profit increased 7.4%. The remaining commentary on Medibank Health is on this same basis.

Revenue growth of 5.9% was driven by a recovery in travel insurance sales and strong performance in health and wellbeing, partially offset by lower telehealth and homecare revenue.

Gross margin was down 40 basis points to 44.7% due to higher labour costs in homecare and inflationary impacts, partially offset by business mix impacts. Flat management expenses and a 170 basis point improvement in the management expense ratio resulted in a 130 basis point increase in operating margin to 16.9%.

Investment income

Net investment income increased 80.9% to $55.9 million (1H22: $30.9 million) with the benefit of higher interest rates and narrowing credit spreads.

The growth portfolio had an $8.6 million reduction in income due to softer returns in property and mixed performance in equities, with strong returns in domestic markets more than offset by weaker returns in international markets. In the defensive portfolio, there was a $20.9 million increase due to the higher RBA cash rate and benefit of narrowing credit spreads. These impacts were partially offset by the steepening yield curve which impacts returns from our international holdings. During the period the average RBA cash rate was 235 basis points and based on the current spot rate of 335 basis points, in the second half we expect an additional $10 million of interest income in the defensive portfolio.

Capital

Our capital position remains strong with Health Insurance business-related capital of $1,016.2 million as at 31 December 2022 with unallocated capital of $198.1 million modestly above the prior period. This represents 13.0% of premium revenue after the allowance for the dividend announced today and is at the top end of our target range of 11.0%-13.0% of forecast premium revenue.

We are well placed to implement APRA's new capital standards, and we expect our target health insurance capital ratio will reduce to 10.0%-12.0% as a result of these standards being effective from 1 July 2023.

FY23 outlook

Customer relief	We continue to assess claims activity and any permanent net claims savings due to COVID-19 will be given back to customers through additional support in the future
Resident policyholder growth New	We expect resident policyholder growth of approximately 0.5%-0.75% assuming recent trends continue and a modest decline in industry growth rate in FY23 relative to FY22
Claims	Underlying claims per policy unit growth of 2.3% for FY23 among resident policyholders
PHI management expenses Updated	FY23 management expenses expected to be c. $560m – FY23 underlying MER not expected to be above FY22 – Target $30m productivity savings in FY23-FY25, including $10m in FY23
Cybercrime costs New	Non-recurring FY23 cybercrime costs expected to be $40m-$45m – Includes non-recurring investment in IT security – Excludes further potential customer and other remediation, regulatory or litigation related costs
Growth	Targeted organic and inorganic growth for Medibank Health and Health Insurance remain areas of focus, supported by a strong capital position

Cybercrime update

Outline of what happened

- The criminal accessed our systems using a stolen Medibank username and password used by a third party IT service provider
- The criminal used the stolen credentials to access Medibank's network through a misconfigured firewall which did not require an additional digital security certificate
- The criminal was able to obtain further usernames and passwords to gain access to a number of Medibank's systems and their access was not contained
- Following the triage of a security alert on 11 October we closed down the criminal's attack path and can reconfirm no further activity by the criminal since 12 October 2022 has been detected inside our systems

What we have done in response

Our customers

- Continued to support customers through our Cyber Response Support Program
- Continue to maintain additional resources in our phone and messaging channels to continue to support customers through 2H23
- Launched additional security measures for customers who call us

Our technology

- Implemented further controls around our technical perimeter, including ensuring that the firewall authentication was fully configured across the whole network
- Bolstered existing monitoring and added further detection and forensics capability
- Successfully completed Operation Safeguard

External review/ OAIC investigation

- Deloitte conducting an external review, and that review is ongoing
- Co-operating with the Office of the Australian Information Commissioner in its formal investigation

Key focus areas going forward

- Prioritise the support for our customers and ensure they have confidence in the protection of their data
- Continue to strengthen our security environment, which currently defends around 18 million perimeter attacks a day
- Reinforce with our people that security is everyone's business, and uplift the security literacy of all our users
- Continue to evolve our approach to data management, particularly in light of impending reform to the Privacy Act and changing community expectations

Further enquiries

For media
Emily Ritchie
Senior Executive, External Affairs
+61 429 642 418 emily.ritchie@medibank.com.au

For investors/analysts
Colette Campbell
Senior Executive, Investor Relations
+61 475 975 770 investor.relations@medibank.com.au

All figures are in Australian dollars unless stated otherwise. 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 document. Further, some balances subject to rounding, may not add consistently throughout the document.

Summary of financial results

Six months ended 31 December ($ million)	1H22	1H23	Change
Group:			
Revenue from external customers	**3,581.2**	**3,629.4**	**1.3%**
Health Insurance operating profit	280.9	305.2	8.7%
Medibank Health segment profit	25.7	24.6	(4.3%)
Segment operating profit	**306.6**	**329.8**	**7.6%**
Corporate overheads	(20.1)	(22.0)	9.5%
Group operating profit	**286.5**	**307.8**	**7.4%**
Net investment income	30.9	55.9	80.9%
Other income/(expenses)	(4.2)	(5.4)	28.6%
Cybercrime costs	-	(26.2)	n.m.
Profit before tax	**313.2**	**332.1**	**6.0%**
Income tax expense	(93.0)	(98.8)	6.2%
NPAT	**220.2**	**233.3**	**5.9%**
Effective tax rate	29.7%	29.8%	10bps
EPS (cents)	8.0	8.5	5.9%
Underlying NPAT[1]	**212.4**	**226.7**	**6.7%**
Underlying EPS (cents)[1]	7.7	8.2	6.7%
Dividend per share (cents)	**6.1**	**6.3**	**3.3%**
Dividend payout ratio[1]	79.1%	76.5%	(3.3%)
Health Insurance:			
Premium revenue	3,452.0	3,521.8	2.0%
Net claims expense (including risk equalisation)	(2,922.0)	(2,942.7)	0.7%
Gross profit	**530.0**	**579.1**	**9.3%**
Gross margin (%)	***15.4%***	***16.4%***	***100bps***
Management expenses	(249.1)	(273.9)	10.0%
Management expense ratio (%)	***7.2%***	***7.8%***	***60bps***
Operating profit	280.9	305.2	8.7%
Operating margin (%)	***8.1%***	***8.7%***	***60bps***

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.