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2020 half year results

Investor presentation

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

20 February 2020

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For Better Health

Highlights

Craig Drummond – Chief Executive Officer

Results summary

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Customer focus has delivered stronger policyholder growth driven by a better customer experience

Group operating profit[1]	Group NPAT[1]	Interim dividend	Service NPS
$218.8m	$178.6m	5.70 cps	Medibank 30.7 +7.1
-20.9%	-9.0%	unchanged	ahm 40.7 +5.2

Health Insurance:

- $2.9 billion in benefits paid to customers, up 5.6%
- Premium revenue of $3.3 billion, up 2.3%
- Management expense ratio of 7.5%, down from 8.5% in 1H19
- Operating margin of 6.8%, down from 8.7% in 1H19
- Operating profit of $224.2 million, down $57.3 million or 20.4%
- Continued momentum in policyholder growth with a net increase of 11,700 resident policyholders and eight basis points of market share growth over the last six-months
- Delivered lowest average premium increase in 19 years – 3.27% from 1 April 2020

Medibank Health:

- Operating profit[1] of $13.3 million, up 5.6%

Net investment income of $38.5 million, up from $4.1 million in 1H19 and in line with the performance of benchmark indices

1 Continuing operations

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Milestone scorecard update

Good progress in 1H20

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Objectives

1. Customer advocacy
Drive Service and Customer NPS for Medibank and ahm to be best in class[1]

2. Health interactions
By 2020 every Medibank customer[3] has at least one health interaction[4] through the year with our company

3. PHI growth
Medibank brand volumes to stabilise by end of FY20 and grow during FY21

4. In-home care
Virtual hospital beds more than 300 by end of FY22[5]

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

6. Productivity
FY20 productivity target of $20m and additional $30m during FY21-FY22

1H20 update

Customer NPS (gap to peers)
Modest gap persists

Average Service NPS

	1H19	1H20
Medibank	23.6	30.7
ahm	35.5	40.7

PHIO complaints
1H20: 24.3% share of market as at 30 Sept 19

Customer cover check-ins[2]
1H20: 214k (FY20 target: 500,000)

FY17	FY18	FY19	1H20[3]	FY20[3]
<100k	c.500k	c.1.57m	c.1.1m	target c.1.8m

Total policyholder growth

30 June 19 – 31 Dec 19
+0.7% / +11.7k

Including:
Medibank: -0.3% / -4.5k
ahm: +4.2% / +16.2k

Market share

1H19	2H19	1H20
up 2bps	up 3bps	up 8bps

Total

30 June 19	31 Dec 2019	30 June 2022
c.200 beds	247 beds	Target >300 beds

Medibank customers

31 Dec 2019
180 beds

Medibank Health segment operating profit

FY18 (baseline)[6]	FY19	1H20
$47.3m	$22.1m	$13.3m (on track)

1H20
~$10m productivity delivered (on track)

1 Against major private health insurance peers (Bupa, HCF, nib)
2 Inbound or outbound conversations with customers about the appropriateness of their cover
3 Based on number of policyholders that consent to contact for marketing purposes, some exclusions may apply. Excludes new joins and customer lapses over the period. FY20 includes Live Better communications to customers
4 Includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications
5 Virtual beds equals the number of people receiving hospital substitute treatments by Medibank Health which is calculated for a given period as total days of hospital substitute treatments service / number of days in the period
6 Includes the $30m operating profit of Garrison

Strategy and FY20 priorities

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Medibank's strategy remains unchanged – focus on growing PHI and transforming into a broader healthcare company

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Better Health for Better Lives

Strategic pillar	Deliver differentiated products and services for customers	Continue to improve healthcare value for customers	Expand the offering for customers and grow the business
FY20 priorities	• Personalise and integrate health into our customers' experience • Simplify and enhance our cover options • Enhance loyalty offering to recognise and reward membership	• Focus on reducing low value care and improving customer health outcomes by providing greater choice and transparency • Drive reform in the near term to target lower premium increases • Facilitate a shift to alternative ways of delivering care to enhance patient experience and reduce costs	• Strengthen and broaden our partnerships • Grow corporate, non-resident and diversified portfolios • Health services expansion – build scale and grow capability in conjunction with health providers and payors • Expand the scope and commercialise our payor services including payment integrity program
Enablers	People | Data | Simplicity		

The path to stronger Medibank policyholder growth

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Policyholder growth is expected to continue to strengthen as the Medibank brand returns to health

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Better Health for Better Lives

FY17- FY18: Focus on the core offering & getting the basics right

FY19-FY20: Differentiation, expanding the offer & providing more value to customers

Enhancing value

- Lowest premium increase in 19 years
- Adoption of all reforms, including voluntary
- Members' Choice Advantage dental (customer out-of-pocket savings of c.$10.5m) and optical network, leading offers and Live Better points
- Complimentary travel insurance to approximately 400,000 customers
- Striving for more affordable no gap / reduced gap procedures

Customer loyalty

- Priority program for c.1.7m customers[1]
- Increasing growth of Live Better rewards program – healthy choices program with partner earns and vouchers, and ability to save on premiums
- Medibank loyalty and rewards program rated best of all major funds (Ipsos HCIA 2019)

Health and wellbeing

- >1m personalised and proactive health promotions
- On track for a 75% increase in the number of hospital admissions supported via concierge
- Medibank health navigation and in-home services give customers a greater choice and control in how and where they receive care
- 180 virtual hospital beds[2] as at 31 December used by Medibank customers

Dual brand growth

- Dual brands working strongly in these changing market conditions
- Focused investment to deliver the best combination of products, services and advice for our customers
- Continued growth focus in corporate, overseas and diversified portfolios

medibank — Healthier, Supportive, Value

ahm — Simple, Easy, Affordable

1 Priority program recognises our customers who have held Medibank health insurance for 10 years or more. Priority customers have access to benefits such as a dedicated service line, health professionals to support them when they go to hospital and exclusive partner offers
2 Virtual beds equals the number of people receiving hospital substitute treatments by Medibank Health which is calculated for a given period as total days of hospital substitute treatments service / number of days in the period

Making progress on alternative settings to deliver healthcare

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Doctor led choice, convenience and lower cost for customers

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Addressing the increasing need for telehealth services

- Managing growth in contacts in our telehealth business, particularly in the areas of mental health and domestic and family violence
- Commenced the pilot delivery of video consultations for select patients via the After-Hours GP service
- Increasing importance of telehealth for PHI in customer service delivery, differentiation and retention

Expanding Medibank's in-home care capability

- In-home care mental health pilot
- Gained NSQHS (National Safety and Quality Health Service) standard, the national standard required for our hospital licence, setting us up to become the leading virtual hospital in the country

Future growth opportunities include:

- **Expansion of programs and services**
  - Continuing to scale in-home services for reconditioning rehab, infusions and palliative care nationally
- **Providing in-home services for other private and public payors**
  - Developing relationships, securing contracts in rehab and palliative care and planning more pilots
- **Creating scale**
  - 4,100 patients used either hospital in the home or rehab in the home in 1H20 – of which ~2,500 were Medibank customers
  - Targeting growth across the eastern seaboard

Innovating with our partners to advocate for greater use of short–stay hospitals / procedures

- Short-stay trial continues where Medibank customers have a zero out-of-pocket medical experience for certain joint replacements with an early-to-home discharge. Also investigating opportunities in other modalities for zero or reduced out-of-pocket procedures
- Prepared to co-invest with doctors and established operators enabling more widespread roll out of zero or reduced out-of-pocket cost experience and hasten system change to provide more choice and affordable options for customers

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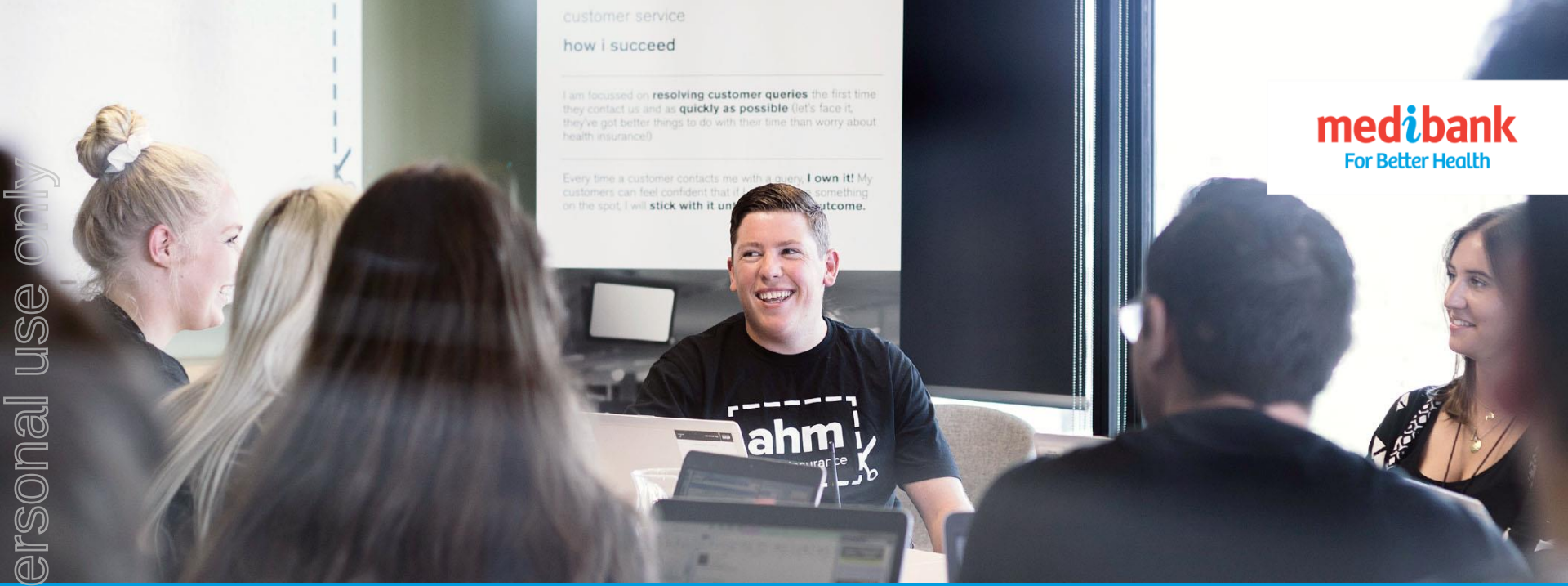

Financial results

Mark Rogers – Chief Financial Officer

Group financial summary

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Six months ended 31 Dec ($m)	1H20	1H19	Change
Group revenue from external customers[1]	**3,421.5**	**3,330.8**	**2.7%**
Health Insurance operating profit	224.2	281.5	(20.4%)
Medibank Health operating profit[1]	13.3	12.6	5.6%
Segment operating profit	**237.5**	**294.1**	**(19.2%)**
Corporate overheads	(18.7)	(17.4)	7.5%
Group operating profit – continuing operations	**218.8**	**276.7**	**(20.9%)**
Net investment income	38.5	4.1	n.m.
Amortisation of intangibles	(4.5)	(3.8)	18.4%
Other income/(expenses)	1.8	(2.9)	n.m.
Profit before tax	**254.6**	**274.1**	**(7.1%)**
Income tax expense	(76.0)	(77.8)	(2.3%)
NPAT - continuing operations	**178.6**	**196.3**	**(9.0%)**
NPAT - discontinued operations	(0.7)	11.4	n.m.
NPAT - total operations	**177.9**	**207.7**	**(14.3%)**
Effective tax rate[2]	29.9%	28.5%	140bps
EPS (cents)[2]	6.5	7.5	(14.3%)
Underlying NPAT[3]	**178.7**	**232.8**	**(23.2%)**
Underlying EPS (cents)[4]	6.5	8.5	(23.2%)
Dividend per share (cents)	**5.70**	**5.70**	**-**
Dividend payout ratio[3]	88%	67%	31.3%

1 Excludes discontinued operations. Discontinued operations relate to the Garrison Health Services contract which ceased on 30 June 2019
2 Calculated on total operations
3 Dividend payout ratio based on Underlying NPAT
4 Adjusted to normalise growth asset returns, including property from FY20, to historical long-term expectations and credit spread movements

Health Insurance result

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Operating performance impacted by increase in claims expense

Six months ended 31 Dec ($m)	1H20	1H19	Change
Premium revenue	3,315.5	3,240.3	2.3%
Claims expense	(2,851.6)	(2,699.7)	5.6%
Risk equalisation	8.4	15.2	(44.7%)
Net claims expenses (including risk equalisation)	(2,843.2)	(2,684.5)	5.9%
Gross profit	**472.3**	**555.8**	**(15.0%)**
Management expenses	(248.1)	(274.3)	(9.6%)
Operating profit	**224.2**	**281.5**	**(20.4%)**
Gross margin[1]	**14.2%**	**17.2%**	**(300bps)**
MER[1]	7.5%	8.5%	(100bps)
Operating margin[1]	**6.8%**	**8.7%**	**(190bps)**

1 Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.5% in 1H19 and 13.8% in 1H20, the MER for Australian residents only was 8.1% in 1H19 and 7.3% in 1H20, and the operating margin for Australian residents only was 8.4% in 1H19 and 6.5% in 1H20

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Health Insurance – policyholders

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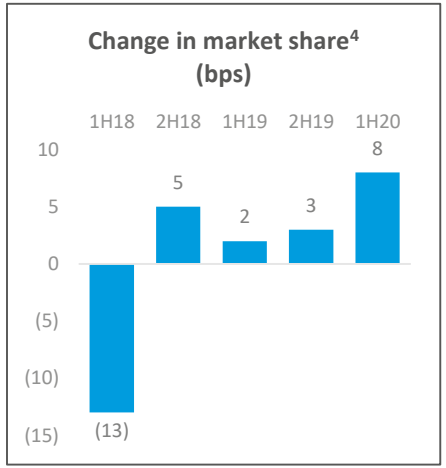
Encouraging resident policyholder growth of 1.1% in the last 12 months

Six months ended 31 Dec	1H20	1H19	Change
Policyholders[1] (thousand):			
Opening balance	1,796.0	1,780.9	0.8%
Acquisitions	98.3	94.9	3.6%
Lapses	(86.6)	(88.5)	(2.1%)
Closing balance	**1,807.7**	**1,787.3**	**1.1%**
- Medibank	1,401.5	1,410.8	(0.7%)
- ahm	406.2	376.5	7.9%
Acquisition rate[2]	**5.5%**	**5.3%**	**20bps**
- Medibank	4.1%	4.1%	-
- ahm	11.3%	11.0%	30bps
Lapse rate[2]	**4.8%**	**5.0%**	**(20bps)**
- Medibank	4.5%	4.8%	(30bps)
- ahm	7.2%	6.9%	30bps
Policyholder growth	**0.7%**	**0.4%**	**30bps**
Total policy units[1,3] (thousand)			
Closing balance	4,709.1	4,678.4	0.7%
Average balance	4,711.1	4,680.0	0.7%
Annualised average revenue per policy unit[1,3] ($)	**1,407.5**	**1,384.8**	**1.6%**



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

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Health Insurance – claims

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Reported claims growth per policy unit of 5.2%, or 3.4% adjusted for provisions

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- Hospital claims up 6.0% reflecting:
  - Utilisation growth remains subdued at 1.1%
  - Prostheses claims growth of 6.4%
  - Continued benefit from hospital contracting and payment integrity initiatives, partially offsetting price inflation
  - Risk equalisation reduction in receipts reflects lower than industry claims growth
- Extras claims up 5.6% reflecting:
  - Utilisation up 110bps to 3.3%
  - Dental utilisation growth more than doubled following launch of Members' Choice Advantage dental network in January 2019
  - Lower growth in natural therapies following regulatory reform

Six months ended 31 Dec ($m)	1H20	1H19	Change	Change per PSEU adjusted for provision release
Claims expense	(2,851.6)	(2,699.7)	5.6%	
Risk equalisation	8.4	15.2	(44.7%)	
Net claims expense (including risk equalisation)	**(2,843.2)**	**(2,684.5)**	5.9%	
- Hospital	(2,160.3)	(2,037.6)	6.0%	3.1%
- Extras	(682.9)	(646.9)	5.6%	4.8%
Annualised average net claims expense per policy unit[1] ($)	**(1,207.0)**	**(1,147.2)**	**5.2%**	**3.4%**
Resident hospital utilisation growth[2]	1.1%	0.8%	30bps	
Resident extras utilisation growth[2]	3.3%	2.2%	110bps	

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

2 Estimated hospital utilisation is defined as the number of hospital admissions per hospital policy unit and includes a provision for IBNR. Actual hospital utilisation for 1H19 was 0.8% compared to the reported estimate of 1.1% as at 31 December 2018. Estimated utilisation differs from actual utilisation largely as a result of the claims provision releases

Health Insurance – claims

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Prostheses and Dental key drivers of claims growth

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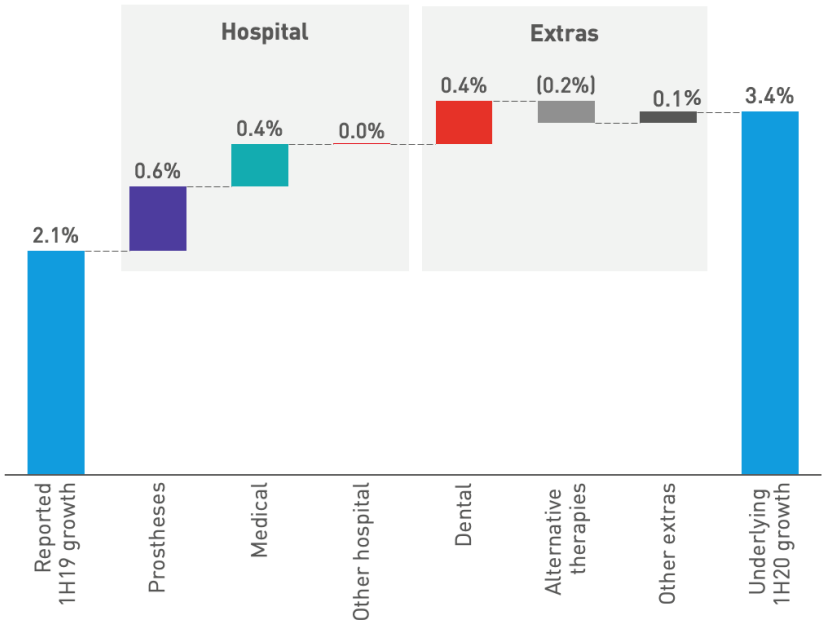
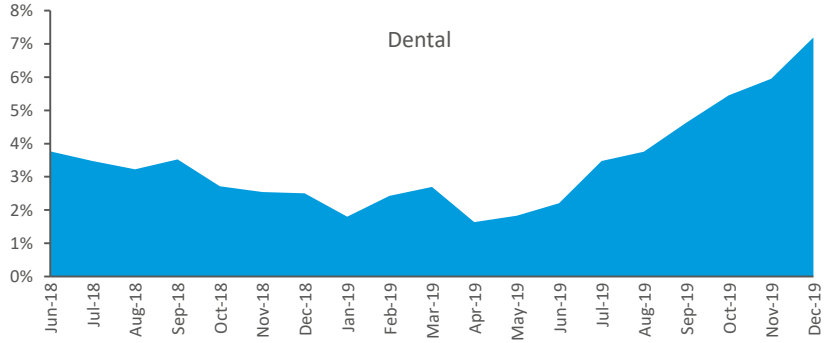
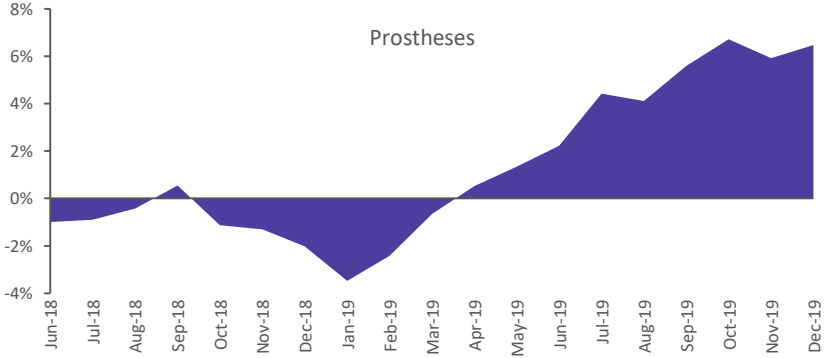
Underlying claims per PSEU movement (%)



Rolling six month growth in claims per PSEU (%)





Health Insurance – claims

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Private hospital claims up 3% - reflecting subdued utilisation growth

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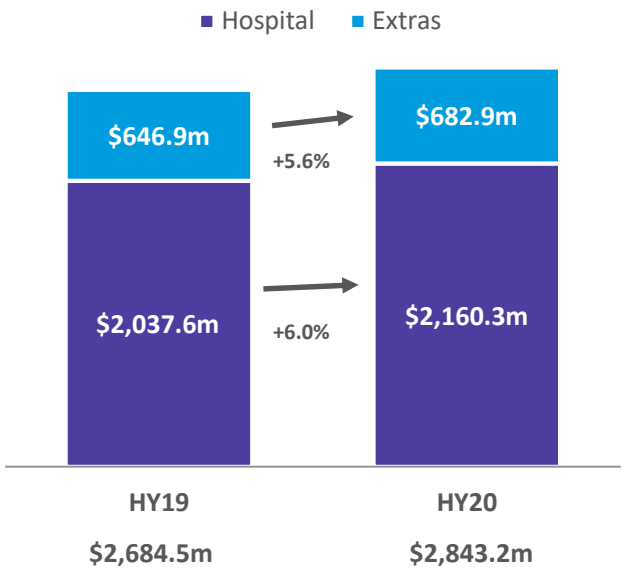
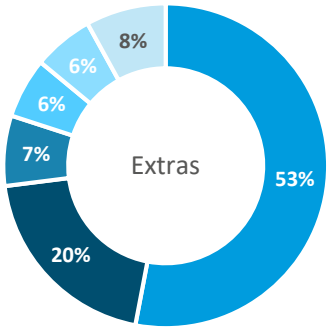
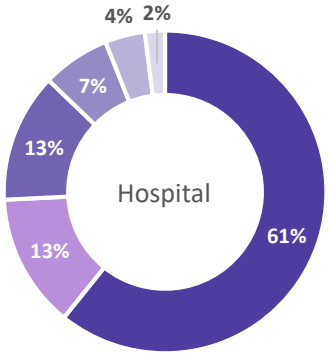
Net claims expense
(including risk equalisation)



Indicative composition and movement in dollar value vs. 1H19





	$ value movement
Dental	+8%
Optical	+4%
Physiotherapy	+1%
Chiropractic	+3%
Alternative therapies	+2%
Other modalities (including podiatry)	+2%
Private hospitals	+3%
Medical	+4%
Prostheses	+7%
Public	-6%
Other	n.m.
Overseas	+16%

Health Insurance – management expenses

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Continued discipline on costs resulted in a 9.6% decrease in management expenses

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- Management expenses down by 9.6% due to reductions in D&A and operating expenses
- D&A charges down by $3.9m:
  - Includes contribution from extending useful life of key IT assets (as announced at FY19 results)
  - Expected to decrease by $5m across FY20
- Operating expenses decreased by 9.6% reflecting:
  - Approximately $10m of productivity savings
  - Timing impacts expected to reverse in 2H20
  - Lower accrual for incentives
- On track to deliver $20m of productivity savings in FY20 and $50m across the next 3 years
- Expect FY20 management expenses of approximately $540m

Six months ended 31 Dec ($m)	1H20	1H19	Change
Premium revenue	3,315.5	3,240.3	2.3%
Management expenses	(248.1)	(274.3)	(9.6%)
- Depreciation and amortisation	(21.1)	(25.0)	(15.6%)
- DAC amortisation	(19.6)	(19.9)	(1.5%)
- Operating expenses[1]	(207.4)	(229.4)	(9.6%)
MER	7.5%	8.5%	(100bps)

1 Operating expenses for 1H20 include right-of-use depreciation of $10.6m

Medibank Health

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Result reflects period of transition and investment in the business for growth

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- Strong revenue growth of 18.1%, including underlying revenue growth of c.10%
- Live Better rewards program:
  - $3.6m in additional running costs
  - Partially offset by $2.5m revenue from our program partners
- Movement in management expenses reflects:
  - Investment to support the expansion of in-home care business of $1m and Live Better
  - Partially offset by $4m of cost savings from FY19 restructure
- Operating margin down 130bps reflecting:
  - Changing business mix impacting gross margin
  - Improvement in management expense ratio
- Near term focus on leveraging the benefits of scale through:
  - Expansion of our in-home care business
  - Embedding and scaling Live Better rewards program
- Post Garrison contract exit, we no longer expect historic seasonality in operating profit

Six months ended 31 Dec ($m)	Continuing businesses[1]		
	1H20	1H19	Change
Revenue	128.6	108.9	18.1%
Gross profit	53.7	48.5	10.7%
Management expenses	(40.4)	(35.9)	12.5%
Operating profit	13.3	12.6	5.6%
Gross margin	**41.8%**	**44.5%**	**(270bps)**
MER	31.4%	33.0%	(160bps)
Operating margin	**10.3%**	**11.6%**	**(130bps)**

1 Includes telehealth, in-home care, CareComplete, Health Concierge and Diversified Insurance

Investment portfolio & investment income

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Investment income up $34.4m driven by higher growth and defensive portfolio returns

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- Growth portfolio investment income driven by stronger returns in equities, partially offset by weaker performance in property, in particular retail funds
- Defensive portfolio income higher with the impact of the lower RBA cash rate on domestic holdings, more than offset by favourable market conditions in particular falling interest rates on offshore holdings

Half year ended 31 December ($m)	1H20	1H19	Change
Closing balance:			
Growth	443.4	460.0	(3.6%)
Defensive[1]	1,951.5	1,888.9	3.3%
Total balance[1]	**2,394.9**	**2,348.9**	**2.0%**
Average monthly balance:			
Growth	478.8	497.0	(3.7%)
Defensive[1]	2,019.1	2,019.0	-
Total average monthly balance	**2,497.9**	**2,516.0**	**(0.7%)**
Net investment income:			
Growth	15.4	(15.1)	n.m.
Defensive[1]	25.3	21.4	18.2%
Investment expenses	(2.2)	(2.2)	-
Total net investment income[1,2]	**38.5**	**4.1**	**n.m.**
Total net investment income – underlying[3]	39.7	39.9[4]	(0.5%)
RBA cash rate (average)[7]			
Underlying premium over RBA cash rate			

- Lower average RBA cash rate[7] versus 1H19 reduced interest income by approximately $6m
- Normalisation adjustment to investment income of +$1.2m (pre-tax) for the half year
- Underlying portfolio return of 1.59%:
  - A 1.15% premium above the RBA cash rate[7]
  - Marginally above our target range of 1.50% – 2.00% above the benchmark (annualised)

Investment returns		
1H20	1H19	Change
3.23%	(3.03%)	626bps
1.25%	1.06%	19bps
-	-	-
1.54%	**0.16%**	**138bps**
1.59%	1.59%[5]	-
0.44%	0.75%	(31bps)
1.15%	**0.84%[6]**	**31bps**

1 Includes all interest income and asset balances from non health fund investments
2 Reported and underlying returns are calculated using total average monthly balances
3 Adjusted to normalise growth asset returns, including property from FY20, to historical long-term expectations and credit spread movements
4 1H19 total net investment income – underlying would have been $43.3m under current normalisation process
5 1H19 investment return would have been 1.72% under current normalisation process
6 1H19 underlying premium over RBA cash rate would have been 0.97% under current normalisation process
7 RBA cash rate pro-rata for six months

Cash flow

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Continued positive net cash flow from operations

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- Movements in working capital associated with the Garrison contract exit
- Income tax movement reflects the timing of tax instalments
- Purchase of business line reflects no M&A during the period with HSS being acquired in August 2018
- Change in purchase of investments driven by balancing towards short dated cash investments

Six months ended 31 Dec ($m)	1H20	1H19	Change
Profit before net investment income and income tax	**215.1**	**286.3**	**(71.2)**
Changes in working capital	(45.7)	(78.5)	32.8
Customer acquisition costs	0.6	6.0	(5.4)
Changes in other operating assets and liabilities	(176.2)	(177.9)	1.7
Depreciation and amortisation	42.1	31.4	10.7
Net cash flows from operations	**35.9**	**67.3**	**(31.4)**
Income tax	(104.9)	(119.4)	14.5
Capital expenditure	(16.6)	(25.2)	8.6
(Purchase) / sale of business	-	(70.4)	n.m.
Lease principal and interest payments	(17.7)	-	n.m.
Net cash flows before investment related items and dividends	**(103.3)**	**(147.7)**	**44.4**
Net realised investment income	14.1	20.2	(6.1)
(Purchase) / sale of investments	141.3	268.5	(127.2)
Purchase of shares to settle share-based payment	(3.8)	(3.5)	(0.3)
Net cash flows before dividends	**48.3**	**137.5**	**(89.2)**
Dividends paid	(272.6)	(198.3)	(74.3)
Net increase / (decrease) in cash and cash equivalents	**(224.3)**	**(60.8)**	**(163.5)**
Cash and cash equivalents at beginning of the period	656.5	470.1	186.4
Cash and cash equivalents at end of the period	432.2	409.3	22.9

Capital

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Our capital position reflects strong capital generation and disciplined capital management

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- Health Insurance capital:
  - Remains at the top end of the 11% - 13% target range
  - Increase supports premium revenue growth
- Other required capital decreased by c.$42m post exit of Garrison contract
- Unallocated capital provides flexibility for M&A and capacity for future capital management
- APRA's consultation paper on new PHI capital standard:
  - Expected to take effect on 1 July 2023
  - Broadly in line with our expectations
  - Supports aim to issue subordinated debt

($m)	31 Dec 2019	30 Jun 2019[3]	31 Dec 2018
Total equity	**1,837.0**	**1,935.4**	**1,838.8**
Less: Intangible and illiquid assets	(491.3)	(497.2)	(501.4)
Total tangible and liquid assets	**1,345.7**	**1,438.2**	**1,337.4**
Declared but unpaid ordinary dividend	(157.0)	(203.8)	(157.0)
Declared but unpaid special dividend	-	(68.9)	-
Cost of product bonus additions[1]	(24.2)	(15.8)	(31.5)
Total tangible eligible capital	**1,164.5**	**1,149.7**	**1,148.9**
Required capital			
- Health Insurance	872.8	861.3	905.6
- Other	89.5	131.3	131.4
Unallocated capital	202.2	157.1	111.9
Health Insurance (%)[2]	**13.0%**	**13.0%**	**14.0%**

1 Policies that include a product bonus receive an entitlement every 1 January to spend on otherwise uncovered expenses. The allowance is booked on 1 January each year
2 Calculated as required Health Insurance related capital post dividends divided by the last 12 months' Health Insurance premium revenue inflated by the growth rate in Health Insurance premium revenue over the same 12 month period
3 In line with the Pro-forma capital position provided at the FY19 result which reflected the change in target capital range from 12%-14% to 11%-13% of premium revenue

Dividend

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Interim dividend of 5.70 cents per share in line with 1H19

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- Interim ordinary dividend of 5.70 cents per share for the six month period ending 31 December 2019 (fully franked)
- Payment date for interim dividend: 26 March 2020 (ex-dividend date 3 March 2020)
- Interim dividend represents a payout ratio of 88% of Underlying NPAT, normalising for investment market returns
- For FY20 we expect to pay at or above our target 75%–85% payout range of Underlying NPAT, normalising for investment market returns

Interim dividend	1H20 payout ratio
5.70cps	**88%**

Navigating a lower premium environment

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Broad response across four levers

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Customer growth

- Policyholder growth:
  - Grow Medibank brand volumes during FY21
  - Consider future PHI M&A in a stressed operating environment
- Reduce impact of downgrading:
  - Continued favourable impact of lower rate rises
  - Increasing focus on portfolio management including offers management, discounting and product simplification

Claims

- Continue to leverage hospital contracting capability in line with premium rate rise environment
- Expand / invest in payment integrity program:
  - Focus on areas of higher claims growth
  - Build out analytics and preventative capabilities
- Continue to offer and invest in alternative care settings to improve outcomes and experience for customers
- Agitate for further regulatory reform

Management expenses

- Maintain stable DAC and D&A charges
- Execute on productivity program:
  - On track to deliver $50m in savings between FY20 and FY22, including $20m in FY20
  - Expect to provide an update at the FY20 result

Growth outside of resident PHI

- Continue to grow non-resident PHI business
- Medibank Health organic growth of c.$30m by FY22:
  - Expansion of our home care services business
  - Scale Live Better rewards program
  - Growth in diversified insurance
- Consider M&A opportunities to build health services capability

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Conclusion

Craig Drummond – Chief Executive Officer

Reform is working (slowly) – sector at a turning point?

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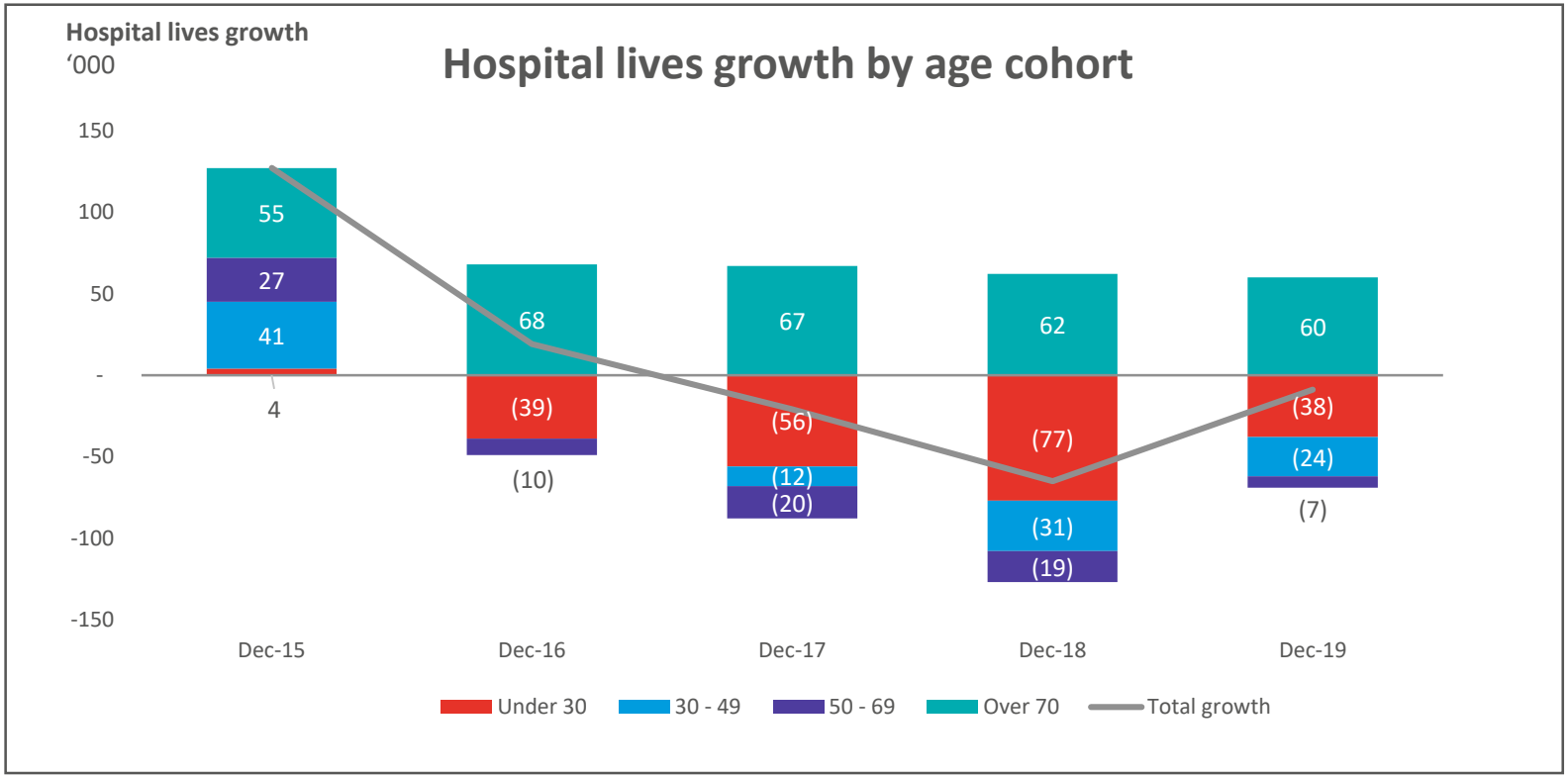

Source: APRA

Our industry must innovate and collaborate

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Industry challenges

Affordability **Participation**

Industry solutions

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Meeting the affordability challenge:

- Driving preventative health and wellbeing uplift
- Reducing our own costs
- New dental and optical networks lowering out-of-pocket costs
- Leading payment integrity expertise
- Working with doctors to fund no-gap or reduced gap procedures

Driving change in the health system:

- Strongly advocating for and then implementing reform
- Supporting alternative care settings including in-home care and early-to-home options
- Rewarding customers for health and wellbeing
- Developing and supporting hospital avoidance programs

Government

Opportunities for further reform:

Affordability:

- More effective reform in prostheses
- Change model for rehabilitation and better mental health service coordination through out-of-hospital care
- Expediting $100m+/year in industry savings through the removal of low value procedures
- Implement MBS in-home funding changes

Participation:

- Re-indexing the rebate and encourage employer funded PHI, at least for under 40s
- Uplift MLS 100bps to ensure public care is available when needed
- Reinforce youth discounts, tighten Lifetime Health Cover (LHC) requirements, and change family policies to include young adult dependants up until the age of 30
- Ensuring customers can make informed choices between public and private options

Customer benefits

Sustainably lower premiums **More choice** **Better health outcomes**

1 Priority program recognises our customers who have held Medibank health insurance for 10 years or more. Priority customers have access to benefits such as a dedicated service line, health professionals to support them when they go to hospital and exclusive partner offers

2 Virtual beds equals the number of people receiving hospital substitute treatments by Medibank Health which is calculated for a given period as total days of hospital substitute treatments service / number of days in the period

Outlook

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Policyholder growth

On the current trajectory, we continue to expect Medibank brand volumes to stabilise by the end of FY20 and grow during FY21

Utilisation and claims

We expect hospital and ancillary utilisation to remain around current levels for the remainder of FY20

We also expect approximately 3% underlying claims growth per policy unit for FY20

Management expenses

Management expenses are expected to be approximately $540 million for FY20

We will provide an update on our productivity program with our FY20 result

Capital and portfolio management

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

Dividend payout ratio expected to be at or above the top end of our revised target range of 75%-85%

We will review our capital management options with our FY20 result

As a result of the combination of factors above, we are confident that Health Insurance earnings will be higher in the second half of FY20

Our intention remains to aspire for stronger growth in volumes at a reasonable margin

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Appendix

Reconciliation of Group operating profit and underlying NPAT

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Group operating profit – total operations

($m)	1H20	1H19	Change
Group operating profit – continuing operations	**218.8**	**276.7**	**(20.9%)**
Operating profit – discontinued operations[1]	(1.0)	16.3	n.m.
Group operating profit – total operations	**217.8**	**293.0**	**(25.7%)**

Underlying NPAT

($m)	1H20	FY19	2H19	1H19	FY18	2H18
NPAT – total operations	**177.9**	**458.7**	**251.0**	**207.7**	**445.1**	**199.5**
Normalisation of equity returns[2]	1.2	(7.9)	(28.6)	20.7	(8.6)	0.4
Normalisation for credit spread movement	(0.4)	(2.9)	(7.3)	4.4	(0.1)	2.1
Underlying NPAT	**178.7**	**447.9**	**215.1**	**232.8**	**436.4**	**202.0**
Dividend payout ratio	88%	80%	95%	67%	80%	98%

1 Discontinued operations relate to the Garrison Health Services contract, which ceased on 30 June 2019

2 Adjusted to normalise growth asset returns, including property from FY20, to historical long-term expectations and credit spread movements. Normalisation of equity returns effects under current normalisation process would have been (1.4m) FY19, (24.4m) 2H19, 23.0m 1H19, (10.5m) FY18, 1.8m 2H18

Group financial summary – half by half

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($m)	1H20	2H19	1H19	Change 1H20 vs. 1H19	Change 1H20 vs. 2H19
Group revenue from external customers[1]	**3,421.5**	**3,325.0**	**3,330.8**	**2.7%**	**2.9%**
Health Insurance operating profit	224.2	261.0	281.5	(20.4%)	(14.1%)
Medibank Health operating profit[1]	13.3	9.5	12.6	5.6%	40.0%
Segment operating profit	**237.5**	**270.5**	**294.1**	**(19.2%)**	**(12.2%)**
Corporate overheads	(18.7)	(18.7)	(17.4)	7.5%	-
Group operating profit – continuing operations	**218.8**	**251.8**	**276.7**	**(20.9%)**	**(13.1%)**
Net investment income	38.5	98.7	4.1	n.m.	n.m.
Amortisation of intangibles	(4.5)	(4.9)	(3.8)	18.4%	(8.2%)
Other income/(expenses)	1.8	(3.4)	(2.9)	n.m.	n.m
Profit before tax	**254.6**	**342.2**	**274.1**	**(7.1%)**	**(25.6%)**
Income tax expense	(76.0)	(100.8)	(77.8)	(2.3%)	(24.6%)
NPAT – continuing operations	**178.6**	**241.4**	**196.3**	**(9.0%)**	**(26.0%)**
NPAT – discontinued operations	(0.7)	9.6	11.4	n.m.	n.m.
NPAT – total operations	**177.9**	**251.0**	**207.7**	**(14.3%)**	**(29.1%)**
EPS (cents)[2]	6.5	9.1	7.5	(14.3%)	(29.1%)
Underlying NPAT[3]	**178.7**	**215.1**	**232.8**	**(23.2%)**	**(16.9%)**
Underlying EPS (cents)[4]	6.5	7.8	8.5	(23.2%)	(16.9%)
Dividend per share (cents)	**5.70**	**7.40**	**5.70**	**-**	**(23.0%)**
Dividend payout ratio[3]	88%	95%	67%	31.3%	(7.4%)

1 Excludes discontinued operations. Discontinued operations relate to the Garrison Health Services contract which ceased on 30 June 2019
2 Calculated on total operations
3 Dividend payout ratio based on Underlying NPAT
4 Adjusted to normalise growth asset returns, including property from FY20, to historical long-term expectations and credit spread movements

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Health Insurance policyholders – half by half

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	1H20	2H19	1H19	Change 1H20 vs.1H19	Change 1H20 vs. 2H19
Premium revenue ($m)	**3,315.5**	**3,224.4**	**3,240.3**	**2.3%**	**2.8%**
Policyholders[1] (thousand):					
Opening balance	1,796.0	1,787.3	1,780.9	0.8%	0.5%
Acquisitions	98.3	111.3	94.9	3.6%	(11.7%)
Lapses	(86.6)	(102.6)	(88.5)	(2.1%)	(15.6%)
Closing balance	1,807.7	1,796.0	1,787.3	1.1%	0.7%
- Medibank	1,401.5	1,406.0	1,410.8	(0.7%)	(0.3%)
- ahm	406.2	390.0	376.5	7.9%	4.2%
Acquisition rate[2]	**5.5%**	**6.2%**	**5.3%**	**20bps**	**(70bps)**
- Medibank	4.1%	4.8%	4.1%	-	(70bps)
- ahm	11.3%	12.4%	11.0%	30bps	(110bps)
Lapse rate[2]	**4.8%**	**5.7%**	**5.0%**	**(20bps)**	**(90bps)**
- Medibank	4.5%	5.2%	4.8%	(30bps)	(70bps)
- ahm	7.2%	8.9%	6.9%	30bps	(170bps)
Policyholder growth	**0.7%**	**0.5%**	**0.4%**	**30bps**	**20bps**
Total policy units[1,3] (thousand):					
Closing balance	4,709.1	4,696.2	4,678.4	0.7%	0.3%
Average balance	4,711.1	4,685.8	4,680.0	0.7%	0.5%
Annualised average revenue per policy unit[1,3] ($)	**1,407.5**	**1,376.2**	**1,384.8**	**1.6%**	**2.3%**

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

Balance sheet

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($m)	31 Dec 2019	30 June 2019	31 Dec 2018	Change vs. 31 Dec 2018
Cash and cash equivalents	432.2	656.5	409.3	5.6%
Financial assets at fair value	2,013.9	2,130.7	1,992.0	1.1%
Trade and other receivables	205.8	283.9	290.5	(29.2%)
Deferred acquisition costs	35.1	35.2	34.7	1.2%
Other	50.2	24.2	18.0	n.m.
Current assets	**2,737.2**	**3,130.5**	**2,744.5**	**(0.3%)**
Property, plant and equipment	123.8	49.3	52.0	n.m.
Intangible assets	396.4	405.9	409.9	(3.3%)
Deferred acquisition costs	43.9	44.4	44.2	(0.7%)
Other	9.8	0.7	1.1	n.m.
Non-current assets	**573.9**	**500.3**	**507.2**	**13.2%**
Total assets	**3,311.1**	**3,630.8**	**3,251.7**	**1.8%**
Trade and other payables	266.8	370.0	268.6	(0.7%)
Claims liability	399.4	364.2	370.9	7.7%
Unearned premium liability	520.0	682.8	515.0	1.0%
Other	49.7	100.5	87.3	(43.1%)
Current liabilities	**1,235.9**	**1,517.5**	**1,241.8**	**(0.5%)**
Trade and other payables	94.3	33.9	37.9	n.m.
Claims liability	8.3	13.4	12.7	(34.6%)
Unearned premium liability	81.3	87.8	85.1	(4.5%)
Other	54.3	42.8	35.4	53.4%
Non-current liabilities	**238.2**	**177.9**	**171.1**	**39.2%**
Total liabilities	**1,474.1**	**1,695.4**	**1,412.9**	**4.3%**
Net assets	**1,837.0**	**1,935.4**	**1,838.8**	**(0.1%)**

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Investment portfolio

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As at 31 December 2019	Balance ($m)	Portfolio composition	Target asset allocation
Australian equities	137.2	6.3%	5.0%
International equities	156.0	7.2%	6.0%
Property	150.2	6.9%	7.0%
Infrastructure[1]	-	0.0%	2.0%
Growth	**443.4**	**20.4%**	**20.0%**
Fixed income[2]	1,203.9	55.2%	52.0%
Cash[3]	531.0	24.4%	28.0%
Defensive	**1,734.9**	**79.6%**	**80.0%**
Total fund	**2,178.3**	**100.0%**	**100.0%**
Non health fund investments[4]	216.6		
Total investment portfolio	**2,394.9**		

1 Infrastructure allocation temporarily underweight due to fund manager transition
2 Target asset allocation comprises floating rate notes and asset-backed investments (32.0%) and other fixed income (20.0%). Average credit duration is approximately 2.4 years, average interest rate duration of 0.6 years and the average credit rating is 'A'
3 For investment portfolio purposes, cash comprises cash and cash equivalents ($432.2m), cash with maturities between 3-12 months ($366.6m) less non health fund investments ($216.6m) less operational cash ($51.2m)
4 The fund's strategic asset allocation does not apply to the non health fund investment portfolio

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Glossary

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Term	Definition
1H	Six months ended/ending 31 December of the relevant financial year
2H	Six months ended/ending 30 June of the relevant financial year
APRA	Australian Prudential Regulation Authority
bps	Basis points (1.0% = 100 bps)
cps	Cents per share
Customer NPS	A measure of the likelihood of an existing customer to recommend the brand
DAC	Deferred acquisition costs
EPS	Earnings per share
FY	Financial year ended/ending 30 June
IBNR	Incurred but not reported
MBS	Medicare Benefits Schedule
MER	Management expense ratio
MLS	Medicare levy surcharge
n.m.	Not meaningful
NPAT	Net profit after tax
NPS	Net promoter score
OSHC	Overseas students hospital cover
OVHC	Overseas visitor hospital cover
PHI	Private Health Insurance

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