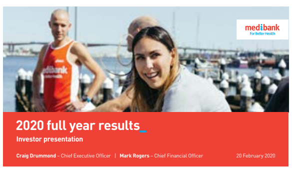
medibank
For Better Health

Annual Report 2020

redefining better

Contents



This report is part of our suite of reporting for the 2020 financial year. You can find more information about our performance in our Full Year Results Investor Presentation & Sustainability Report

Cover – In FY20, we expanded extras cover so customers could claim for virtual consultations for services including physiotherapy

about Medibank_

We're a company with **health and wellbeing** at our core. We began as a health insurer and have grown into a **broader healthcare company**, committed to delivering **affordable healthcare** that gives our customers **more choice**.

We're delivering **care in new ways** by collaborating with hospitals, doctors and governments and **driving reform to help reshape Australia's health system**. We also offer travel, pet and life insurance to meet a wider range of our customers' needs.

Our purpose of **Better Health for Better Lives** is not just words. It's our commitment to our customers and community and is a driving force for our people.

We're focused on our strategy of **differentiating and growing our private health insurance business** through our Medibank and ahm brands and **transforming into a broader healthcare company**.

Purpose
Better Health for Better Lives

Vision
Everyone in Australia deserves to live their best quality of life – for themselves, their communities and future generations

Enablers
People
Data insights
Technology

Strategic pillars
- Deliver differentiated products and services for customers
- Continue to improve healthcare value for customers
- Expand the offering for customers and grow the business

Values
- Customers First
- Own It, Do It
- Show Heart
- One Team

Our business

Health insurance	Diversified insurance	Health services
medibank – Health, Support, Value	Travel insurance	Homecare
ahm – Simple, Easy, Affordable	Pet insurance	Telehealth and digital
	Life insurance	Integrated care and coordination

financial summary_

All data is presented on a statutory basis

+10,600 (+0.6%)
net resident policyholder growth

26.94%
market share
(up 4 basis points in FY20)

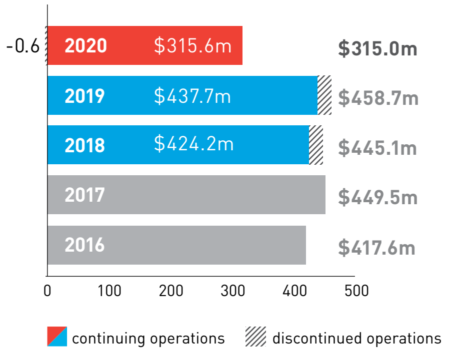
c. $20 million
in productivity savings

Dividend

6.3 cents per share
final ordinary dividend fully franked

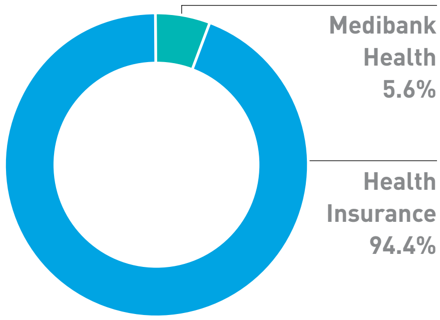
12.0 cents per share
total ordinary dividend fully franked

Group net profit after tax ($m)

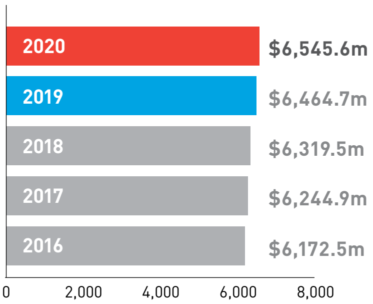


FY20 total includes loss from discontinued operations

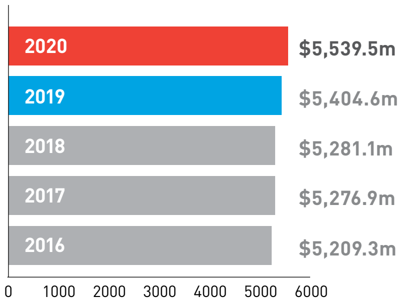
Composition of 2020 segment operating profit from continuing operations (%)



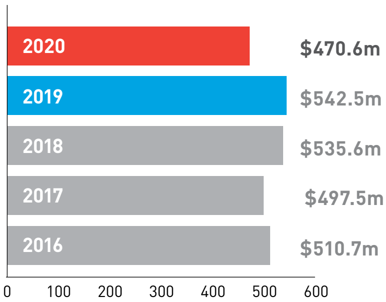
Health Insurance segment premium revenue ($m)



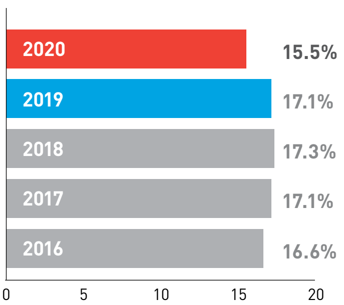
Health Insurance net claims expense (excluding risk equalisation) ($m)



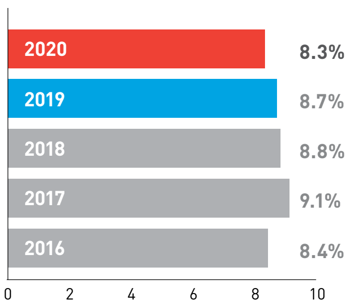
Health Insurance operating profit ($m)



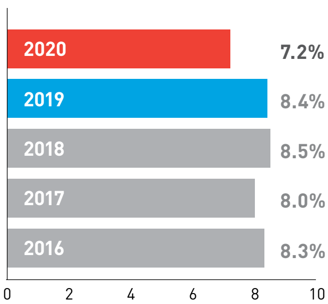
Health Insurance gross margin (%)



Health Insurance management expense ratio (%)



Health Insurance operating margin (%)



business snapshot_

3.76 million
customers at 30 June 2020

customer advocacy

31.8 (+7.0) Medibank
41.2 (+2.7) ahm
average Service NPS

84% employee engagement
91% in April

$5.5 billion (up 2.5%) benefits payable to our customers

Services supported

1.3 million hospital admissions

22.7 million extras services

500,000 surgical procedures

259 virtual hospital beds

8,620 patients received in-home care

3,982 employees including around **1,500** health professionals

Headcount at 30 June 2020

chairman's message_

Elizabeth Alexander AO

Our strategy has been the right one to guide the company through a year that has presented the country with significant health and economic challenges. Against this backdrop, we have delivered a sound result.

The strength of Australia's world-class health system has come to the fore in response to the global COVID-19 crisis. I am proud of the way we responded quickly to the needs of our customers and community, while ensuring the health and safety of our people.

Despite these challenges, we made good progress on our transition to a broader healthcare company. And by working to deliver better outcomes for our customers we have been able to deliver for you, our shareholders, paying a fully franked full year ordinary dividend of 12.0 cents per share. This is consistent with the prudent approach the Board follows in regard to our capital management and positions us well to respond to the current environment.

We are increasingly focused on the impact our business practices have on our broader community and have elevated the importance of sustainability throughout the business this year. We spoke with shareholder groups, customers, community partners and our people to better understand the issues that matter, and these now form the basis of our new approach, outlined in our first Sustainability Report which is available on our website.

We have continued working towards greater diversity and building a more inclusive culture, so that we better reflect the community we serve. This year Medibank ranked third in the 2019 Access and Inclusion Index, where our work to improve accessibility for people with a disability by introducing a formal process for major suppliers and partners was recognised. In setting objectives for 2021 we have introduced a new focus on supporting employees with caring responsibilities, in addition to those on gender equality and employee diversity. By doing so, our business will be stronger.

I have shared the story of Medibank's transformation many times since joining the Board in 2008, and my appointment to Chairman five years later. In preparation for Medibank's listing on the Australian Securities Exchange, I invited the community to become part of our company and its future. Since then, our focus on our customers has not wavered, nor has our commitment to our purpose of Better Health for Better Lives.

Over this time, we have transformed our relationship with customers and brought a greater focus on playing a role in their health and wellbeing. We have driven stronger customer advocacy each year and advocated for healthcare reform to improve affordability. I am pleased to see Medibank's impact on helping to make Australia's health system stronger and a more sustainable one for future generations.

In announcing my retirement from the Board recently, I want to express the honour I feel to have served you over the past 12 years. Thank you to my fellow Board members, Craig Drummond and the entire Executive Leadership Team for their stewardship of the company. They lead a committed team of people who strongly believe in Medibank's purpose and who have helped make it the market leader it is today. I wish new Chairman Mike Wilkins and the Board all the best – I leave the company in good stead and look forward to what Medibank will continue to achieve in the future.

ceo's message_

Craig Drummond

From bushfires to a global pandemic, 2020 has been an enormously challenging year for everyone. Through this time, I am proud of how we have responded and managed the issues within our control.

We were clear at the beginning of the COVID-19 pandemic that we would respond quickly to our customers' changing needs. To date our financial response exceeds $185 million and we will continue to act swiftly in providing further support.

Despite the uncertainty, we increased policyholder numbers, grew market share, and continued to see improvement in customer advocacy across both our Medibank and ahm brands.

After moving our team of almost 4,000 people to work virtually from home I was pleased that employee engagement reached a record high of 91%. This is testament to the resilience of our people, the way we all work to our Better Health for Better Lives purpose, and the connection we maintain with our customers and each other. To recognise the critical role that our people play at Medibank, we have broadened our advocacy milestone to include targets around employee engagement.

Medibank's purpose galvanises strong community engagement and was the key driver of our $5 million donation to Beyond Blue to support its vital work through the COVID-19 period.

Throughout 2020 we remained focused on improving the value we deliver to our customers. In addition to the benefits we introduced during COVID-19, our customers saved millions of dollars in out-of-pocket costs through our Members' Choice Advantage dental network. We also continued to recognise and reward customers through our Priority and Live Better rewards programs.

Our customers continued to tell us that they want us to play a bigger role in their personal health and wellbeing. As such, we've set new targets across health education, promotion and support to further embed health and wellbeing in our customers' experience.

Over the past 12 months we also made good progress on our strategy to transform into a broader healthcare company. Telehealth came into its own this year, with the team rapidly scaling up to support the public COVID-19 health response. We continued to explore ways to provide our customers with greater choice, while at the same time alleviating pressure on the health system, health insurance premiums and out-of-pocket costs. Our in-home care programs continued to grow and we expanded our no gap joint replacement pilot to more locations around the country. As part of this, we acquired a 49% minority shareholding in East Sydney Private Hospital to help the hospital and its doctors scale their short stay model of care.

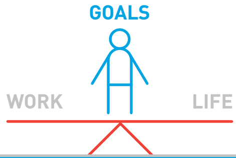
None of these achievements would have been possible without the hard work and dedication of our people who have remained focused on the needs of our customers, despite all that has happened this year. I also want to recognise the commitment of Australia's frontline health workers who are doing an incredible job for our country.

For the past four years I've worked alongside Chairman Elizabeth Alexander, who announced her retirement in August. Elizabeth has made a significant contribution to Medibank – seeing it through from government ownership, to an ASX listed company, that is a stronger and more sustainable business today. I'd like to personally thank Elizabeth for her support and leadership.

I look forward to working with our new Chairman, Mike Wilkins, as we continue our transformation to a broader healthcare company.

Finally, thank you for your ongoing support of Medibank. We remain well positioned for the future given strong advocacy from our customers and our people at a time our role in the broader health system has never been more important.

creating value for our stakeholders_



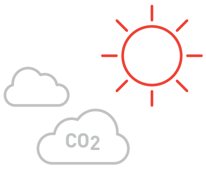
We're focused on creating **sustainable long-term value** for our customers, our people, our shareholders and the broader community.

Customers

We're delivering affordable healthcare for our customers, providing personalised health and wellbeing support through products and services that give choice and peace of mind. We're helping customers better navigate the health system and make more informed healthcare choices.

Team members

We provide our people with a flexible, inclusive working environment that encourages them to bring their whole self to work and helps them achieve better work life balance. We're enabling them to enhance their knowledge and skills and supporting them to reach their health and wellbeing goals.



Shareholders

We're committed to delivering sustainable shareholder returns in a way that also meets the expectations of our customers and the community. We're delivering this through our purpose-led culture supported by a focus on performance, governance and risk management.

Community

We're targeting some of Australia's biggest health issues, prioritising mental health support and preventative health, and providing access to health and wellbeing activities. We're also working to help close the gap that exists for Indigenous Australians and are playing our part in tackling the impact climate change is having on human health.

Government

We're working with government to support Australia's world-class dual public private health system and ensure its ongoing sustainability for future generations. We're advocating for our customers, contributing to public policy and helping deliver reform.

Health system

We're helping reshape Australia's health system, partnering with hospitals and doctors on innovative ways of providing healthcare in the home and community, targeting chronic disease with prevention programs and sharing information with hospitals to help them improve patient experiences.

COVID-19 support_

As COVID-19 swept across the world and Australia, and its impact on our daily lives grew, it challenged us to adapt. **We had to work differently, think differently and make changes quickly**, so we could help our customers, support our people and play a key role in our health system's response to the virus.

Our work over the past few years to **build our healthcare capabilities**, particularly in the areas of **telehealth and in-home care**, set us up well to be able to **respond to the changing demands** of COVID-19, while our flexible work culture and continuity planning enabled us to **seamlessly transition to a virtual working environment** within the first few weeks.

$185+ million
support for customers during COVID-19

Supporting our customers

Our initial focus was on helping address the immediate health and financial impacts the virus had on some of our customers. We announced a series of support measures including postponing premium increases for six months, offering hardship support – including a 50% premium waiver, and extending existing hospital cover to support COVID-19 related admissions.

When restrictions meant many customers couldn't visit their health practitioners for around six weeks, we committed to returning to customers any additional permanent savings as a result of lower customer claims during this time. We introduced access to telehealth services and rolled over most unused extras annual limits for ahm customers, which were due to reset on 1 July.

We brought together our homecare, telehealth, analytics and health design capabilities to create COVID-19 Health Assist – a comprehensive health and support program for our customers. Our team of health professionals reached out to almost 4,500 customers to review their physical, mental and social needs and provide customised support where needed.

Supporting our community

We played a crucial role in supporting the community, providing services to support seven coronavirus helplines which took around 250,000 calls, as well as supporting the Victorian Government's response to the state's second outbreak. To deliver these services we remotely recruited, onboarded and trained hundreds of casual nurses to join our telehealth teams in the initial phases of the pandemic. We also funded a number of COVID-19 research projects into the impact of the pandemic.

To help people stay focused on their health and wellbeing while in isolation, we introduced Live Better at Home, a free online program of work out videos, cooking demonstrations and guided meditations from experts and local health and wellbeing businesses, many of which had been forced to shut down during restrictions.

Supporting our people

We protected the health and wellbeing of our people, moving almost 4,000 employees to remote working in March and introducing two weeks special paid COVID-19 leave for all team members. When we needed to temporarily shut our retail stores, we reskilled our retail team members so they could work from home supporting our customers through our phone and digital channels. No employees have had to be stood down, temporarily or otherwise, due to COVID-19.

Working remotely didn't diminish our sense of connection; instead it highlighted how strong our community culture is. Teams found creative ways to stay connected and employees reported increasingly positive sentiment, with engagement rising 7 points to an all-time high of 91% in the weeks after moving to virtual working.

We are now a more agile business; our people feel more productive and we are working more collaboratively. The lessons we have learnt from the past few months are now helping us redefine our future.

340,000
video views
of Live Better at Home content

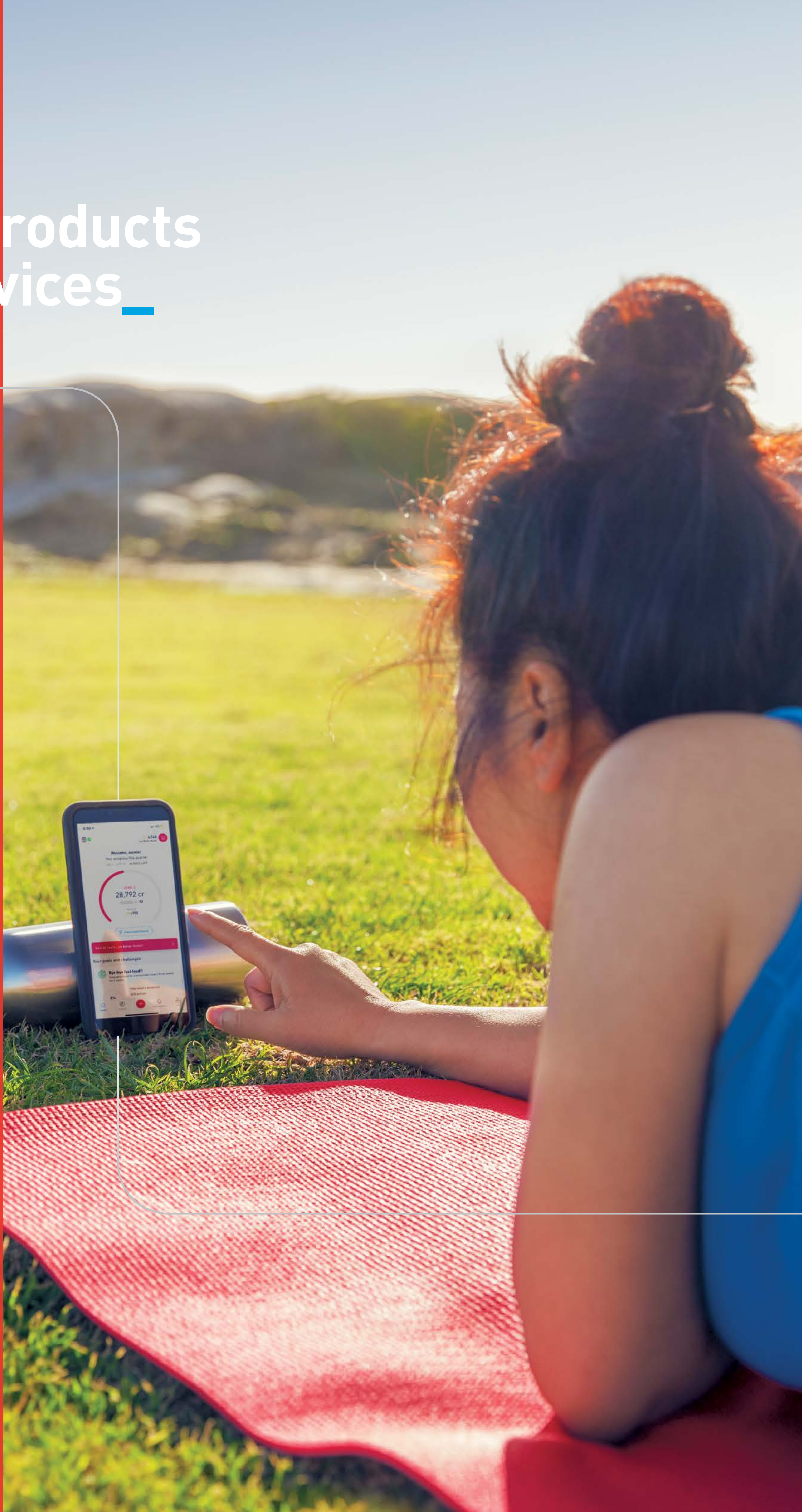
250,000
COVID-19 related calls supported

30,000
customers utilised hardship support to suspend their policy or access waiver

4,388
customers contacted through COVID-19 Health Assist

medibank livebetter

better products and services_



3.76 million
customers
at 30 June 2020

$5.5 billion
benefits payable to our customers

Naomi's story – Live Better

48-year-old Sydneysider and Live Better member Naomi was after inspiration – determined to maintain a healthy lifestyle after her doctor advised her weight and cholesterol levels were higher than recommended. She began joining the monthly Live Better challenges and found it helped keep her focused and honest as she improved her diet and exercise. It's a lifestyle change that she plans to continue for many years to come and the rewards are just a bonus.

We believe in our purpose of **Better Health for Better Lives**. We're committed to **helping our customers** make **better health decisions every day**.

Better health every step of the way

We think the role we play in helping people to stay healthy is as important as the support we provide should they need to go to hospital or require medical treatment. It's why we're focused on providing personalised health information and advice to our customers.

We're investing in preventative healthcare; partnering with hospitals, universities and doctors on programs to help our customers improve their health and wellbeing. This year we've supported more than 74,000 customers through our Health Assist programs which offer specialised support delivered through telehealth and in-home care. We launched OptimalMe – an Australian-first study supporting women to optimise their health before, during and after pregnancy; Medibank Heart Health at Home – a personalised, telehealth-delivered cardiac rehabilitation service; and worked with Australia's largest child and family health organisation, Tresillian, on a telehealth pilot to support parents to manage their baby's sleep and settling issues in the comfort of their own home.

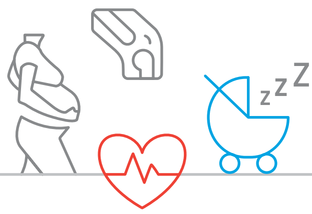
Our CareComplete chronic condition program has now supported almost 37,000 patients around Australia since launching in 2014; we're seeing positive results from our Better Knee, Better Me program which aims to prevent the need for knee replacement surgery, and we continue to work with companies across the country helping them to develop programs to improve the health and wellbeing of their employees.

We're encouraging all Australians to make healthier choices on a daily basis through our Live Better program which features an app for tracking and measuring everyday activities across eat, move and feel categories and an online hub of expert health information, articles, recipes, exercise tips and online courses.

We're also providing customers with personalised health and wellbeing information to support them through specific health issues. Customers who have undergone a skin cancer removal or been hospitalised for a fracture might receive information about best care practices and tips, while new dads might receive messaging about mental health and wellbeing.

More of the conversations we're having with our customers are health related. We set ourselves a goal to have at least 1.8 million health-based phone, chat or email conversations with our customers this year, and we're proud we've exceeded this.

74,000
customers supported through Health Assist programs



2 million+
health engagement interactions

36,865
CareComplete patients to date

Navigating the healthcare system

We want to be a trusted healthcare partner for our customers. Our healthcare system is complex, so we're making it easier for our customers to make more informed healthcare decisions. Regardless of whether a customer chooses to connect with us in person, on the phone or online, we aim to deliver a great experience every time.

To help customers going to hospital, we launched Hospital Assist, an online hub of information and practical support tools for every stage of the hospital journey. As well, our Health Concierge team continued to proactively reach out to customers planning a hospital visit to guide them through the process and options available, a service we extended this year to families with children who required surgery.

We added more functionality to our My Medibank app to help customers manage their cover and their health, like the ability to book appointments directly with our Members' Choice Advantage optical provider, Specsavers and some dentists. We also introduced digital membership cards for Android users for Medibank and ahm and are trialling claim payments platform Lantern Pay with chemists, which allows customers to claim non-PBS prescription items on the spot.

We introduced Helping Hand – a new program for our customer service and sales team designed to improve our quality of service. We checked in with 542,298 customers to ensure they were on the right level of cover for their needs, while also making it easier for customers to find and compare cover online.

We also worked to improve our digital support experience, introducing messaging – an online chat service that allows customers to respond to a conversation in their own time and other self-service features to make it simple for customers to get what they need.

We're pleased that our ongoing commitment to deliver excellent customer service has been recognised, with customer advocacy increasing for both ahm and Medibank and ahm receiving the Roy Morgan Customer Satisfaction Award for Major Private Health Insurer of the Year. As well, our share of industry complaints remains consistently below our market share.

customer advocacy

31.8 (+7.0) Medibank

41.2 (+2.7) ahm

average Service NPS

542,298

customer check-ins

40% increase

in number of hospital admissions supported through Health Concierge

72% Medibank

90% ahm

of customers have registered for a digital account

LOGIN

ahm – keeping it simple

Our ahm premise is insurance that is simple, easy and affordable. This year, the team redesigned the online experience to make it easier for customers to choose the health insurance cover right for them. Using customer feedback, they developed steps to guide people through the process, ensuring only the most relevant options were presented. They also made it simpler for customers to assess their cover against other options and change if preferred. Since its launch, more than 10,000 customers have accessed the site to review their cover online.

Better value

We're working to make our products and services deliver more for our customers. We know for many people, affordability is a big challenge – this year more than most. We've focused on simplifying and enhancing our cover options, enriching our loyalty program to recognise and reward loyal customers and ensuring that what we offer customers through our Medibank and ahm brands is unmatched in market.

More than $5.5 billion in benefits were payable to customers this year. Our Members' Choice Advantage dental network saved our customers approximately $10 million in out-of-pocket costs and we expanded the program to optical services this year. We also announced our lowest average premium increase in 19 years, before postponing premium increases for six months as part of our COVID-19 support package.

Our Live Better rewards program was rated the best loyalty program of all major health funds by members in the 2019 Ipsos Survey. Eligible customers can earn Live Better reward points, using them towards a gift card, savings of $200 on their health cover or more on their extras – simply by taking a broad range of healthy actions or shopping with many of our health and wellbeing partners. Over $1 million in rewards have been earned this year during COVID-19.

We continued enhancing our services for priority customers who have been with us for 10 years or more, seeing customer advocacy levels improve for these customers as a result. We also made it easier and more affordable for our customers to manage a broad array of their insurance needs – with access to discounted life, travel and pet insurance.

We have built strong partnerships with corporate Australia, supporting the health insurance needs of many organisations, while also working with them on employee wellbeing initiatives. In an Australian first, we established a strategic partnership with La Trobe University, to invest in research opportunities, provide additional training and job opportunities and support the creation of health and wellbeing hubs.

We're managing our own costs, delivering around $20 million of savings through our productivity program this year, and are targeting a further $50 million over the next three years. Our payment integrity program is helping keep premiums affordable by identifying, recovering and preventing improper payments and claims. We also renegotiated a number of contracts with hospital groups this year, working to encourage quality, safety and improved efficiencies, so we can further improve the affordability of private healthcare.

Our dual brand strategy is a real differentiator in the market, with our Medibank and ahm brands delivering flexibility, broad customer coverage and price competitiveness.

better healthcare_

1,500
health professionals in our business

8,620
patients received in-home care

Ken's story – Rehab at Home

When Ken had a right knee replacement, he chose to do his post-surgery rehab through Medibank at Home. Working with his physio, he practised his exercises around the house – squatting while washing the dishes or walking up and down the steps to his back porch. Being able to recover in the comfortable surrounds of home, and not inconveniencing his family to take him to his rehab appointments was a relief for Ken, and gave him back the freedom to spend more time doing what he loves, like working in his backyard.

We're working on **innovative ways to deliver healthcare** at a **lower cost to patients**, improve the experience and **ensure quality health outcomes**.

More affordable healthcare

From in-home care to virtual hospital in the home services and telehealth, we've been growing our health services capabilities. We're improving options for people to receive care at home or in the community, working in partnership with doctors, hospitals and governments across Australia.

Delivering care outside of the hospital environment is key to providing affordable healthcare in Australia. It can provide the same quality of care, offers patients greater choice and convenience and helps free up hospital beds for those who need them most. This year, we provided in-home care to more than 8,000 people.

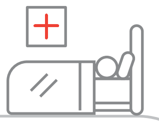
Our Medibank at Home group of programs and trials cared for 5,854 customers this year and continued expanding. We launched a home-based palliative care pilot program in partnership with St Vincent's Private Hospital Brisbane and focused on building new partnerships, recently signing with WorkSafe Victoria to provide rehab in the home services.

We're also working to grow our hospital in the home services, this year providing 259 virtual hospital beds to patients who chose treatment at home instead of hospital. We trialled a new approach to providing mental health care, working with a state government on a Mental Health Rapid Hospital Avoidance trial. It utilised in-home care to reduce the need for a patient to be admitted to hospital or enable them to leave earlier.

We partnered with Nexus Hospitals to trial hip and knee joint replacement surgery with no gap fees for patients. The program utilises in-home care to support a shorter stay in hospital, where clinically appropriate. Early results for those who have taken part are very positive and the program is expanding nationally, in partnership with several other hospital providers.

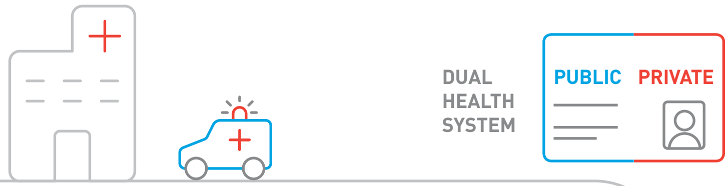
COVID-19 accelerated demand for telehealth services this year and our experience operating community support services such as 1800RESPECT and Nurse on Call in Victoria, as well as providing services to clients including healthdirect Australia and Beyond Blue, positioned us well to support the government's coronavirus helplines. We see huge potential for telehealth – we have integrated it into many of the preventative health programs we offer customers. All up, we employed an additional 680 temporary frontline clinicians to support our telehealth programs.

We now have more than 1,500 health professionals working across Medibank providing care to people at home, on the phone, online and in the community. They are driving our transition to a broader healthcare company.



259
virtual hospital beds

approximately
680
temporary frontline clinicians employed



Reforming the system

Australia's healthcare sector was put to the test by COVID-19 and has delivered strong outcomes.

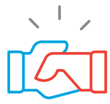
In response to the pandemic, we enhanced our products, our services and our systems, provided more options for patients to receive care in the home and the community, and focused on preventative health.

COVID-19 has highlighted the value of telehealth and in-home care, which are important elements of the value we offer our customers. We now need to ensure these services are integrated into our healthcare system, to facilitate better options for non-urgent care to be delivered outside of hospitals, at a lower cost. But that's not all we're focused on.

We've also continued our work with the government and the health sector to help achieve meaningful industry change, to improve affordability and hence boost private health insurance participation.

We've seen positive impacts from the government taking progressive steps in implementing reforms, but we believe more is needed and urgently. For example, tackling higher than necessary prostheses prices, which are often substantially higher in the private system than they are in the public, is crucial given the already inflated price in Australia relative to other parts of the world.

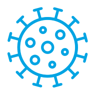
More can also be done to ensure health practices funded by the Medicare Benefits Scheme and private health insurers reflect modern clinical evidence, which will improve health outcomes for patients. That is why we've encouraged the government to act quickly on the Medicare Benefits Schedule (MBS) review. And we continue to support efforts by the government to enhance MBS payment integrity so that unnecessary claims are not being paid by either taxpayers or private health insurers.



To improve participation, an increase to the Medicare Levy Surcharge continues to be under consideration by the government. We've advocated for employer-funded private health insurance and the need to do more to encourage younger people to join and keep private health insurance – such as increasing the age threshold so young adults can remain on their family health insurance policy until they turn 30.

Given budgetary constraints, we understand that a number of these initiatives that come at a cost to the budget may not be a short-term priority for government, but providing some fresh incentive for young Australians will be essential to protect Australia's high quality dual health system.

Our health system is built upon a partnership between the public and private systems. This year's pandemic has highlighted how important that partnership is to ensure Australia can quickly respond to changing healthcare needs.



Yvonne's story – In-home care

A Medibank customer of 34 years, Yvonne started receiving haemodialysis at home in November last year, to help manage her kidney disease. Before this, her husband Leigh would drive her 40 minutes each way to hospital for treatment. Including the haemodialysis and prep-time, it was often a six-hour round trip, three times a week. Yvonne found treatment at home more convenient and got to know her renal nurse, Jeff, well. "I felt less fatigued, and had several more good days where we could be a normal family. Dialysis was fitting into our lives, rather than the other way around." In July, Yvonne received a kidney transplant.

better business_

51%

Group and senior executives are female

71%

employees worked flexibly (pre-COVID-19)

Jono's story – Flexible working

Training and Facilitation Manager Jono says Medibank's approach to flexible working has enabled him to seamlessly transition to working from home during COVID-19. "It's helped me support my family and lead my team to my best ability".

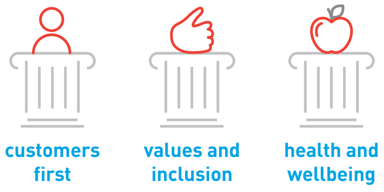
We're **connecting our people to our purpose** and becoming a more **sustainable business**, so that we can better support the health and wellbeing of our community and **play our part in protecting our planet**. You can find out more in our Sustainability Report 2020.

Engaging our people to make a bigger impact

At the heart of every decision we make and every product and service we provide, lies our strong purpose-led culture. It's what brings us together as a community – one team focused on our purpose of Better Health for Better Lives.

We've worked hard to build a culture that energises and inspires our people to be at their best. We know our people are more engaged when we are true to the three pillars that guide our culture – customers first, values and inclusion and health and wellbeing.

OUR CULTURE



We're now seeing the longer-term benefits of our approach, with an analysis of three years of customer and employee advocacy data showing that when our people are happier at work, our customer satisfaction increases.

Our flexible working approach has been instrumental in helping our people better work towards their own health and wellbeing goals. It also enabled us to quickly adapt to virtual working this year. We still have one of the best parental leave policies in Australia and continue to see men increase their take up of this opportunity and our employees feel more engaged as a result of the flexibility they are offered.

We remain committed to gender equality and this year became a signatory to the Women's Empowerment Principles, developed by the UN Women and UN Global Compact. We've also been working to improve inclusion and access for people with a disability, developing an online toolkit to help our people better support employees and customers with a disability and reviewing our knowledge management system to ensure our team can more confidently meet these needs.

Teams participated in ethical dilemma-based decision making training this year – challenged with real life customer scenarios and asked to consider whether what we could do, was what we should do. Our Customer Obsessed program also saw team members listen in on customer calls, visit retail stores and hospitals and talk directly with customers – this year 1,800 non-customer facing team members made thank you calls to customers. It helps our people keep focused on the needs of our customers no matter which part of the business they work in. People from across the business take part, including members of our Board.

To help our people be at their best, we continued to refine our learning and development opportunities and introduced new initiatives to better support our people, including a 24/7 Employee Health Support Line, financial wellbeing program, mindfulness and meditation activities and Feel Good Grants to support employee health and wellbeing initiatives. We made our workplace safer, launching StaySafe – a new system to keep our people safe when working, wherever their workplace may be.

60%
of talent pipeline are female

-0.7%
gender pay gap

Five times
Employer of Choice for Gender Equality

Gold Member
Australian Network on Disability

Top three
Best Workplace for New Dads

DAD

1,800
employees made Thank You calls to customers

Helping Australia get healthy

We want our community to be able to thrive mentally and physically and believe we have an important role to play in helping people achieve this. We do this through investing in health research, supporting community activities and promoting healthy behaviours.

We understand that mental health is one of the biggest issues facing Australians and we've worked to increase access to support services to improve mental wellbeing. Through our delivery of telehealth counselling with Beyond Blue, 1800RESPECT, our 24/7 mental health support line for customers and our partnership with Smiling Mind, we're able to support the community at any time, wherever they are based. We're also developing a long term approach to help address one of Australia's growing concerns – loneliness. We have engaged some of Australia's leading researchers and experts to help us build a 10-year plan to tackle loneliness and will soon survey more than 2,000 Australians to help us better understand the impact of chronic loneliness on our mental and physical health.

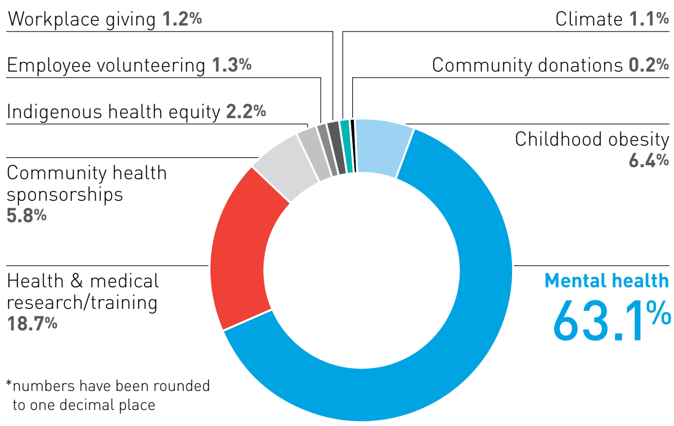
We want all Australians to lead healthier lives. We see the impact chronic disease has within our community and feel the pressure it has placed on Australia's healthcare system. We know that many chronic diseases such as obesity, arthritis and back pain can be prevented through leading healthier lives, so we're investing in research through our Better Health Foundation, supporting 17 projects this year, in addition to funding projects researching the impact of COVID-19. We also gave more than $2 million this year to support hundreds of free, active and social activities throughout Australia as part of our Live Better program.

We continue working to improve health equality for Indigenous Australians through our Reconciliation Action Plan. We're now in our ninth year of working with the Wadeye community in the Northern Territory, this year helping develop a cultural health camp for Aboriginal women within the community. We've also been building new partnerships with the Australian Indigenous Doctors' Association to increase the cultural safety of our services for our Aboriginal and Torres Strait Islander customers.

And in a year that has been anything but normal, with fires that ravaged communities and an infectious virus, we've been there to provide financial support to customers.

Community investment*

VERIFIED 2020 LBG AU & NZ



*numbers have been rounded to one decimal place

9 years working with the Wadeye community in the Northern Territory

Building a sustainable future

We believe in climate change and recognise the link between the environment and the health and wellbeing of our community. We're becoming a more environmentally sustainable business, finding ways to minimise our footprint and helping the transition to a low carbon economy.

Our new Environmental Policy elevates the environment in our decision making, highlighting the areas where we believe we can make the biggest impact. We've now decided to report against the framework of the Task Force on Climate-related Financial Disclosures, and we're tracking our performance and progress in a transparent manner.

We aim to work with suppliers who reflect our approach and have ethical and sustainable business practices. To support this, we've been finalising our first Modern Slavery Statement which details what we're doing to ensure modern slavery and human trafficking are not occurring within our supply chains. One of the key components of our Reconciliation Action Plan is the support of Indigenous businesses through procurement and this year we exceeded our target to increase our spend with Indigenous businesses by 25% annually over the three-year plan.

We want to make a positive impact in the lives of our customers, our people, our shareholders and our broader community, as well as on our environment. We believe the best way to do this is through responsible and sustainable business practices. We worked with employees, customers, shareholder groups, community partners, government and industry representatives to undertake a materiality assessment to identify the big issues most relevant to help us do that.

These material topics align with our ongoing support of the United Nations Sustainable Development Goals, and form the basis of our new sustainability strategy. This focuses on how we can work together to create a sustainable future where everyone can live their healthiest life.

Find out more about what we are doing to make an impact in our first Sustainability Report.

$400,000 spent with Indigenous businesses

Carbon neutral certified under the Australian Government's Climate Active program

our sustainability highlights_

FY20 highlights

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote wellbeing for all ages

Material topics

- Affordable healthcare
- Trusted healthcare, customer-centred products and services
- Healthcare innovation, personalisation and choice
- Healthy and engaged communities
- Supporting mental health

$185+ million COVID-19 support package for customers including financial hardship support, extending health cover and postponing premium increases

Managed 250,000 COVID-19 related calls

Donated $5 million to Beyond Blue

340,000 views of Live Better at Home free video content

Launched short stay no gap joint replacement surgery trial with Nexus Hospitals

8,620 patients received in-home care

Provided 259 virtual hospital beds

Launched home-based palliative care pilot with St Vincent's Hospital Brisbane

Launched Heart Health at Home

Lowest average premium increase in 19 years (postponed for six months)

Developed Hospital Assist

Extended Health Concierge service to paediatric admissions

Partnered with Smiling Mind

Developing a 10-year initiative to help tackle loneliness

Targets / next steps

Provide more than 300 virtual hospital beds by end of FY22

Double the uptake of our Live Better and Health Assist programs by FY22, while ensuring every customer* has at least one personalised health interaction

Raise awareness of the size and scale of loneliness as a mental and physical health issue through a comprehensive community awareness campaign

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5 GENDER EQUALITY

Achieve gender equality and empower all women and girls

Material topic

- Diverse and inclusive workforce

51% of Group and senior executives are female

-0.7% gender pay gap

25% male participation in parental leave

Became a signatory to the Women's Empowerment Principles (WEPs)

Launched 1800RESPECT's Financial Abuse Toolkit and Escape Bag Checklist

Employer of Choice by the Workplace Gender Equality Agency (WGEA), fifth year in a row

Top three Best Workplace for New Dads

Targets / next steps

Ensure at least 40% of senior leaders and Board members are women

Maintain at least 40% women across our manager workforce

Improve the representation of men in our non-manager workforce

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8 DECENT WORK AND ECONOMIC GROWTH

Promote sustained, inclusive and sustainable growth, full and productive employment and decent work for all

Material topics

- Sustainable supply chains
- Engaged purpose-led culture, attract and retain talent
- Healthy and safe workers
- Privacy and data security
- Corporate governance

Finalising first Modern Slavery Statement

84% employee engagement pre COVID-19 (rose to 91% in April)

Launched 24/7 Employee Health Support Line and introduced financial wellbeing support

71% of employees worked flexibly (pre COVID-19)

Signed four-year Enterprise Agreement

Invested in AUSMED clinical professional development program and created a Clinical Careers Pathway Hub

Launched new incident and hazard reporting system – StaySafe

Introduced new Code of Conduct training module

Targets / next steps

Employee engagement target of 85%, and employee advocacy (eNPS) target of ≥19 in FY21

Improve support to employees with caring responsibilities

Deliver $20 million in productivity savings in FY21

*based on the number of policyholders that consent to contact for marketing purposes, some exclusions may apply. Excludes new joins and customer lapses over the period.

Reduce inequality within and among countries

Material topics

- Indigenous engagement
- Disability access and inclusion

FY20 highlights

9 year partnership with Wadeye community

Co-designed a women's cultural health camp attended by 100 women in Wadeye

Developed Australia Day module for employees

$400,000 spent with Indigenous businesses

Upskilled customer service team to work with the National Relay Service

Improved accessibility of our websites and apps for people with a disability

Launched 1800RESPECT's Disability Pathways Project

10% of employees took part in Indigenous cultural awareness training

Top three in Australian Network on Disability Access and Inclusion Index

Gold tier service provider in ACON Pride in Health + Wellbeing Equality Index

Targets / next steps

Increase the representation and self-reported engagement of:

- Indigenous employees (targeting at least 32 employees) in FY21
- employees with a disability in FY21

Ensure 50% of employees participate in online Indigenous cultural awareness training in FY21

Review, assess and consult to progress our Reconciliation Action Plan

Take urgent action to combat climate change and its impacts

Material topic

- Address the impacts of climate change through environmental sustainability

Board endorsed new sustainability strategy and launched our first Sustainability Report

Launched our new Environmental Policy

Working to report against the Task Force for Climate-related Financial Disclosures (TCFD)

Updated our Motor Vehicles Policy to ensure all new fleet vehicles are hybrid

Invested $24.5 million in green bonds to support sustainable projects

Carbon neutral

Ongoing low carbon domestic and international equity investments

Targets / next steps

Further enhance our alignment to the TCFD

Remain committed to being carbon neutral across our Scope 1, 2 and 3 emissions for FY21

Strengthen the means of implementation and revitalise the global partnership for sustainable development

Material topics

- Contribute to public policy
- Ethical business

Worked with hospitals to improve patient experiences

$1.2 million to fund 17 research projects in partnership with 12 organisations

Launched OptimalMe – Australia's first pre-pregnancy to post-birth study with Monash University

Launched Baby Sleep Support Line pilot with Tresillian

Established a strategic partnership with La Trobe University

Marked 4 years of partnership with the Grattan Institute

Indigenous partnerships:

- Wadeye community
- Adam Goodes' IDIC
- Supply Nation
- Australian Indigenous Doctors' Association
- Thamarrurr Indigenous Youth Corporation

Community partnerships:

- parkrun Australia
- Smiling Mind
- Feel Good Program, Brisbane
- OneWave
- Live Life Get Active
- Bold and Beautiful Swim Squad, Manly
- Laughter Clubs Victoria
- No Lights No Lycra
- Stephanie Alexander Kitchen Garden Foundation
- Red Cross
- Beyond Blue
- Kookaburra Kids

Targets / next steps

Review the strategic focus of the Medibank Better Health Foundation to ensure it reflects the current health landscape and our strategic priorities

1. About Medibank

Medibank Private Limited (Medibank) is a leading private health insurer 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 leveraging our experience and expertise to provide and coordinate health services to support our customers and the community. Medibank Health also includes travel, life and pet insurance products. As we maintain assets to satisfy our regulatory reserves, we also 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 2020, we had 3,536 full-time equivalent (FTE) employees, including 1,188 health professionals.

2. Financial and operating performance

References to "2019", "2020" and "2021" are to the financial years ended on 30 June 2019, 30 June 2020 and 30 June 2021 respectively, unless otherwise stated. The "Group" refers to the consolidated entity, consisting of Medibank and its subsidiaries. NPAT refers to net profit after tax.

The disruption caused by COVID-19 in 2020 will continue to impact Medibank's financial and operating performance in 2021. Despite the challenging external environment, particularly in the fourth quarter of 2020, our business has proved resilient. Our people are highly engaged, our balance sheet remains strong, we have made good progress on growing policyholder numbers, on managing our own expenses and setting up Medibank Health for growth.

2.1 Group summary income statement

Year ended 30 June ($m)	2020	2019	Change
Group revenue from external customers[1]	**6,769.6**	**6,655.8**	**1.7%**
Health Insurance operating profit	470.6	542.5	(13.3%)
Medibank Health operating profit[1]	27.8	22.1	25.8%
Segment operating profit	**498.4**	**564.6**	**(11.7%)**
Corporate overheads	(37.4)	(36.1)	3.6%
Group operating profit – continuing operations	**461.0**	**528.5**	**(12.8%)**
Net investment income	2.4	102.8	(97.7%)
Amortisation of intangibles	(9.0)	(8.7)	3.4%
Other income/(expenses)	(4.2)	(6.3)	(33.3%)
Profit before tax	**450.2**	**616.3**	**(27.0%)**
Income tax expense	(134.6)	(178.6)	(24.6%)
NPAT – continuing operations	**315.6**	**437.7**	**(27.9%)**
NPAT – discontinued operations	(0.6)	21.0	(102.9%)
NPAT – total operations	**315.0**	**458.7**	**(31.3%)**
Effective tax rate[2]	29.9%	29.0%	90bps
EPS (cents)[2]	11.4	16.7	(31.3%)
Underlying NPAT[3]	**366.7**	**447.9**	**(18.1%)**
Underlying EPS (cents)[3]	13.3	16.3	(18.1%)
Dividend per share (cents)	12.0	13.10	(8.4%)
Dividend payout ratio[3]	90%	80%	12.5%

1. Excludes discontinued operations.
2. Calculated on total operations.
3. Dividend payout ratio based on underlying NPAT, normalised for growth asset returns, including property from 2020, to historical long-term expectations and credit spread movements.

Group operating profit from continuing operations decreased by $67.5 million or 12.8%, from $528.5 million in 2019 to $461.0 million in 2020. This was largely due to Health Insurance operating profit, which fell by $71.9 million or $50.3 million after tax.

Net investment income was down $100.4 million to $2.4 million in 2020, in line with the performance of benchmark indices, reflecting challenging market conditions for both our growth and defensive asset portfolios.

Other income and expenses fell by $2.1 million due to lower merger and acquisition costs and in line with 2019, higher directors' and officers' insurance charges were the major driver of the increase in corporate costs.

The decrease in Health Insurance operating profit and net investment income resulted in a $122.1 million or 27.9% decrease in NPAT – continuing operations from $437.7 million in 2019 to $315.6 million in 2020. The current period effective tax rate for the Group was up 90 basis points to 29.9% in 2020, reflecting adjustments to investment income during the period.

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)	2020	2019	Change
Health Insurance premium revenue	6,545.6	6,464.7	1.3%
Net claims expense (including risk equalisation)	(5,531.6)	(5,362.1)	3.2%
Gross profit	**1,014.0**	**1,102.6**	**(8.0%)**
Management expenses	(543.4)	(560.1)	(3.0%)
Operating profit	**470.6**	**542.5**	**(13.3%)**
Gross margin	**15.5%**	**17.1%**	**(160bps)**
Management expense ratio	8.3%	8.7%	(40bps)
Operating margin	**7.2%**	**8.4%**	**(120bps)**

Health Insurance premium revenue increased by 1.3% from $6,464.7 million in 2019 to $6,545.6 million in 2020. This increase reflects nine months of the 3.30% premium increase which was implemented on 1 April 2019. However, in the second half of 2020, we implemented a number of measures to support our customers through the COVID-19 pandemic, including a six-month postponement of the 1 April 2020 premium increase and a financial hardship package. These measures impacted revenue to 30 June 2020 by approximately $80 million.

In a market with industry growth continuing to slow, our customer base remained stable at 3.76 million compared to 3.77 million in 2019. It is pleasing that our market share has grown by four basis points over the year, driven by our dual brand strategy and improved customer retention. Medibank's market share was 26.9% as at 30 June 2020.

At a fund level, our net resident policyholder numbers increased by 10,600 or 0.6% on a reported basis, down 20 basis points from the 0.8% growth in 2019. A total of 18,200 policyholders suspended their policies as at 30 June 2020 under financial hardship options available to Medibank and ahm customers. Without this impact, policyholder growth would have been 1.6% on an adjusted basis. These suspensions are expected to be largely temporary. While overall acquisition rates were down 60 basis points, retention improved by 140 basis points. The fall in acquisition rates was largely due to COVID-19 restrictions which resulted in the closure of the Medibank retail network for most of the fourth quarter. Improvement in retention rates reflects lower premium rate rises and the six-month postponement of our 1 April 2020 premium increase. It also reflects our increased focus on integrating health and wellbeing into our customers' experience and a range of other initiatives, such as our investment in the Medibank brand's Live Better program and Members' Choice Advantage dental network; while in ahm, we continued to transfer learnings from the Medibank brand. The ahm brand saw a 7.3% increase in net resident policyholders on a reported basis, with strong growth across both direct and aggregator channels.

Medibank's net claims expense increased by $169.5 million, or 3.2%, to $5.5 billion, reflecting a 2.5% increase in gross claims, which includes $67 million of lower than expected ancillary claims due to COVID-19, alongside a significant reduction in risk equalisation receipts. Net claims expense also includes a $297.1 million claims liability which is in recognition of claims from 2020 that have likely been deferred. In 2020, Medibank paid $5.2 billion in benefits to customers. After adjusting for the impact of provisions and the COVID-19 claims liability, underlying claims growth was 3.0%. Risk equalisation receipts continued to be lower year-on-year, due to strong growth in our ahm customer base and lower than industry claims growth. The average net claims expense per policy unit was up 2.8% in 2020.

Health Insurance gross profit was down $88.6 million, or 8.0%, to $1,014.0 million, with 1.3% premium revenue growth offset by a 3.2% increase in net claims expense. This result includes a $22.3 million strengthening of the 30 June 2020 claims provision, compared to a $9.7 million provision release 12 months ago, as well as a $13.0 million COVID-19 impact. Overall, the Health Insurance gross margin before allowance for management expenses was down 160 basis points from 17.1% in 2019 to 15.5% in 2020.

Management expenses decreased by $16.7 million or 3.0% as a result of reductions in both cash and non-cash expenses. Depreciation and amortisation decreased by $4.3 million after the useful life of our SAP IT systems was extended from seven to ten years, while deferred acquisition cost amortisation was $1.9 million lower, reflecting tightly managed acquisition costs. Operating expenses were down $10.5 million to $459.6 million, with circa $20 million in productivity savings offsetting approximately 2.0% expense inflation. COVID-19 related expenses, including a $5.0 million donation to Beyond Blue, were offset by lower incentive payments. We have committed to an additional $50 million in productivity savings over the next three years, including $20 million in 2021. There was a 40 basis point improvement in the management expense ratio from 8.7% in 2019 to 8.3% in 2020, which is expected to improve further with continued revenue growth and our productivity program.

Our Health Insurance operating profit of $470.6 million was 13.3% lower than 2019, with our Health Insurance operating margin down 120 basis points from 8.4% in 2019 to 7.2% in 2020.

Medibank Health

Medibank Health includes the provision of health management, telehealth services for government and corporate customers, and hospital care in the home delivered through one of Australia's leading national providers, Home Support Services (HSS), which we acquired in August 2018. With the acquisition of HSS, our capability in health services has been further strengthened and will see more choice in the market for Medibank customers as well as for other payors – both public and private. We also provide in-home services through Medibank at Home, care coordination through our CareComplete programs and Medibank Health Concierge service, and mobile allied health services. Medibank Health also includes the sale of travel, life and pet insurance products.

The role of Medibank Health is to strengthen and complement our core Health Insurance business and enhance customer loyalty. We do this by helping customers navigate the health system to get the care they need to better manage their health and wellbeing.

In 2020, Medibank Health revenue from continuing operations increased by 17.2%, or $39.7 million, to $270.0 million, reflecting strong growth across all business lines, including $5.8 million from our Live Better program partners and an additional two-month contribution from HSS of $6.2 million.

There was a $5.0 million uplift in management expenses resulting from further investment in our continuing businesses, including approximately $8.0 million from our in-home care and Live Better businesses. We also incurred $1.6 million in management expenses due to the additional two-month contribution from HSS. The increase in management expenses was partly offset by approximately $7.0 million in cost savings, stemming from a simplified operating model that was implemented in late 2019.

Medibank Health operating profit from continuing operations increased by $5.7 million, or 25.8%, to $27.8 million in 2020, with the operating margin up 70 basis points to 10.3%.

Gross margin was down 240 basis points to 41.2%, which was offset by a reduction in the management expense ratio from 34.0% in 2019 to 30.9% in 2020.

Net investment income

Medibank's investment portfolio was $2.8 billion as at 30 June 2020. This investment portfolio, which includes $2.6 billion relating to the fund portfolio, 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.

Net investment income decreased by $100.4 million to $2.4 million in 2020, due to the negative impact on investment asset valuations as a result of the heightened market volatility related to COVID-19, and lower interest rate environment relative to last year.

Our 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 $121.5 million or 6.3% to $1,813.9 million as at 30 June 2020.

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

- An increase in cash and cash equivalents driven by increased cash holdings as a result of deferred COVID-19 claims.
- A decrease in financial assets as a result of lower valuations in the investment portfolio.
- An increase in property, plant and equipment due to recognition of Medibank leases on the balance sheet, offset by the increase in trade and other payables which includes the related lease liability.
- An increase in claims liabilities due to recognition of the COVID-19 claims liability, offset by an increase in deferred tax assets associated with the temporary tax treatment of the COVID-19 claims liability.

As at 30 June 2020, 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. Our total Health Insurance business-related capital was 13.2% of premium revenue after the allowance for determined but unpaid dividends, as at 30 June 2020. This was marginally above the top end of Medibank's target range of 11%-13%.

In November 2018, the Australian Prudential Regulatory Authority (APRA) announced its intention to harmonise the health insurance capital framework with Life and General Insurance Capital (LAGIC) standards. We are well placed to implement this framework as our Capital Management Policy is already closely aligned with LAGIC. Effective from 2020 we have reduced our target capital range from 12%-14% of premium revenue, to 11%-13% of premium revenue.

Dividends paid or payable in respect of profits from the financial year totalled 12.0 cents per share fully franked, amounting to $330.5 million comprising:

- An interim ordinary dividend of 5.70 cents per share fully franked, amounting to $157.0 million paid on 26 March 2020 in respect of the six-month period ended 31 December 2019.
- A final ordinary dividend of 6.30 cents per share fully franked, amounting to $173.5 million to be paid on 24 September 2020 in respect of the six-month period ended 30 June 2020.

The full year 2020 ordinary dividend represents a 90% payout ratio of underlying NPAT, normalising for investment market returns. This is in line with the outlook statement provided in our half year results announcement, where we advised the market that the dividend payout ratio was expected to be at or above the top end of our annual payout ratio range of between 75% and 85% of underlying NPAT.

2.4 Management changes

There were no changes to Medibank's Executive Leadership Team in 2020.

3. Strategy and future prospects

Medibank's purpose is 'Better Health for Better Lives'. As an organisation, we are committed to improving the health and wellbeing of Australians and helping people lead better quality lives. By working to provide affordable and quality health outcomes, we seek to sustainably build our customer base and grow shareholder value.

Our strategy remained unchanged in 2020 as we continued to focus on leveraging our dual brand strategy to create a competitive advantage in health insurance and transforming into a broader healthcare company. Delivering for our customers and broadening the relationships we have with them through expanded offerings remained a key focus. Medibank's offering has been strengthened by growing our capability to proactively understand and address the needs of our customers.

Aligned with our strategy to personalise customer experience, we scaled Live Better and increased engagement in our rewards program. We also partnered with Specsavers to improve eye health, affordability and choice for Medibank customers through our Members' Choice Advantage optical offering. Further, eligible Live Better rewards members with extras cover now have access to an industry-leading no gap range and the ability to earn Live Better points on optical purchases. Through a collaboration with our health and wellbeing partners, members can now earn Live Better points when they shop at Specsavers, Amcal Pharmacy, HelloFresh, Fitbit, Brooks Running and Onsport.

During the COVID-19 pandemic we launched Live Better at Home nationwide, giving all Australians access to free online programs including workout videos, cooking demonstrations and guided meditation, aimed at helping the community stay active and healthy. The program has attracted more than 340,000 views since its launch. Medibank also brought together its broad range of health services to develop COVID-19 Health Assist, a program providing customised health and wellbeing support for eligible customers throughout the COVID-19 pandemic.

Medibank Health significantly scaled its operations in 2020, implementing a range of new community telehealth support services in response to the COVID-19 pandemic, including targeted frontline health advice and support programs. On top of the existing services we deliver on behalf of our clients across the country, we employed approximately 680 temporary frontline clinicians and have handled more than 250,000 COVID-19-related interactions to date.

Affordability remains the greatest challenge for our industry and is a key issue for our customers. Recognising the importance of managing costs within the health system, we maintained strong cost discipline and have delivered approximately $60 million in productivity savings over the past three years. We will also target a further $50 million of productivity across the next three financial years, including $20 million in 2021.

We continue to play a broader role in supporting alternative care settings to provide customers with more choice over how and where their healthcare is delivered and believe that we are uniquely placed to lead the in-home care market. In 2020, 8,620 patients used hospital in the home, Rehab at Home or other pilot programs, of which 5,854 were Medibank customers.

We have also recently announced a 49% minority shareholding in East Sydney Private Hospital. Our investment will fund the capital investment and operational costs required for the hospital and doctors to scale their short stay model of care. The short stay model minimises the time a patient spends in hospital, where clinically appropriate, by giving them the option to recover and rehabilitate in the comfort of their home with full in-home support by nurses, allied health practitioners and personal carers. It is a doctor-led alternative to traditional long hospital stays that can help alleviate pressure on the health system, health insurance premiums and out-of-pocket costs. The investment demonstrates our intention to invest to support the roll out of the model. It also complements Medibank's no gap joint replacement pilot that is underway in Melbourne, and which has recently expanded to hospitals in Sydney, Brisbane and Adelaide.

We made pleasing progress against our 2020 strategic pillars and milestones, which we will continue to build on in 2021.

While our strategy and strategic pillars remain unchanged, we have updated some of our priorities for 2021. In the year ahead, our focus will shift more towards embedding and scaling our existing health and wellbeing offers into our customers' experience. We will have an even sharper focus on enhancing value by moderating health system cost growth, particularly in a post-COVID-19 environment. Continuing to offer more choice to our customers and reducing out-of-pocket costs remains a priority, with clinically led alternative ways of delivering care a key part of the solution. To achieve this, we will continue to strengthen and broaden our partnerships with healthcare providers and corporates.

Aligned with our updated priorities and reflecting on our progress, we have revised several of our milestones for 2021. Firstly, we have broadened our customer advocacy milestone to include employee experience, reflecting the importance of our people's engagement and the impact this has on growing our company. We have expanded our health interactions milestone, which is a critical component of our product and services differentiation. This milestone includes health education, prevention through Live Better interactions and support through Medibank Health Assist interactions. We have also refined our health insurance growth milestone and updated our productivity agenda. Our in-home care and Medibank Health milestones remain unchanged for 2021.

The impact of COVID-19 in 2021 cannot be predicted with any certainty; however Medibank remains positioned for growth. We will leverage our dual brand strategy to build competitive advantage in health insurance and continue our transformation to be a broader healthcare company. This has been the right strategy for our business and will continue to inform our decision making as we navigate through the challenges and uncertainty of the COVID-19 pandemic. Aligned with this overarching strategy, our milestone objectives and priorities for 2021 are detailed below.

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**
FY21 priorities	• Leverage our dual brand strategy to grow competitive advantage • Personalise and integrate more health and wellbeing into our customers' experience • Enhance and scale our loyalty offering to recognise and reward membership • Simplify and enhance our cover options	• Focus on promoting better value care and improving customer outcomes by providing greater choice and transparency • Work with stakeholders to reduce out of pocket costs and target lower premium increases • Facilitate a shift to alternative ways of delivering care to enhance patient experience and reduce costs • Refocus our payment integrity program towards prevention over recovery	• Strengthen and broaden our partnerships • Grow corporate and reposition our non-resident and diversified offerings for rebound and future growth • Build scale, co-design and grow our health services capability in conjunction with health providers and third-party payors • Targeted inorganic growth for Medibank Health and Health Insurance in a stressed operating environment
Enablers	People | Data insights | Technology		

FY21 Milestone scorecard

Objectives	Measures and targets

1. Customer and employee advocacy

Continue to achieve a high level of advocacy by delivering exceptional experiences for our customers and employees

Customer advocacy (average Service NPS)

	FY19	FY20	FY21 target
Medibank	24.8	31.8	>30
ahm	38.5	41.2	>40

Employee advocacy

	FY19	FY20	Apr 20	FY21 target
Engagement	85%	84%	91%	≥85%
eNPS	+29	+19	N/A	≥+19

2. Health and wellbeing differentiation

Double the uptake of Medibank's Live Better and Health Assist programs by FY22 while ensuring every customer[1] has at least one personalised health interaction through the year

Education

	FY20	FY22 target
Health engagement interactions	c. 2m	> 2m

Prevention

	FY20	FY22 target
Live Better engaged customers[2]	c. 500k	> 1m

Support

	FY20	FY22 target
Health Assist Interactions[3]	74k	>150k

3. Health insurance growth

We aim to increase market share and achieve total policyholder growth[4] of >1% assuming a flat market, including an aspiration to grow the Medibank brand during FY21

Policyholder growth

1 July 19 – 30 June 20
+0.6% / +10.6k

FY21 Target:
>1% policyholder growth[4]

By brand

Medibank: -1.3% / -17.8k
ahm: +7.3% / +28.4k

Market share

1H20	2H20
up 8bps	down 4bps

4. In-home care

Virtual hospital beds more than 300 by end of FY22

Total

30 June 19	30 June 20	30 June 22
c. 200 beds	259 beds	target >300 beds

Medibank customers

30 June 2020
5,854 Medibank customers serviced by 201 beds

5. Medibank Health

By FY22 organically replace the reported FY18 $30m operating profit of Garrison

Medibank Health segment operating profit

FY18 (baseline)[5]	FY19	FY20
$47.3m	$22.1m	$27.6m

6. Productivity

FY21 productivity target of $20m and additional $30m during FY22 – FY23

Productivity delivered

FY18 – FY19	FY20	FY21	FY22 – FY23
c. $40m	c. $20m	Target $20m	Target $30m

1. 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.
2. Includes the number of customers who have downloaded Live Better and enrolled for rewards plus Live Better at Home interactions.
3. Includes Health Concierge, 24/7 Support, CareComplete, Medibank at Home, Better Knee, Better Me, Heart Health at Home and other new program interactions.
4. Excluding the impact of policyholder suspensions due to COVID-19 financial hardship.
5. Includes the $30m operating profit of Garrison.

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 in 2021 to, impact Medibank's material 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 internal control system to address increased risk exposures caused by the pandemic in relation to its operational, financial and strategic risks.

Risk description	Risk management strategy
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.	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.
Operational The risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.	Medibank has 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. Management of operational risk is overseen by divisional risk committees, the Executive Risk Committee and the Board's Risk Management Committee.
Credit The risk of financial loss due to counterparties failing to meet all or part of their contractual obligations.	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.
Capital & 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.	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.
Market & investment The risk of adverse financial impact market factors e.g. foreign exchange rates, interest rates and equity prices.	Medibank has 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.

Risk description	Risk management strategy
Insurance The risk of misestimation of incurred and expected costs, frequency and severity of insured events.	The Board approves the Pricing Policy, which includes pricing and profitability objectives and forms a key part of the Capital Management Plan. Medibank's 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 where experience deviates from target or breaches minimum thresholds, response plans are formulated and implemented.
Clinical The risk of unexpected, adverse clinical outcomes from a health service provided by Medibank, or a third party acting on behalf of Medibank.	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. Medibank has appointed a Chief Medical Officer, supported by a clinical governance team, to provide oversight and assurance. The Risk Management Committee and Board receive regular reporting on the performance of clinical risk management.
Regulatory compliance Failure to comply with regulatory requirements.	Medibank has established a compliance management system. It incorporates a structured approach to managing its key regulatory obligations, and systems and procedures for identifying and remediating compliance incidents.

Directors

From L to R: Anna Bligh, Christine O'Reilly, Craig Drummond, David Fagan, Elizabeth Alexander, Linda Bardo Nicholls, Tracey Batten, Mike Wilkins and Peter Hodgett.

Name and title	Biography
Elizabeth Alexander AO Chairman and Independent Non-executive Director BCom, FAICD, FCA, FCPA Age: 77	Elizabeth was appointed a director in October 2008 and Chairman in March 2013. She is Chairman of the Nomination Committee and a member of the Audit Committee and the Risk Management Committee. Elizabeth is currently Chairman of DEXUS Wholesale Property Limited, and a director of the IOOF Foundation and the Victorian Registration and Qualifications Authority. As a former partner at PricewaterhouseCoopers (1977 to 2002), Elizabeth specialised in the area of risk management and corporate governance. Elizabeth was previously a director of DEXUS Funds Management Limited as part of the DEXUS Property Group (January 2005 to October 2017), Boral Limited and Amcor Limited, and Chairman of CSL Limited. She is a former Chair of the Australian Prudential Regulation Authority's Risk and Audit Committee. Elizabeth is also a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel. She is a former Chancellor of the University of Melbourne and Chair of its Finance Committee.
Craig Drummond Chief Executive Officer BCom, FCA, SF Fin Age: 59	Craig was appointed Chief Executive Officer in July 2016. Prior to joining Medibank, Craig was Group Executive Finance and Strategy of National Australia Bank (NAB), having joined NAB in November 2013. At NAB, his focus was the strategic realignment and repositioning of the bank, its balance sheet and its performance management systems. Prior to NAB, Craig was Chief Executive Officer and Country Head of Bank of America Merrill Lynch (Australia). Earlier in his career, Craig joined JBWere, a leading Australian stockbroker and wealth manager, in equity research and subsequently held roles including Chief Operating Officer, Chief Executive Officer and Executive Chairman of Goldman Sachs JBWere. Craig is a director of the Geelong Football Club Limited. He is also a member of the Finance Committee of the Ian Potter Foundation Limited.

Name and title	Biography
Dr Tracey Batten Independent Non-executive Director MBBS, MHA, MBA, FAICD, FRACMA Age: 54	Tracey was appointed a director on 28 August 2017. She is a member of the Risk Management Committee and the People and Remuneration Committee. Tracey has extensive experience in the health services sector, with strong commercial, business and change leadership skills. Tracey is currently a director of Abano Healthcare Group Limited, the National Institute of Water and Atmospheric Research in New Zealand and the New Zealand Accident Compensation Corporation. Most recently, Tracey was 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: 60	Anna was appointed a director in December 2012. She is a member of the Investment and Capital Committee and the People and Remuneration 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.
David Fagan Independent Non-executive Director LLB, LLM, GAICD Age: 63	David was appointed a director in March 2014. He is Chairman of the Risk Management Committee and a member of the Investment and Capital Committee and the Nomination Committee. David is a highly experienced commercial lawyer. 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 and the Hilco Group 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, a director and Chair of the Audit and Risk Committee of UBS Grocon Real Estate Investment Management Pty Ltd and a member of the ASIC Corporate Governance Consultative Panel.
Peter Hodgett Independent Non-executive Director BSc (Hons) Age: 65	Peter was appointed a director in June 2013. He is Chairman of the Investment and Capital Committee, and a member of the Audit Committee and the Nomination Committee. Previously, Peter worked for AMP for more than 20 years in a wide variety of business and functional roles, including Chief Actuary during its demutualisation, General Manager of Human Resources and Strategy, and as Global Director of Finance and Operations for Henderson Global Investors in the United Kingdom. He was also a director (until June 2019) of Colonial First State Investments Limited, Colonial Mutual Superannuation Pty Limited and Avanteos Investments Limited.

Directors

Name and title	Biography
Linda Bardo Nicholls AO Independent Non-executive Director BA, MBA (Harvard), FAICD Age: 72	Linda was appointed a director in March 2014. She is Chairman of the People and Remuneration Committee and a member of 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 Chairman of Japara Healthcare Limited (since March 2014) and a director of Inghams Group Limited (since November 2016). Linda is also Chairman of the Board of Melbourne Health and a member of the Museums Board of Victoria. Linda's previous directorships include Fairfax Media Limited (February 2010 to December 2018), Pacific Brands Limited (October 2013 to July 2016), Sigma Pharmaceuticals Limited (December 2005 to December 2015) and Healthscope Limited, as Chairman (October 2008 to October 2010) and a director (January 2000 to October 2010).
Christine O'Reilly Independent Non-executive Director BBus Age: 59	Christine was appointed a director in March 2014. She is Chairman of the Audit Committee and a member of the Risk Management Committee and the Nomination Committee. Christine is currently a director of CSL Limited (since February 2011), Transurban Group (since April 2012), Stockland (since August 2018) and the Baker Institute. Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally in various roles including as Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management and Chief Executive and Managing Director of GasNet Australia Group. Christine's early career includes eight years in investment banking and audit experience with Price Waterhouse, where she qualified as a chartered accountant.
Mike Wilkins AO Independent Non-executive Director BCom, MBA, FAICD, FCA Age: 63	Mike was appointed a director in May 2017. He is a member of the Risk Management Committee and the Investment and Capital Committee. Mike is the Chairman (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 Chairman (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.

Company Secretary

Name and title	Biography
Mei Ramsay Group Executive – Legal, Governance & Regulatory Affairs and Company Secretary BA, LLB, LLM	Mei was appointed Group Executive – 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 20 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 Vice 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.

Executive leadership team

From L to R: Mei Ramsay, John Goodall, Andrew Wilson, Craig Drummond, David Koczkar, Mark Rogers and Kylie Bishop.

Name and title	Biography
Kylie Bishop Group Executive – People & Culture BA (Hons) Psy, MOrgPsych	Kylie was appointed Group Executive – People & Culture in July 2013. She is a registered psychologist, specialising in organisational psychology and is responsible for leading the key people functions across Medibank. This includes talent, capability and culture, performance and rewards, shared services, workplace relations, health, safety and wellbeing, employee communications, community and environment, social and governance. Kylie is responsible for leading Medibank's cultural transformation program focused on customer first, inclusion and values, and health and wellbeing – bringing Medibank's 'Better Health for Better Lives' purpose to life for all employees. Kylie began her career in human resource consulting and prior to joining Medibank in 2010, held senior positions with National Australia Bank (NAB). Kylie is currently a director of Basketball Victoria.
John Goodall Group Executive – Technology & Operations BSc (Hons)	John was appointed Group Executive – Technology & Operations in December 2016. He is responsible for Medibank's core IT platforms, property, procurement and operations with a focus on leveraging our systems, processes and information to deliver enhanced service outcomes for Medibank's customers. John has more than 25 years of experience working in and leading IT functions across the retail and financial services industries and utilising technology to drive business growth and align business systems and processes to customer needs. Prior to joining Medibank, John held the role of General Manager Enterprise Technology at Sportsbet, and before his time at Sportsbet he spent 20 years at GE Capital Australia and New Zealand where he held a number of roles, including Chief Information Officer.

Name and title	Biography
David Koczkar Group Executive – Chief Customer Officer BCom, PG Dip Finance, MAICD	David was appointed Group Executive – Chief Customer Officer in September 2016. Prior to that he held the role of Chief Operating Officer from March 2014 and was Acting Chief Executive Officer between April 2016 and June 2016. He is responsible for Medibank's consumer businesses, including the Resident and Overseas Health and Diversified Insurances portfolios and the ahm business. David is accountable for Medibank's health and wellbeing offerings, all key customer touchpoints, including the Group's retail, customer contact and digital channels, and the customer strategy and analytics, sales and marketing and portfolio management functions. Prior to joining Medibank, David was the Group Chief Commercial Officer at Jetstar where he was responsible for the airline group's network management, sales and marketing, customer channels and commercial operations, including as a director of Jetstar Pacific (Vietnam), Jetstar Hong Kong and NewStar (Singapore) JV businesses. David has more than 25 years of strategy, customer and commercial experience, including previous work in the strategy consulting and financial services industries.
Mark Rogers Group Executive – Chief Financial Officer BEng (Hons), BSc	Mark was appointed Group Executive – Chief Financial Officer in January 2017. Mark is responsible for the finance, actuarial, treasury and investor relations functions across Medibank and has more than 20 years of experience spanning health and financial services. Before joining Medibank, Mark held the role of General Manager, Group Performance and Planning at National Australia Bank (NAB) since 2013, where he was responsible for management reporting, performance management, planning and forecasting, and capital allocation. Preceding this, Mark was General Manager, Group Development. Prior to this, Mark was responsible for Group Strategy and Development for the Mayne Group, a diversified healthcare, pharmaceuticals and pharmacy business, where he was accountable for the management of the Group's strategy, capital management and mergers and acquisitions. Prior to that role, Mark led Group Investor Relations at Mayne Group. Mark is a director of East Sydney Private Hospital.
Dr Andrew Wilson Group Executive – Healthcare & Strategy MBBS, MM, FRANZCP, FACHSE	Andrew was appointed Group Executive – Healthcare & Strategy in September 2016, having previously held the role of Executive General Manager – Provider Networks & Integrated Care since 2013. Andrew is responsible for Medibank's Group strategy and the Medibank Health Solutions business, which provides health services on behalf of business and government, including in-home care and services into residential aged care. He is also responsible for Medibank's healthcare purchasing, relationships with providers and enhanced care initiatives to support members in primary and community settings. Andrew has 25 years of experience in the health system, and remains a practising clinician and lecturer. He was a founder and Co-president of McKesson Asia-Pacific, which was acquired by Medibank in 2010. Andrew is a director of East Sydney Private Hospital and a director of Private Healthcare Australia Limited.

Corporate governance statement

Medibank was founded in 1976 as a private health insurer and was operated by the Australian Government. In 1998, Medibank Private Limited became the operating entity with the Commonwealth of Australia as the sole shareholder. In 2014 the Australian Government sold Medibank by way of an initial public offering, and divested all its shares in Medibank. Medibank listed on the Australian Securities Exchange (ASX) on 25 November 2014.

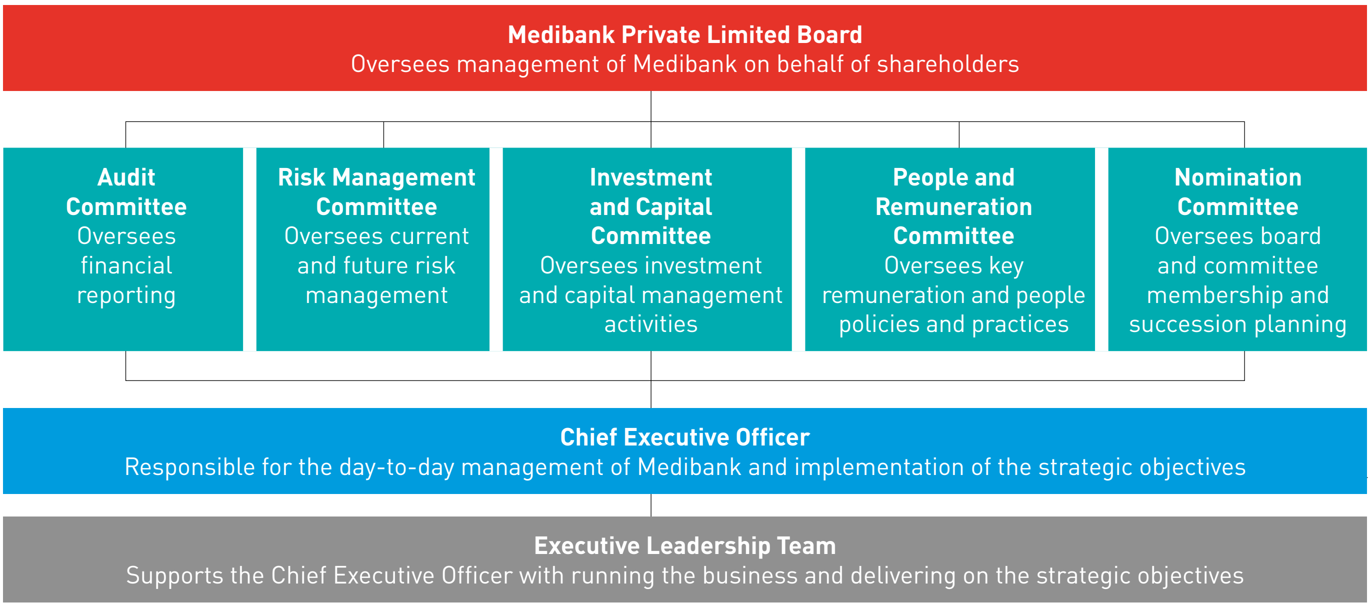
The Board is committed to improving our customers' experience and providing them with greater value. In line with this, the Board seeks to ensure that Medibank is properly managed to protect and enhance shareholder interests, and that Medibank, its directors, officers and employees operate in an appropriate environment of corporate governance.

The Board has a framework in place for governing Medibank. This includes adopting internal controls, risk management processes and corporate governance policies and practices, designed to promote responsible management and ethical conduct.

During the year, Medibank had in place policies and practices which comply with the recommendations in the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (CGPRs), 3rd edition, and is in the process of updating its policies and practices to comply with the recommendations of the 4th edition of the CGPRs in 2021. As a registered private health insurer, Medibank also complies with a governance standard issued by the Australian Prudential Regulation Authority (APRA). The key corporate governance practices applied at Medibank are described in this statement and the key corporate governance policies are available on the corporate governance section of our website at www.medibank.com.au.

Governance structure

The governance and performance of Medibank is overseen by the Board elected by the shareholders.



Roles and responsibilities of the Board and management

The Board provides overall strategic guidance for Medibank and effective oversight of management. Responsibility for the governance of Medibank, including establishing and monitoring key performance goals, rests with the Board. The Board monitors the operational performance and financial position of Medibank, as well as overseeing the business strategy and approving strategic goals. In performing its role, the Board is committed to ensuring sound corporate governance practices.

The Board Charter, which is available on our website, articulates the Board's roles and responsibilities, its membership and operation, and which responsibilities may be delegated to committees or to management. Specific responsibilities have been reserved by the Board in key areas of strategy, governance (including disclosure), executive appointments, financial approvals and reporting, risk management and culture. The Board has established standing committees to assist in performing its responsibilities. These committees examine particular issues in detail and make recommendations to the Board. A description of these committees can be found on pages 38 to 40.

The Chief Executive Officer (CEO) has responsibility for managing the day-to-day affairs of Medibank. The CEO, with the support of the Executive Leadership Team (ELT), manages Medibank in accordance with the Board-approved Corporate Plan, the corporate strategy and Medibank's policies within the risk appetite set by the Board. A detailed delegation of authority framework defines the decision making and expenditure limits that apply at various levels of management.

Key areas of focus for the Board in 2020

Corporate governance (including COVID-19)

- Oversight of COVID-19 impacts and response, including:
  - Ensuring the health and wellbeing of our customers, people and the community.
  - Customer givebacks and hardship policies.
  - Accounting and regulatory responses, including in relation to claims liability and capital stress testing.
  - Business continuity management.
  - Managing retail stores and offices in a safe manner.
- Oversight of the enhancement of the enterprise risk and compliance management framework and risk and compliance culture, including review and monitoring of financial and non-financial material risks and emerging risks and the coordination of the first review by the Appointed Auditor as required by APRA Prudential Standard CPS510.
- Oversight of environmental, social and governance (ESG) strategy and the governance framework, including implementing measures to update policies and processes to comply with the 4th edition of the CGPRs.

Strategy and execution

- Review of strategy, including evaluation of opportunities for:
  - Enhancement of customer experience.
  - Improving affordability for customers.
  - Expansion of health and care services.
  - Improvement of customer health outcomes.
- Oversight of acquisitions and organic growth initiatives to support execution of strategy.
- Review and approval of Corporate Plan, budget and performance targets and oversight of business performance against these targets.

People, remuneration and culture

- Oversight of our people and our culture, including monitoring of the remuneration framework and ensuring we have a strong people agenda focused on skills development.
- Review of Board composition, including consideration of succession planning.
- Oversight of succession planning for the executive leadership team.

Structure and composition of the Board

The Board comprises nine directors in total – eight non-executive directors, including a non-executive Chairman, and the CEO.

The Chairman of the Board is responsible for providing leadership to the Board and Medibank as a whole. The Chairman's other key responsibilities are outlined in the Board Charter.

As announced on 20 August 2020, Elizabeth Alexander AO (an independent, non-executive director) will retire as Chairman of the Board and as a director of Medibank, and will be replaced as Chairman by Mike Wilkins AO, effective 1 October 2020. Mike Wilkins is an independent, non-executive director who has served on the Board since May 2017.

Biographies of the directors, including their skills, experience and year of appointment, are set out on pages 30 to 32 of the annual report. Details of directors' attendance at Board and committee meetings during the year ended 30 June 2020 are on page 46. The length of service of the non-executive directors ranges from two years and 11 months to 11 years and 10 months.

Independence

Directors are expected to bring an independent judgement to bear on all Board decisions. A director is considered independent if they are a non-executive director who is not a member of management, and are free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement or could reasonably be perceived to do so.

Each director provides periodic updates of their interests, positions, associations and relationships, and all directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of Medibank. Directors will be required to abstain from participating in discussions or voting on any matters in which they have, or may be perceived to have, a material personal interest.

The Board regularly assesses the independence of each director in light of the interests disclosed. The Board has assessed the interests, positions, associations and relationships of each director as at the date of this statement. It has determined that all non-executive directors satisfy the independence criteria recommended by the ASX Corporate Governance Council and prescribed by APRA.

To provide an opportunity for independent discussion, the non-executive directors meet without management present at the commencement of each Board meeting.

Appointment and re-election of directors

Medibank's Constitution provides that a director may be appointed by the Board, and if so, is subject to election by shareholders at the annual general meeting (AGM) following their appointment if they wish to remain a director (other than the CEO). Individuals may also be nominated by shareholders to stand for election as a director at the AGM. The Constitution requires an election of directors at each AGM, and a director must retire and may stand for re-election by the third AGM following the director's election. Anna Bligh, Tracey Batten and Mike Wilkins will retire and offer themselves for re-election at the upcoming AGM on 12 November 2020. Further information about these directors is set out on pages 30 to 32 of the annual report, and in the notice of annual general meeting.

Before appointing a person as a director, the Board undertakes checks as to that person's character, experience and background, including criminal and bankruptcy checks. Medibank has a 'Fit and Proper Policy' that complies with APRA's Fit and Proper Prudential Standard. This standard requires that a person in a position of responsibility, including a director, be assessed prior to appointment (or in some cases, as soon as possible after appointment) and on an ongoing basis as to whether the person meets the fit and proper requirements. The person must have the appropriate skills, experience and knowledge to perform the role and act with the requisite character, diligence, honesty, integrity and judgement.

Upon appointment, each non-executive director enters into a service agreement setting out the terms of their appointment. This includes the requirement to build a shareholding in Medibank in order to align the interests of directors with those of shareholders. The Minimum Shareholding Policy requires non-executive directors to acquire shares equal to the value of one year's base fee after tax over a period of five years.

As part of the appointment process, Medibank enters into a deed of indemnity, insurance and access with each director. Each director is indemnified against liability in connection with their role as a director and Medibank is required to maintain a directors' and officers' insurance policy. The deed confirms and extends the director's general law rights of access to Board papers and other records of Medibank.

Director induction, continuing education and access to information

The Board is committed to enhancement of the capabilities of each director and the performance of the Board generally. Upon joining the Board, all new non-executive directors undertake a full, formal and tailored induction program. The program includes meetings with the Chairman, CEO, ELT and senior leaders on Medibank's business, strategy and operation. The Board is provided with ongoing professional development opportunities during the year. This involves formal briefing sessions on a range of subjects by key stakeholders, including regulators and industry experts, to provide deeper insights on industry context and trends. This also includes visits to Medibank's contact centres and retail centres, customer engagement, conference attendance, and participation in the management-led Enterprise Risk Committee and Divisional Risk Committees.

The directors have complete and open access to the CEO, ELT and senior management following consultation with the CEO. A director may, following consultation with and consent from the Chairman, seek independent professional advice at Medibank's expense in respect of any matter connected with the discharge of the director's responsibilities. Directors also have direct access to the advice and services of the Company Secretary, who is accountable to the Board through the Chairman, and advises the Board and the Chairman on all governance matters.

Board skills, experience and diversity

The Nomination Committee regularly reviews the balance of skills, experience, independence, knowledge and diversity of the Board, and is committed to ensuring that the directors collectively have the appropriate skills mix. The evolution of the mix of skills and diversity of the Board is a long-term process and must reflect the current and emerging challenges for the organisation. The Nomination Committee takes into account the organisation's strategic areas of focus, customer needs and external environment, including stakeholder sentiment, and assesses these various factors to ensure that an appropriate balance of skills and diversity is achieved on the Board.

- Expertise and experience in developing and implementing strategy and financial and risk management are seen as critical skills required for the Board to be able to effectively govern and oversee the organisation. As a result these skills are widely held by the Board members.
- Our core business of the provision of private health insurance products with an unwavering focus on our customers means that the Board must have skills and experience in the insurance sector as well as in customer facing businesses for Medibank to be successful. Board members have expertise in both these areas from a number of different industry sectors, including the general insurance and healthcare sectors.
- Our vision to become a healthcare company and our recent acquisitions in the healthcare delivery sector make it critical for the Board to have members with experience in the delivery of healthcare services. This is captured in the collective experience of our directors, ranging from operational expertise through to strategic oversight.
- Health industry reform is not only inevitable, but also vital for the ongoing sustainability of our healthcare system. To play a role in this area, the Board must have members with experience and expertise in both building and maintaining government relations and influencing policy creation. Once again the Board has a number of highly experienced individuals in this area.
- Finally, the Board has identified as critical enablers, skills in human resources and remuneration and technology, and has ensured that the Board has covered these areas of expertise in constituting the current Board.

The skills and expertise that the Board has identified as relevant to the performance of its role and the success of the organisation are summarised in the Board skills matrix.

The very nature of diversity means that not all members of the Board have all the skills listed below to the same degree. However, the Board believes the current mix of expertise and experience of members of the Board creates a diverse range of views and perspectives, and results in the Board providing effective governance, oversight and strategic leadership for Medibank.

Board skills matrix
Strategy Developing and implementing organisational strategies, and appropriately challenging management on delivery of strategic objectives
Financial and capital management Proficiency in financial accounting and reporting, corporate finance, internal financial controls, corporate funding and capital management and investments, and understanding of associated risks
Risk management, governance and compliance Establishing risk management frameworks, setting the risk appetite, and overseeing organisational risk culture Overseeing operations in a complex regulated environment, and demonstrating commitment to the highest governance standards
Insurance and healthcare sector experience Knowledge, experience and expertise in the insurance industry and healthcare sector
Customer experience and marketing Developing product and/or customer management strategies, and experience in marketing
Human resources and executive remuneration Understanding the link between strategy, culture, performance, long-term shareholder value creation and remuneration outcomes
Government relations and public policy Interacting with government and regulators and being involved in public policy decisions
Technology Understanding technology and innovation, and overseeing development and implementation of initiatives to enhance productivity and customer experiences

Board performance evaluation

The Nomination Committee is responsible for reporting on the evaluation of the performance of the Chairman, Board, committees and individual directors to the Board. The evaluation is conducted annually either through an internal review process or an external process.

In 2020, the Chairman of the Nomination Committee led an internal Board evaluation by way of a detailed directors' survey seeking feedback in the areas of the role of the Board, people on the Board, procedures and practices, and behaviours. Following the survey, the Board discussed and evaluated the outcomes and committed to relevant action items. The performance evaluation of the Board included assessment of the handling by committees of the issues and challenges which arose during the year.

The Chairman continues to be responsible for the assessment of each individual non-executive director's performance and contribution. The Chairman met with each of the non-executive directors in 2020 to review their performance and training needs.

Committees of the Board

The Board has established five standing committees to assist in the execution of its responsibilities – the Audit Committee, Risk Management Committee, Investment and Capital Committee, People and Remuneration Committee and Nomination Committee. Each committee is governed by a charter setting out the committee's role, responsibilities, membership and processes. The membership, roles and responsibilities of each committee are summarised in the table below. The charters can be accessed on our website.

The relevant qualifications and experience of the members of each committee can be found in the director biographies on pages 30 to 32 of the annual report. The number of meetings of each committee, and the individual attendance of their members, are provided on page 46.

Committee membership as at 20 August 2020	Composition	Key roles and responsibilities
Audit Committee • Christine O'Reilly (Chairman) • Elizabeth Alexander • Peter Hodgett	• At least three members, all of whom are non-executive directors, a majority of whom are independent directors and at least one of whom is a member of the Risk Management Committee. • Structured so that members are all financially literate, and between them have accounting and financial expertise and experience and an understanding of Medibank's industries.	• Overseeing and reviewing the integrity of external financial reporting and financial statements. • Endorsing and recommending the appointment and removal of, and reviewing the terms of engagement, performance and independence of external auditors. • Reviewing management processes for compliance with relevant laws, regulations and other accounting and external reporting requirements.

Committee membership as at 20 August 2020	Composition	Key roles and responsibilities
Audit Committee continued from previous page	• The chairman must be an independent non-executive director, and must not be the chairman of the Board (but the chairman of the Board may sit on the committee).	• Overseeing and reviewing internal and external audit processes and internal control framework.
Risk Management Committee • David Fagan (Chairman) • Elizabeth Alexander • Tracey Batten • Christine O'Reilly • Mike Wilkins	• At least three members, all of whom are non-executive directors, a majority of whom are independent directors and at least one of whom is a member of the Audit Committee. • Structured to have the necessary knowledge and a sufficient understanding of Medibank's industries. • The chairman must be an independent non-executive director, and must not be the chairman of the Board (but the chairman of the Board may sit on the committee).	• Approving and recommending to the Board the adoption of policies and procedures on risk oversight and management to ensure effective risk management systems are in place. • Ensuring that Medibank has in place a robust risk management framework and procedure to support the effective identification and management of risks. • Evaluating the adequacy and effectiveness of the management and reporting and control systems associated with material risks. • Establishment and monitoring of Medibank's overall risk appetite. • Monitoring and review of Medibank's risk culture. • Oversight of, and monitoring progress against, Medibank's sustainability strategy. • Oversight and prior endorsement of the appointment and replacement of the Chief Risk Officer.
Investment and Capital Committee • Peter Hodgett (Chairman) • Anna Bligh • David Fagan • Mike Wilkins	• At least three members, all of whom are non-executive directors. • The chairman must be an independent non-executive director, appointed by the Board.	• Assisting and advising the Board on capital and investment related matters. • Overseeing the investment strategy and Capital Management Policy. • Monitoring the effectiveness of the investment process. • Authorising delegated investment decisions.
People and Remuneration Committee • Linda Bardo Nicholls (Chairman) • Tracey Batten • Anna Bligh	• At least three members, all of whom are non-executive directors, a majority of whom are independent directors and at least one of whom is a member of the Risk Management Committee. • The chairman must be an independent non-executive director, appointed by the Board.	• Reviewing and overseeing people and organisational culture strategies, including employee engagement, values and behaviours. • Reviewing the remuneration framework and arrangements for the non-executive directors, CEO and ELT. • Reviewing executive succession planning, talent management, industrial relations and diversity strategies. • Reviewing and overseeing key incentive schemes and equity incentive plans. • Setting measurable objectives for diversity. • Reviewing and monitoring Medibank's health, safety and wellbeing performance.

Committee membership as at 20 August 2020	Composition	Key roles and responsibilities
Nomination Committee • Elizabeth Alexander (Chairman) • David Fagan • Peter Hodgett • Linda Bardo Nicholls • Christine O'Reilly	• At least three members, all of whom are independent directors. • The chairman of the Board will be the chairman of the committee.	• Director selection and appointment. • Director induction and professional development. • Board composition. • Board succession planning. • Performance evaluation of the Board, committees and individual directors.

Executive Leadership Team

The CEO, supported by the ELT, is responsible for the day-to-day management and performance of Medibank. The ELT profiles and accountabilities are set out on pages 33 to 34. The ELT members have a clear understanding of their roles and responsibilities through position descriptions and a structured performance management system. Each ELT member has entered into a service agreement with Medibank which sets out the terms of their employment. The remuneration policies and practices applying to the ELT as key management personnel are detailed in the remuneration report from page 48.

The remuneration report (from page 48) contains the performance measures applied to ELT members and the process for the annual evaluation of their performance. A performance evaluation was undertaken during 2020 in accordance with that process for each person who was an ELT member as at 30 June 2020.

Ethical standards

Central to the Board's governance framework is a culture of ethical behaviour based on Medibank's key values. These values are intended to guide the way employees work together and engage with customers, business partners, governments and the wider community, and are supported by a range of policies and procedures.

The Medibank Code of Conduct, available on our website, sets out the way employees, including directors and executives, work and the practical principles and minimum standards of expected behaviour. Responsibilities include behaving in a manner that promotes health, safety and wellbeing, that fosters relationships of trust and respect, that avoids conflicts of interest (including not offering or accepting secret commissions or bribes) and that respects privacy and protects confidential information. Medibank has different approaches to dealing with breaches of the Code of Conduct depending on the circumstances. Identification and reporting of all conduct that is inappropriate or exposes Medibank to unacceptable loss or risk is encouraged.

The Whistleblower Policy protects whistleblowers from victimisation or disadvantage as a response to making reports. A whistleblower reporting service called Medibank Alert is available through an external provider, enabling whistleblowers to report conduct anonymously, or limit who is informed of their identity. Ethical conduct is further supported by corporate policies, including in the areas of anti-bribery, anti-corruption and conflicts of interest.

Medibank has a health and safety management system in place to ensure it meets legislative requirements and proactively addresses its key risks in health and safety.

Following the acquisition of Home Support Services (HSS), we are continuing to progress the alignment of the HSS health and safety management practices with those of Medibank. The Health, Safety and Wellbeing Policy underpins our objective of preventing injury and illness through a culture of health promotion, injury prevention and early intervention.

The Share Trading Policy, available on our website and described on page 55, applies to directors, executives, employees and contractors. Restrictions include blackout periods during which trading in Medibank shares by directors, executives and specific corporate employees is prohibited. These periods apply in the lead up to the release of financial results and at other times as required.

Diversity and inclusion

Medibank is committed to creating an inclusive culture that acknowledges and embraces difference in all its forms and ensures that every voice is heard. Medibank recognises that all employees are different, and these differences benefit our customers, employees, shareholders and the community.

The Board has adopted a Diversity and Inclusion Policy that supports and facilitates an inclusive environment. The policy outlines the role of the People and Remuneration Committee in recommending to the Board measurable objectives for diversity and annually assessing progress against these. The policy is reviewed annually and is available on Medibank's corporate website. A diversity and inclusion strategy supports the policy and sets out the measurable objectives established by the Board.

The Board emphasises the importance of having a gender diverse leadership team, which is supported by Medibank's commitment to having and maintaining at least 40% female representation in the Senior Leader population. As at 30 June 2020 the actual representation was 51%.

In May 2020 Medibank completed the reporting of its gender equality indicators under the *Workplace Gender Equality Act 2012* (Cth). The reports can be accessed on the corporate website. As at 30 June 2020, the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation were as follows:

Position	Female	Male	Undefined	% Female
Board (excluding CEO)	**5**	**3**		**63%**
Group executives*	2	5		29%
Senior executives**	31	27		53%
Group & senior executive total	**33**	**32**		**51%**
Senior managers	91	113		45%
Other managers	328	303	2	52%
Non-managers	2,402	670	8	78%
Overall (excluding Board)	**2,854**	**1,118**	**10**	**72%**

* Group executive positions refer to the CEO and the Executive Leadership Team (ELT). All of the ELT report directly to the CEO.

** Senior executive positions include all roles classified as senior executive as part of Medibank's broad based banding framework. As at 30 June 2020, they represent the 58 most senior positions across the Group outside of Group executive roles.

In 2019 the Board set measurable objectives for achieving diversity at Medibank, including gender diversity, and committed to reporting progress achieved against these in the 2020 corporate governance statement. The table below shows our progress against these objectives:

Measurable objective	Progress towards achievement
Medibank will remain committed to ensuring a representation of at least 40% women across our senior leadership population.	As at June 2020, Medibank had achieved 51% female representation in Group and senior executive roles, and 50% across all manager roles.
Medibank will continue its commitment to supporting those on parental leave and increasing the number of males taking parental leave.	In 2018, Medibank's parental leave approach was refreshed to remove references to 'primary' and 'secondary' carers, allowing all prospective parents equal access to 14 weeks' paid parental leave. In 2020, the proportion of men taking parental leave greater than two weeks was 10 times higher than before the policy was refreshed, at 25%. While this is 5% lower than in 2019, this remains broadly in line with male representation at Medibank. Medibank will continue to highlight the experiences of men and women on parental leave to encourage broader uptake of parental leave, particularly for men. In 2020, Medibank continued its focus on supporting employees on parental leave, with more than 200 employees enrolled in our parental leave support programs. Employees returning from parental leave continue to report engagement levels that are 3% higher than other employees, as measured via My Voice, Medibank's annual engagement survey.
Medibank will continue its focus on increasing the representation and self-reported engagement of: • Employees with a disability. • Aboriginal and Torres Strait Islander employees.	Medibank continued to progress against the actions outlined in our Accessibility & Inclusion Plan, which aims to improve the experiences of our people and customers with disabilities, while creating a disability confident culture. Based on an employee self-report measure as part of Medibank's annual employee engagement survey, 6% of employees identify as having a disability, down by 1.1% from 2019. This compares to a representation of approximately 9% in the general working population. Engagement for this group remained stable, at 81%. Progress against Medibank's fourth Reconciliation Action Plan (RAP) has also continued, focused on strengthening cultural awareness and understanding of Indigenous issues across Medibank, and providing sustainable opportunities for Indigenous Australians.

Measurable objective	Progress towards achievement
continued from previous page	The number of employees who identify as Aboriginal and Torres Strait Islander has increased from four in 2019 to 17 as at 30 June 2020, representing 0.5% of Medibank's population. This compares to a representation of 2% in the general Australian workforce. Engagement for this group as measured through My Voice was 64%, slightly down (4%) from the last historical benchmark for this population in 2018. In FY21 we will continue our focus on the representation of Indigenous Australians through our newly launched Aboriginal Employee Network, delivering cultural awareness training to our employees, and the development of cultural safety protocols.
Medibank will continue to externally benchmark diversity and inclusion practices, including via ACON's Pride in Health + Wellbeing Equality Index and AND's Access and Inclusion Index.	On the Australian Network on Disability's (AND) Access and Inclusion Index, Medibank continued to perform strongly, ranked within the top three Australian organisations for the inclusion of people with disabilities in FY20. Medibank also continued our participation in ACON's Pride in Health + Wellbeing Equality Index to further improve the inclusiveness of our insurance and health services for LGBTI customers, and was recognised as a Gold tier service provider in 2020. Medibank was also named an Employer of Choice for Gender Equality by WGEA for the fifth year running.

For 2021, the Board has set the following measurable objectives for achieving diversity at Medibank, including gender diversity, and is committed to reporting progress achieved against these in the 2021 corporate governance statement:

1. Medibank will remain committed to ensuring a representation of at least 40% women across our senior leadership population, and at least 40% of women on the Medibank Board.
2. Medibank will aim to improve the gender balance across our manager and non-manager population by maintaining at least 40% women across our manager workforce and improving the representation of men in our non-manager workforce.
3. Medibank will continue its focus on increasing the representation and self-reported engagement of:
   a. Aboriginal and Torres Strait Islander employees (with a target set of at least 32 employees); and
   b. Employees with a disability
4. Medibank will improve the support available to employees with caring responsibilities for elderly parents, people with a disability or chronic condition.

Market and shareholder communication

Market disclosure

We promote investor confidence and the rights of shareholders by ensuring the immediate disclosure of market sensitive information regarding Medibank. The measures to further these commitments are detailed in the Disclosure and Communication Policy approved by the Board, which is available on our website.

This policy is designed to facilitate compliance with Medibank's obligations under the ASX Listing Rules and the *Corporations Act 2001* (Cth) by assigning authorisation processes for market announcements, and reserving certain matters for approval by the Board. Processes for engagement with analysts and investors are detailed in the policy as well as the assignment of spokespersons for market and media communications. Awareness and compliance is promoted by compulsory periodic online employee training and additional information sessions for those likely to become aware of potentially market sensitive information.

The Board is supported by a management Disclosure Committee responsible for considering potentially market sensitive information and monitoring Medibank's disclosure processes and reporting framework. The Disclosure Committee Charter is available within the Disclosure and Communication Policy.

Information about Medibank and its governance

Our website provides information about Medibank and its corporate governance, and an investor centre that provides information specifically for prospective and existing Medibank shareholders which links to Medibank's results, investor presentations, annual reports, share price, ASX announcements and AGM materials. We also maintain a shareholder calendar of upcoming events within the investor centre, along with information to assist investors in managing their shareholdings. Medibank's share register is managed by Computershare Investor Services Pty Limited which provides an accessible online platform for shareholders to access and manage their shareholdings.

Medibank encourages shareholders to receive communications securely by email for reasons of speed, security, environmental friendliness and cost reductions. Unless a shareholder elects to receive information by post, Medibank communicates with shareholders via email and other electronic channels, including providing notices of meetings and facilitating online voting on the AGM resolutions.

Investor engagement

We conduct briefings, meetings, telephone calls and webcasts for institutional and retail investors, analysts and proxy advisors to provide a greater understanding of the business and results. Investor briefings and ad hoc meetings with institutional and retail investors, analysts and proxy advisors provide a forum for two-way communications between Medibank and the investment community. During the year, we participated and presented at a number of conferences and investor events, including the Macquarie Asia Conference in September 2019, the UBS Australia Conference in November 2019 and the Macquarie Australia Conference in May 2020.

We generally communicate with the investment community through the CEO, the Chief Financial Officer (CFO) and the Senior Executive – Corporate Finance. We also communicate through the Chairman for governance and remuneration issues and the Company Secretary and Group Executive – People & Culture for environmental, social and governance issues. Feedback from engagement with the investor community is communicated to the Board at each Board meeting.

In all communications with investors, analysts and media, only publicly available information and information that is not market sensitive is discussed. In order to ensure that all shareholders have equal and timely access to material information concerning Medibank, advance notification of investor and analyst results briefings is announced via the ASX. The briefing materials are released first via the ASX and then on the investor centre section of our website, together with a recording of the half and full year results briefing.

Shareholder meetings

The Board encourages shareholders to attend the AGM and to take the opportunity to ask questions. Given the health risks and government restrictions associated with the COVID-19 pandemic, the Board has decided to hold the 2020 AGM virtually. Shareholders will be able to attend, participate and vote in the AGM via an online platform. The meeting is also accessible via a live webcast and a teleconference facility, and then made available on our website.

The external auditor attends the AGM and is available at the meeting to answer questions relevant to the auditor's report.

We provide shareholders with a clear and concise notice of meeting, setting out the business to be considered, including all material information relevant to the election or re-election of directors. These materials, together with the presentations at the AGM and the voting results, are released to the ASX and then made available on our website.

Integrity of financial reporting

The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for risk management, compliance and internal control.

The role of the Audit Committee is to provide a non-executive review of the effectiveness of Medibank's internal control, financial reporting and risk management framework, to assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities.

The Audit Committee currently comprises three non-executive directors. The chairman of the committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties. The current committee comprises directors with accounting and financial expertise and experience, who between them have a deep understanding of the health and insurance industries, and includes at least one director who is a member of the Risk Management Committee. Any director may attend Audit Committee meetings. Representatives of management and the manager responsible for internal audit may attend Audit Committee meetings by standing invitation, and the Chief Actuary and external auditors are invited as required.

Financial reporting assurances

The preparation of the full year and half year financial statements is subject to a detailed process of review and approval by the Board supported by the Audit Committee.

As required under section 295A of the *Corporations Act 2001* (Cth), the Board receives a declaration from the CEO and the CFO that the financial records of the company have been properly maintained and that the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. This includes a written declaration that their opinion has been formed on the basis of a sound system of risk management and internal control, operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the half year ended 31 December 2019 and the full year ended 30 June 2020.

Internal audit

Medibank has an internal audit function. The purpose of the internal audit function is to provide the Board and Audit Committee with an independent evaluation of the adequacy and the effectiveness of Medibank's financial and risk management framework. The rolling 12-month Internal Audit Plan, which is approved by the Audit Committee, is developed using a risk-based approach and is driven by Medibank's strategy, risk profile and assurance priorities.

The Internal Audit Charter provides the internal audit team unrestricted access to review all activities of the business. The internal audit function is supplemented by the engagement of external subject matter experts when required.

The head of the internal audit function is the Senior Executive – Internal Audit. To ensure the independence of the internal audit function the role reports directly to the Audit Committee chairman, with a direct communication line to the CEO and administrative reporting line to the CFO. The Senior Executive – Internal Audit (in addition to their standing invitation to attend Audit Committee meetings) reports to each Audit Committee meeting on progress against the rolling 12 month Internal Audit Plan, audit findings and recommendations, business insights and the status of management actions.

Risk management

Medibank's risk management framework encompasses the systems, structures, policies, processes and people that manage risks across the business. It guides risk management activities across the business to effectively identify, assess, manage, monitor and report risks. The framework is implemented through the three lines of defence model and its effectiveness is assessed by the internal audit function on an annual basis in accordance with the Risk Management Committee Charter. A review of the framework was completed for 2020.

A key component of the framework is the definition of Medibank's risk appetite by the Board which informs management's decision making process.

Medibank continues to operate and strengthen enterprise risk management practices in alignment with the requirements outlined in the APRA Prudential Standard CPS220 – Risk Management.

Material business risks are discussed in the operating and financial review on pages 28 to 29 of the annual report and can be broadly categorised as strategic, credit, capital and liquidity, market and investment, insurance, clinical, operational and regulatory compliance. Medibank's management of environmental and social sustainability risks is discussed in our Sustainability Report. We recognise the science of climate change and its impact on human health.

Governance

The Board has overall responsibility for Medibank's risk management framework including setting the risk appetite for Medibank. The Board reviews the risk management framework at least annually and satisfies itself that management has developed and implemented a sound system of risk management and internal control to effectively manage risk across the business in line with regulatory and statutory requirements.

The Risk Management Committee assists the Board in overseeing the implementation of the risk management framework. Currently, the committee comprises five non-executive directors, at least one of whom is a member of the Audit Committee and at least one of whom is a member of the People and Remuneration Committee. The chairman of the committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties.

Risk management plays an important role in remuneration outcomes. For an incentive award to be made to any employee, a risk, compliance and behaviour gateway must be achieved. Further, all employees have a risk KPI incorporated into their performance scorecard under the company-wide 'I Perform Better' performance framework. More information on the relationship between risk and remuneration can be found in the remuneration report on pages 55 to 56.

The Board is further assisted by the Investment and Capital Committee, which oversees the implementation and monitoring of the investment strategy and Capital Management Policy approved by the Board, including monitoring the effectiveness of the investment process in achieving optimum return relative to risk.

The Executive Risk Committee and Divisional Risk Committees are management committees that assist the CEO with the oversight of risk management activities across the business to ensure material risks are managed in line with the approach defined in the risk management strategy and the risk appetite set by the Board.

Medibank has adopted a three lines of defence approach to define risk management roles, responsibilities and accountability.

First line: Management is accountable for identifying, assessing, monitoring and managing material risks in the business. They are responsible for decision making and the execution of business activities, whilst managing risk to ensure it is in line with the Board's risk appetite and strategy.

Second line: The enterprise risk and compliance functions provide objective advice and challenge to the first line on risk and control activities and provide assurance and guidance on the design and implementation of appropriate risk management activities.

Third line: The internal audit function provides independent assurance to the Audit Committee and the Board on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems operating in the first and second line.

This corporate governance statement is accurate and up to date as at 20 August 2020 and has been approved by the Board.

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 2020.

References to 2019 and 2020 are to the financial years ended on 30 June 2019 and 30 June 2020 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:

- Elizabeth Alexander AO – Chairman
- Craig Drummond – Chief Executive Officer
- Dr Tracey Batten
- Anna Bligh AC
- David Fagan
- Peter Hodgett
- Linda Bardo Nicholls AO
- Christine O'Reilly
- Mike Wilkins AO

Effective 1 October 2020, Elizabeth Alexander AO will retire as Chairman and as a director of Medibank, and Mike Wilkins AO will become the Chairman of the Medibank Board.

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 related 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 22 to 29.

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.

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 25 to 27.

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:

- The following dividends were determined and paid on 26 September 2019 to shareholders registered on 5 September 2019:
  - A fully franked final ordinary dividend of 7.40 cents per share in respect of the six-month period to 30 June 2019.
  - A fully franked special dividend of 2.50 cents per share.
- A fully franked interim ordinary dividend of 5.70 cents per share was determined in respect of the six-month period to 31 December 2019 and paid on 26 March 2020 to shareholders registered on 4 March 2020.
- A fully franked final ordinary dividend of 6.30 cents per share has been determined in respect of the six-month period to 30 June 2020, payable on 24 September 2020 to shareholders registered on 3 September 2020.

Directors' qualifications, experience and special responsibilities

Details of each director's qualifications, experience and special responsibilities are set out on pages 30 to 32 and form part of the directors' report.

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.

Director	Board (scheduled)		Board (unscheduled)		Audit Committee		Risk Management Committee		Investment and Capital Committee		Nomination Committee		People and Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Elizabeth Alexander	9	9	11	11	5	5	6	6		4*	2	2		4*
Dr Tracey Batten	9	9	11	9		5*	6	6		3*		2*	4	4
Anna Bligh	9	9	11	9					4	4			4	4
Craig Drummond	9	9	11	11		5*		5*		4*				4*
David Fagan	9	9	11	11		5*	6	6	4	4	2	2		4*
Peter Hodgett	9	9	11	11	5	5		4*	4	4	2	2		1*
Linda Bardo Nicholls	9	9	11	10		3*		4*		3*	2	1	4	4
Christine O'Reilly	9	9	11	10	5	5	6	6		3*	2	2		3*
Mike Wilkins	9	9	11	11		4*	6	6	4	4		2*		4*

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 period.

* Indicates that the director attended committee meetings by invitation.

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

Options and performance rights

During the financial year, 3,338,273 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, 1,068,721 performance rights became eligible to vest and were exercised. Further information regarding performance rights is included in the remuneration report from page 48.

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
Elizabeth Alexander	124,786	
Dr Tracey Batten	50,000	
Anna Bligh	44,623	
Craig Drummond	732,578	2,488,836
David Fagan	47,016	
Peter Hodgett	67,800	
Linda Bardo Nicholls	45,000	
Christine O'Reilly	69,930	
Mike Wilkins	59,013	

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 or 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 or 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. Under these deeds, Medibank:

- Indemnifies current and former directors against liabilities incurred as a director to the maximum extent permitted by law.
- Is required to maintain a directors' and officers' insurance policy covering current and former directors against liabilities incurred in their capacity as directors. 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 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 in relation to its compliance with independence requirements of section 307C of the *Corporations Act* is set out on page 122.

Non-audit services

The Group may decide to employ its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties, where the auditor's expertise and experience with the Group are important. PricewaterhouseCoopers will only be engaged to provide a permissible non-audit service where there is a compelling reason for it to do so, and will not be engaged to perform any service that may impair or be perceived to impair its judgement or independence.

PricewaterhouseCoopers did not provide any non-audit services to the Group during the year.

The amounts paid or payable for services provided by PricewaterhouseCoopers were:

Year ended 30 June – $'000	2020	2019
Audit fees	1,581.1	1,529.8
Assurance services fees:		
Audit of regulatory returns	342.2	178.4
Accounting and other assurance services	64.3	-
Total Audit and other assurance services fees	**1,987.6**	**1,708.2**
Non-audit service fees	-	204.7
Total	**1,987.6**	**1,912.9**

Remuneration report

The remuneration report on pages 48 to 72 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.

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

Elizabeth Alexander AO
Chairman

Craig Drummond
Chief Executive Officer

20 August 2020
Melbourne

Dear Shareholder,

Medibank is pleased to present its remuneration report for 2020 which describes how non-executive directors and Executive Leadership Team (ELT) members are paid. Included in this report is the variable remuneration outcomes for the ELT after considering Company results, individual performance and the expectations of our customers, shareholders and the community.

Our remuneration strategy has been developed to ensure remuneration is fair and competitive with reward outcomes aligned to the achievement of Medibank and individual performance measures. In 2020 the Board continued to focus on a governance framework that aligns remuneration with regulatory requirements, the interests of our shareholders, and meets community and customer expectations.

As a broader healthcare company with a clear purpose of 'Better Health for Better Lives', the Board is proud of how Medibank has supported our customers, employees and the broader community through these challenging times of COVID-19.

For our customers, Medibank announced a support package of more than $185 million that included the postponement of premium increases for six months, expanded hospital coverage, and financial hardship support that extends into FY21. Our employees were provided access to two weeks paid COVID leave and we are pleased to confirm that no Medibank employee has had their position adversely impacted as a direct result of COVID-19. Notably, Medibank has supported its customers and employees without accessing any form of taxpayer funded government relief. For the broader community, Medibank has had a crucial role in supporting the community, providing seven coronavirus helplines as well as supporting the Victorian Government's response to the second outbreak in Victoria. Medibank also donated $5 million to Beyond Blue to support their vital work in helping Australians deal with the growing mental health impact of the pandemic.

Medibank's support of our customers, employees and the broader community through COVID-19 has not shielded the organisation from the external impacts to our operations and financial performance in 2020. While the Board is proud of how the ELT and our employees have responded to the crisis, the impact of COVID-19 on Medibank's 2020 financial outcomes has required some difficult remuneration decisions.

With this context, outlined below are Medibank's remuneration decisions with respect to 2020. Importantly, the Board has chosen not to exercise any discretion with respect to executive incentive outcomes, despite the impact of many external factors that were outside of management control. The Board determined that the outcomes outlined below and throughout this report were appropriate with consideration of the current economic conditions and social environment created by COVID-19, and balancing the interests of executives with our customers, shareholders and the community.

Remuneration decisions at a glance

- All ELT members met their individual risk, compliance and behaviour gateways for 2020.
- No short-term incentive (STI) awards made to ELT members in relation to 2020.
- 50% vesting of Medibank's 2018 long-term incentive (LTI) in line with the terms of grant.
- ELT remuneration and non-executive director fees maintained at their current levels.

Short-term incentives

In context of the extraordinary circumstances of COVID-19, Medibank delivered a solid operational and financial performance in 2020 with behaviours aligned to our values and purpose of 'Better Health for Better Lives'. This performance is highlighted by Medibank's ability to deliver a full year dividend to shareholders despite the challenging environment. However, Medibank's performance against our Company STI measures of Group operating profit, Health Insurance revenue growth and Brand Net Promoter Score (NPS) all fell below target performance. Further, Medibank did not meet the STI financial gateway, which for 2020 was a Group operating profit target. These performance outcomes resulted in no 2020 STI awards made to ELT members.

While the Board is satisfied that this outcome is appropriate and in line with Medibank's reward framework, it is important to acknowledge the performance of the ELT in steering Medibank through unprecedented challenges in 2020.

Aside from the comprehensive support Medibank has delivered to our customers, employees and the broader community in response to COVID-19, a major achievement in 2020 has been Medibank's exceptional delivery of private health insurance reform through the Gold, Silver, Bronze or Basic product suite. The leadership of our executives is further evidenced in Medibank's seamless transition to a fully virtual working environment for our office-based workforce, leading to an employee engagement score of 91, exceeding pre-COVID-19 levels.

Nevertheless, the Board understands the importance of striking the right balance between executive incentive outcomes and the expectations of our customers, shareholders and the community. Therefore, the Board elected not to exercise discretion, and the 2020 STI outcomes for ELT members reflect the design of Medibank's reward framework.

Long-term incentives

Medibank's 2018 LTI was tested following the completion of the performance period on 30 June 2020 and resulted in a vesting outcome of 50% in line with the terms of grant. This outcome reflects no vesting against the earnings per share compound annual growth rate (EPS CAGR) measure, and full vesting against the relative total shareholder return (TSR) measure, with a performance rank at the 75th percentile against our comparator group.

ELT remuneration and non-executive director fees

ELT member remuneration and non-executive director fees have been maintained at their current levels following a review against the median of Medibank's market comparator group. The Board considered this to be an appropriate outcome with consideration of the current economic conditions and social environment of COVID-19, and the positioning of ELT members and non-executive directors against the benchmark data.

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

Yours sincerely,

Linda Bardo Nicholls AO
Chairman, People and Remuneration Committee

Contents

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 2020, KMP were as follows:

Executive Leadership Team (ELT) member

Craig Drummond
Chief Executive Officer
Full-year

Kylie Bishop
Group Executive
– People & Culture
Full-year

John Goodall
Group Executive
– Technology & Operations
Full-year

David Koczkar
Group Executive
– Chief Customer Officer
Full-year

Mei Ramsay
Group Executive
– Legal, Governance
& Regulatory Affairs
Full-year

Mark Rogers
Group Executive
– Chief Financial Officer
Full-year

Andrew Wilson
Group Executive
– Healthcare & Strategy
Full-year

Non-executive directors

Elizabeth Alexander
Chairman
Full-year

Tracey Batten
Non-executive director
Full-year

Anna Bligh
Non-executive director
Full-year

David Fagan
Non-executive director
Full-year

Peter Hodgett
Non-executive director
Full-year

Linda Bardo Nicholls
Non-executive director
Full-year

Christine O'Reilly
Non-executive director
Full-year

Mike Wilkins
Non-executive director
Full-year

2. Summary of remuneration outcomes

Key remuneration outcomes for Executive Leadership Team (ELT) members and non-executive directors during the year are summarised below, with more detailed information contained throughout the report.

Executive Leadership Team

Component	Outcomes
Fixed remuneration	• Fixed remuneration of ELT members, including the Chief Executive Officer, Craig Drummond, have been maintained at current levels
Short-term incentive (STI)	• No STI awards made to ELT members in relation to 2020 • STI target percentages for ELT members, including the CEO, have been maintained at current levels
Long-term incentive (LTI)	• Medibank's 2018 LTI was tested following the completion of the performance period on 30 June 2020 and resulted in a vesting outcome of 50% in line with the terms of grant • This outcome reflects no vesting against the earnings per share compound annual growth rate (EPS CAGR) measure, and full vesting against the relative total shareholder return (TSR) measure, with a performance rank at the 75th percentile against our comparator group • LTI opportunity percentages for ELT members, including the CEO, have been maintained at current levels

Non-executive directors

Component	Decisions
Non-executive director fees	• Non-executive director base and committee fees have been maintained at current levels • Based on this decision, Medibank's aggregate non-executive director fee spend will remain at $1,940,000 in 2021 • The total fee pool approved by shareholders at the annual general meeting in 2018 remains unchanged

3. Medibank's remuneration strategy

At Medibank, we believe that remuneration is a key influencer of behaviour and can be used as a 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 – customer focus, health and wellbeing and values and inclusion. These are what we focus on every day so we can do the right thing by our employees, customers and community.

Our remuneration strategy has been developed to focus Executive Leadership Team (ELT) members 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 2020 remuneration is delivered to ELT members.

MEDIBANK REMUNERATION STRATEGY

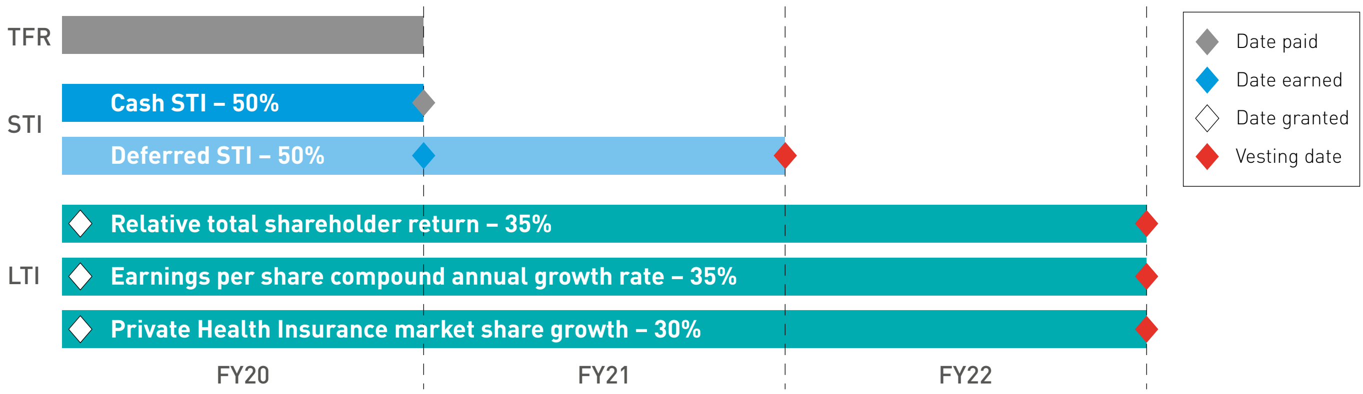
Focus ELT members on responsibly executing Group strategy to increase customer and shareholder value with behaviours aligned with Medibank's values and purpose

Attract and retain key talent through competitive and fair fixed remuneration	Incentivise high performance through variable, at-risk payments	Reward ELT members for the achievement of business outcomes aligned with Medibank's culture	Align the interests of ELT members with increasing long-term customer and shareholder value

MEDIBANK'S TOTAL TARGET REWARD FRAMEWORK

REMUNERATION COMPONENTS	Total fixed remuneration (TFR)	Short-term incentive (STI)	Long-term incentive (LTI)
AWARDED	Cash and superannuation	50% cash and 50% performance rights deferred for 12 months	Three-year deferred performance rights
2020 PERFORMANCE MEASURES & GATEWAYS • Risk, compliance and behaviour gateway • Financial gateway		**STI** • Group operating profit • Health Insurance revenue growth • Brand Net Promoter Score (NPS) • Role-specific metrics	**LTI** • Earnings per share compound annual growth rate • Relative total shareholder return • Growth of Medibank's Private Health Insurance market share

2020 REMUNERATION TIMELINE



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.

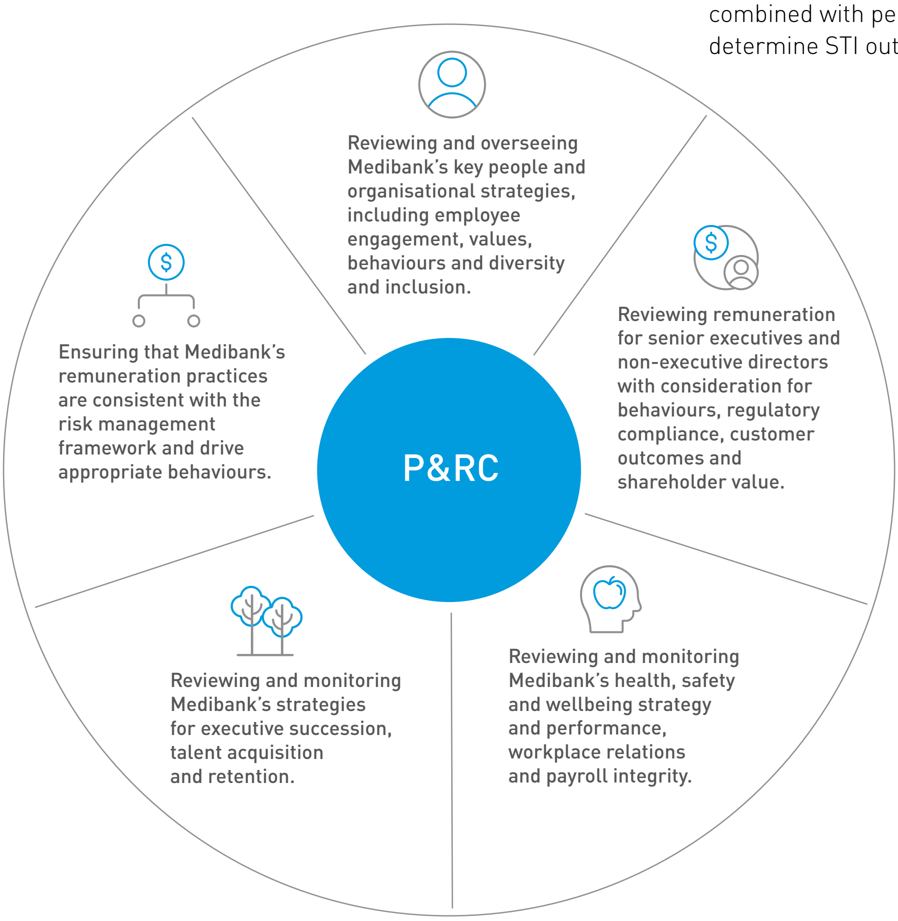
While there are three permanent members of the P&RC, a standing invitation exists to all non-executive directors to attend meetings. The Chief Executive Officer (CEO) and Group Executive – People & Culture are also invited to attend P&RC meetings, except where matters associated with their own performance 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 46 of the directors' report.

4.2 Executive remuneration policies

4.2.1 Performance evaluation of Executive Leadership Team (ELT) members

At the outset of each performance year, the Board determines the measures against which ELT members 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 ELT members 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 ELT member then form the basis for the Big Goals adopted by their leadership team members and their respective teams to ensure all employees across the Group are working towards a shared and consistent strategy.

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



Independent remuneration advisor

- KPMG provides information to assist the P&RC in making remuneration decisions and recommendations to the Board
- The work undertaken by KPMG in 2020 did not constitute a remuneration recommendation

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 ELT members is outlined in section 6.2.

The CEO provides his performance assessment of each ELT member to the Board for consideration. The Chairman, 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 and shareholder expectations.

4.2.2 Clawback 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 or fraud by the employee.
- Unsatisfactory performance by the employee to the detriment of strategic Medibank objectives.
- Error in the calculation of a performance measure related to performance-based remuneration.
- A 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, or require the forfeiture of previously deferred and unvested performance-based rewards 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.

4.2.3 Executive shareholding requirements

ELT members 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 ELT. The policy does not require an ELT member 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 ELT member (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 2020, progress towards the minimum shareholding requirement for each ELT member is provided below:

ELT member	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2020 $[2]	Minimum shareholding requirement timeline
Craig Drummond	1,534,000	2,795,596	Requirement satisfied
Kylie Bishop	580,000	1,212,313	Requirement satisfied
John Goodall	555,000	363,506	5 December 2021
David Koczkar	960,000	2,418,174	Requirement satisfied
Mei Ramsay	555,000	440,732	14 September 2021
Mark Rogers	800,000	790,717	3 January 2022
Andrew Wilson	960,000	2,424,035	Requirement satisfied

1. Minimum shareholding requirement based on ELT members' total fixed remuneration (TFR) as at 30 June 2020.
2. Holding value is calculated with reference to the total number of eligible shares or performance rights held by each ELT member, multiplied by the closing price of Medibank's shares on 30 June 2020 ($2.99).

4.2.4 Share Trading Policy

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

In addition, non-executive directors, ELT members, all senior leaders 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 ELT member contracts

All current ELT members are employed under ongoing contracts with notice periods set at three months (employee) and six months (employer), or in the case of the CEO, six months (employee) and 12 months (employer). Termination provisions included in ELT member contracts are limited to six months payment of fixed remuneration, in lieu of notice, or 12 months payment of fixed remuneration in the case of the CEO.

If an ELT member 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 People and Remuneration Committee (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. Our strong purpose and values focus is the cornerstone of our organisational culture and has been consistently positive over a six-year cultural transformation. This 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 further guidance, Medibank's risk culture framework clearly articulates the behaviours employees are expected to exhibit from a risk culture perspective. 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 5-point rating scale (with a minimum rating of 3 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 and 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 and Group Executive – Legal, Governance & Regulatory Affairs 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 ELT members (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 a period of 12 months and potential termination.

In 2020, 31 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 21 individuals in 2020 had their employment terminated following an incident of misconduct.

6. Executive remuneration components

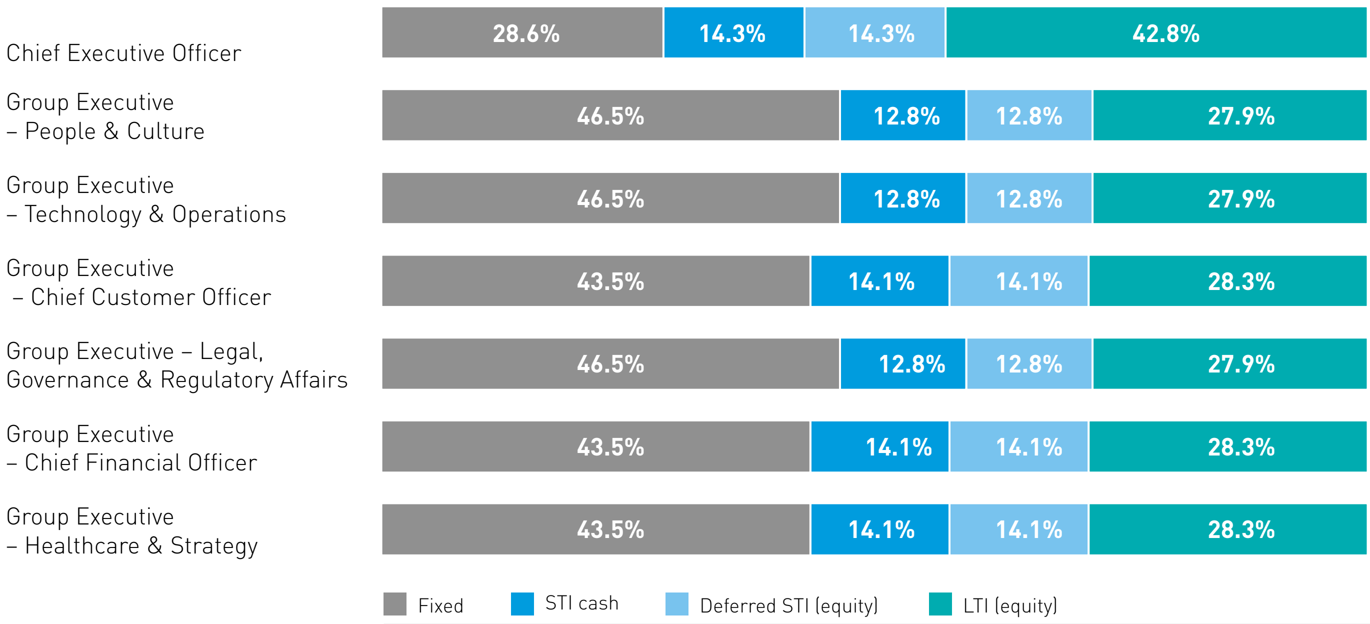
Target remuneration for Executive Leadership Team (ELT) members is designed to reward sustained business performance with behaviours aligned with Medibank's values and purpose that benefits both customers and shareholders.

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 2020 target remuneration mix

The 2020 target remuneration mix for the Chief Executive Officer (CEO) and other ELT members is shown below.



6.2 Total fixed remuneration (TFR)

This 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.

Following a review of fixed remuneration against the median of Medibank's market comparator group, ELT fixed remuneration has been maintained at current levels. The Board considered this to be an appropriate outcome with consideration of the current economic and social environment of COVID-19, and the positioning of ELT members against the benchmark data.

6.2.1 2020 and 2021 total fixed remuneration

Details of 2020 and 2021 fixed remuneration levels for all ELT members are provided below:

ELT member	Total fixed remuneration 2020 and 2021 $
Craig Drummond	1,534,000
Kylie Bishop	580,000
John Goodall	555,000
David Koczkar	960,000
Mei Ramsay	555,000
Mark Rogers	800,000
Andrew Wilson	960,000

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 ELT member, the following gateways must be achieved:

Risk, compliance and behaviour gateway

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

- Adhere to Medibank's Code of Conduct which covers standards of behaviour and conduct. 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.
- Ensure that the risks in respect of their position are well managed. Multiple factors are considered when assessing risk management, 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.
- Feedback provided by the Chief Risk Office, Group Executive – People & Culture and Group Executive – Legal, Governance & Regulatory Affairs as outlined in section 5.2.

Financial gateway

- Assessed at the Group level, Medibank must achieve a baseline of financial performance as determined by the Board for the performance period. In 2020, this baseline financial performance was a Group operating profit target.

6.3.2 STI performance measurement

At the start of the 2020 financial year, the Board determined 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, ELT members are then assessed against the company and role-specific performance measures to determine STI award outcomes. As an example, for an ELT member 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 behaviour aligned with Medibank's purpose and values. Achievement of target performance would be in line with Medibank's corporate plan and shareholder expectations.

For an ELT member 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 behaviour aligned with Medibank's values and purpose. This would represent exceptional performance, well above that of Medibank's strategic plan and shareholder expectations.

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 ELT members 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.
What method is used to determine the number of performance rights granted to each participant as part of the deferred STI?	Performance rights under the STI Plan are granted at face value. The deferred STI value for each ELT member is divided by the volume weighted average share price (VWAP) of Medibank shares to determine the number of units granted. For the 2020 deferred STI component the VWAP will be calculated on the 10 trading days up to and including 17 September 2020.
Are deferred STI performance rights entitled to receive a dividend payment?	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.
What gateways apply to the STI Plan?	For an STI award to be made to an ELT member, 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.
What are the performance measures under the STI Plan?	Performance measures under the STI Plan are determined by the Board at the commencement of each performance period. For 2020, the performance measures were: • Group operating profit (excluding investment income). • Health Insurance premium revenue growth. • Brand Net Promoter Score (NPS). • Role-specific metrics. Further detail on each performance measure is outlined in section 7.1.
Does Medibank disclose STI performance targets?	Due to the commercially sensitive nature of STI performance targets, we do not believe it is in the best interests of Medibank or shareholders to disclose this information. 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 2020.
Does Medibank have a clawback policy that applies to the STI Plan?	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 an ELT member in certain circumstances subject to applicable laws. Further detail on this policy is outlined in section 4.2.2.
What happens to STI entitlements if an ELT member leaves Medibank?	If an ELT member 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. Section 4.2.5 provides additional information on the treatment of STI for people deemed as 'good leavers' by the Board.
In what circumstances are STI entitlements forfeited?	In the event an ELT member 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 ELT member will forfeit any payment under the STI Plan, including any unvested deferred STI grants, unless otherwise determined by the Board.

6.3.4 Annual STI opportunity

The target and maximum annual STI opportunity as a percentage of TFR for ELT members is outlined in the table below.

	2020 and 2021	
ELT member	Target	Maximum
Craig Drummond	100%	150%
Kylie Bishop	55%	100%
John Goodall	55%	100%
David Koczkar	65%	100%
Mei Ramsay	55%	100%
Mark Rogers	65%	100%
Andrew Wilson	65%	100%

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: • Align the interests of ELT members 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 ELT members over the three-year deferral period.
What is the performance period for 2020 LTI Plan?	The performance period for the 2020 LTI Plan is three financial years commencing 1 July 2019. 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 ELT members under the LTI Plan are conditional rights for the participant to subscribe for fully paid ordinary shares in Medibank. Each performance right entitles the ELT member 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 ELT member 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 2020 LTI Plan, the number of performance rights granted to each ELT member was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including, 28 June 2019. This average price was $3.46.
What gateways apply to the LTI Plan?	For an LTI award to be granted to an ELT member, the following gateway must be met prior to grant: • Risk, compliance and behaviour gateway – Individually assessed, ELT members must adhere to the Medibank Code of Conduct (which covers the minimum standards of behaviour and conduct), ensure the risks in respect of their position are well managed, and must complete all mandatory compliance training.

What are the performance hurdles under the 2020 LTI Plan?	Performance rights issued under the 2020 LTI Plan are subject to three separate performance hurdles: • 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 2019 and the performance period for the EPS performance hurdle will run for three years from 1 July 2019 through to 30 June 2022. 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. 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. The performance hurdles under the 2020 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.
When do the performance rights vest?	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.
Are the performance hurdles re-tested?	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.
Are LTI performance rights entitled to receive a dividend payment?	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.
Does Medibank have a clawback policy that applies to the LTI Plan?	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 ELT member in certain circumstances subject to applicable laws. Further detail on this policy is outlined in section 4.2.2.
What happens to LTI entitlements if an ELT member leaves Medibank?	If an ELT member 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.
In what circumstances are LTI entitlements forfeited?	LTI entitlements are forfeited if performance hurdles are not met. In the event an ELT member 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.

The annual LTI allocation value as a percentage of TFR for ELT members is outlined in the table below.

6.4.2 Annual LTI allocation

ELT member	2020 and 2021 LTI allocation value as % of TFR
Craig Drummond	150%
Kylie Bishop	60%
John Goodall	60%
David Koczkar	65%
Mei Ramsay	60%
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.

In line with the Board's approach to regularly review Medibank's remuneration framework, Medibank's 2020 LTI offer included a strategic customer measure, Customer Growth, with a weighting of 30%. For the 2020 LTI offer, the Customer Growth performance hurdle will be measured by the growth of Medibank's private health insurance market share (as reported by APRA) over the three-year performance period. PHI market share is an independently assessed measure that is well understood, is a lead indicator that drives long-term value and creates tension with the existing measures of EPS CAGR and relative TSR. The Board believes this approach creates a more balanced LTI hurdle mix that reflects the importance of PHI market share as a positive indicator of our 'Customers First' focus.

2020 EPS performance rights

In this context, the Board approved a threshold EPS CAGR target of 3% for the 2020 LTI grant. The number of EPS performance rights that vest on achievement of the threshold EPS CAGR target will be 33.33% of the EPS performance rights. The EPS CAGR target that must be met for 100% of the EPS performance rights to vest has been set at 9%. 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
At 3% EPS CAGR	33.33%
Between 3% and 9% EPS CAGR	Straight-line pro rata vesting between 33.33% and 100%
9% 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. As outlined to shareholders in Medibank's 2019 Notice of Meeting, the baseline EPS for the 2020 LTI offer was 15.5 cents per share, aligned with Medibank's 2019 underlying NPAT of continuing operations of $426.9m. The CAGR from this base will be calculated on Medibank's fully diluted EPS using Medibank's underlying NPAT for the year ending 30 June 2022. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS performance rights.

2020 TSR performance rights

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 2020 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2020 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 2020 comparator group	Percentage of TSR performance rights that vest
Less than 50th percentile	Nil
Equal to 50th percentile	50%
Greater than 50th and up to 75th percentile	Straight-line pro rata vesting between 50% and 100%
At or above 75th 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 2020 comparator group are determined at the commencement of the performance period. If the ordinary shares or stock of a member of the 2020 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.

2020 market share performance rights

Introduced as a vesting condition for the 2020 LTI offer, the Board has approved a threshold private health insurance (PHI) market share growth target of 25 basis points. The number of market share performance rights that vest on achievement of the threshold PHI market share target has been set at 33.33% of the market share performance rights. The PHI market share growth target that must be met for 100% of the market share performance rights to vest has been set at 75 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
Equal to 25 basis points	33.33%
Greater than 25 basis points and up to 75 basis points	Straight-line pro rata vesting between 33.33% and 100%
At or above 75 basis points	100%

7. Linking remuneration and performance 2020

7.1 2020 short-term incentive (STI) performance scorecard

The following table details the 2020 STI performance scorecard measures, weightings and assessment as applied to the Chief Executive Officer (CEO) and other Executive Leadership Team (ELT) members.

Measure	Description	Weighting		2020 performance assessment
		CEO	Other ELT members	
Risk, compliance and behaviour gateway	Individually assessed, ELT members 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 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 Officer, Group Executive – People & Culture and Group Executive – Legal, Governance & Regulatory Affairs as outlined in section 5.2.	Gateway	Gateway	All achieved
Financial gateway	Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2020, this baseline financial performance was a Group operating profit target.	Gateway	Gateway	Not met
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%	35%	Below target
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%	25%	Below target
Brand Net Promoter Score (NPS)	Brand NPS is a key customer advocacy metric that measures the likelihood of people recommending Medibank or ahm to their families and friends. Medibank Group's weighted NPS data (which includes ahm data) is compared against Medibank's largest competitors (Bupa, NIB and HCF) over the same period. NPS outcomes for both Medibank and our competitors are independently assessed and calculated.	20%	20%	Below target

Measure	Description	Weighting CEO	Weighting Other ELT members	2020 performance assessment
Role-specific Big Goals	Aligned to one or more of the following milestones: 1. **Customer advocacy** – drive Service and Brand NPS for Medibank and ahm to be best in class 2. **Health interactions** – by 2020 every Medibank customer has at least one health interaction through the year with our company (includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications) 3. **PHI growth** – Medibank brand volumes to stabilise by end of FY20 and grow during FY21 4. **Medibank at Home** – more than 300 virtual hospital beds by the end of FY22 5. **Medibank Health** – Organically replace the FY18 $30m operating profit of Garrison by FY22 6. **Productivity** – FY20 productivity target of $20m and a further $30m during FY21-FY22 Progress against each of these milestones is outlined on page 25 to 27 of the operating and financial review.	15%	20%	Ranging between 'on-track' to 'ahead of target'

7.2 Medibank's 2020 financial performance

Medibank's 2020 annual financial performance is provided in the table below in addition to the average 2020 STI award achieved by ELT members, as a percentage of maximum opportunity. This table illustrates the relationship between the key indicators of shareholder wealth creation and STI outcomes for ELT members.

Measure	2020	2019	2018	2017	2016
Health Insurance premium revenue growth	1.3%	2.4%	1.2%	1.2%	4.0%
Group operating profit[1]	$461.0m	$558.7m	$548.8m	$500.5m	$505.5m
Group net profit after tax (NPAT)	$315.0m	$458.7m	$445.1m	$449.5m	$417.6m
Dividend	12.0 cents p/s	13.1 cents p/s	12.7 cents p/s	12.0 cents p/s	11.0 cents p/s
Share price as at 1 July	$3.49	$2.92	$2.80	$2.95	$2.01
Share price as at 30 June	$2.99	$3.49	$2.92	$2.80	$2.95
Average ELT STI as a percentage of maximum opportunity	0%	56%	58%	44%	59%

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

7.3 2020 short-term incentive (STI) awards

As outlined in the performance scorecard in 7.1, Medibank did not meet the STI financial gateway or target performance against each of the core Company measures. As a result, no 2020 STI awards were made to ELT members. The table below reflects these outcomes.

ELT member	Total STI achieved $	STI cash (50%) $	STI deferred (50%) $	Total STI achieved as % of target	Total STI achieved as % of max opportunity
Craig Drummond	0	0	0	0%	0%
Kylie Bishop	0	0	0	0%	0%
John Goodall	0	0	0	0%	0%
David Koczkar	0	0	0	0%	0%
Mei Ramsay	0	0	0	0%	0%
Mark Rogers	0	0	0	0%	0%
Andrew Wilson	0	0	0	0%	0%

7.4 2018 long-term incentive plan outcomes

The performance period for the 2018 LTI Plan concluded on 30 June 2020. The table below outlines the final outcome against each performance hurdle and associated vesting percentage for each hurdle, and the LTI Plan.

Performance hurdle	Outcome	Vesting percentage
EPS CAGR	-4.4%	0.0%
Relative TSR	75th percentile	100.0%
Total 2018 LTI vesting percentage		**50.0%**

Medibank's 2018 LTI was tested following the completion of the performance period on 30 June 2020. Both performance hurdles were assessed in line with the terms of the plan and the Board did not use discretion in determining the final outcome. The performance rights under the 2018 LTI Plan that did not vest as a result of the performance hurdle outcomes not being met lapse immediately.

The 2019 and 2020 LTI plans remain in restriction and will be assessed against their performance hurdles at the completion of the 2021 and 2022 financial years respectively.

8. 2020 actual remuneration

The table below represents the 2020 'actual' remuneration for Executive Leadership Team (ELT) members and includes all cash payments made in relation to 2020, in addition to deferred short-term incentive (STI) awards that vested in 2020. 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 in respect of the ELT members is presented in section 9.

ELT member	Base salary and superannuation $	Cash STI for performance to 30 June 2020 $	Total cash payments in relation to 2020 $	Deferred equity awards that vested in 2020[1] $	Total 2020 actual remuneration $	Equity awards that lapsed in 2020[2] $
Craig Drummond	1,534,000	-	**1,534,000**	1,631,261	**3,165,261**	(2,043,365)
Kylie Bishop	580,000	-	**580,000**	264,812	**844,812**	(267,000)
John Goodall	555,000	-	**555,000**	246,023	**801,023**	(234,608)
David Koczkar	960,000	-	**960,000**	490,367	**1,450,367**	(486,997)
Mei Ramsay	555,000	-	**555,000**	257,026	**812,026**	(269,278)
Mark Rogers	800,000	-	**800,000**	280,893	**1,080,893**	(313,312)
Andrew Wilson	960,000	-	**960,000**	545,940	**1,505,940**	(543,078)

1. Deferred equity awards that vested in 2020 relate to the 2017 LTI performance rights that vested during the year and the deferred STI performance rights in respect of the 2018 performance year that vested during the year.
2. Equity awards that lapsed in 2020 relate to the portion of the 2017 long-term incentive (LTI) performance rights that lapsed following the testing of the performance hurdles in July 2019.

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 the Executive Leadership Team (ELT) members. In contrast to the table in section 8 that details 2020 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2020 that are yet to, and may never be realised by the ELT member.

		Short-term benefits				Post-employment benefits	Long-term benefits	Equity-based benefits	Other	
ELT member	Financial year	Salary $[1]	STI $	Other $	Non-monetary benefits $[2]	Superannuation $	Leave $[3]	Performance rights $[4]	Termination benefits $	Total remuneration $
Craig Drummond	2020	1,567,526	-	-	19,296	25,192	47,723	663,660	-	2,323,397
	2019	1,473,782	690,200	-	25,612	25,000	37,725	1,839,316	-	4,091,635
Kylie Bishop	2020	555,459	-	-	13,209	25,192	40,978	123,040	-	757,878
	2019	509,067	151,975	-	12,992	24,872	13,625	306,650	-	1,019,181
John Goodall	2020	530,146	-	-	12,721	25,192	15,821	110,038	-	693,918
	2019	478,524	130,125	-	12,483	25,000	13,000	287,392	-	946,524
David Koczkar	2020	919,211	-	-	19,444	21,174	58,896	230,115	-	1,248,840
	2019	865,933	295,875	-	15,059	20,533	22,237	556,530	-	1,776,167
Mei Ramsay	2020	503,330	-	-	14,224	25,192	50,019	109,952	-	702,717
	2019	504,792	130,125	-	19,660	25,000	28,208	288,443	-	996,228
Mark Rogers	2020	759,523	-	-	13,246	21,174	84,014	178,851	-	1,056,808
	2019	715,747	222,000	-	17,051	20,533	48,023	389,727	-	1,413,081
Andrew Wilson	2020	935,307	-	-	16,273	25,192	25,593	225,710	-	1,228,075
	2019	935,000	280,800	-	23,180	25,000	23,375	587,667	-	1,875,022
Total ELT remuneration	2020	5,770,502	-	-	108,413	168,308	323,044	1,641,366	-	8,011,633
	2019	5,482,845	1,901,100	-	126,037	165,938	186,193	4,255,725	-	12,117,838

1. Salary includes annual base salary paid on a fortnightly basis and accrued but untaken annual leave entitlements which are expected to be taken in the next 12 months.
2. 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.
3. Long-term leave comprises an accrual for long service leave and accrued but untaken annual leave entitlements which are not expected to be taken in the next 12 months.
4. 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 ASSB 2 Share-based payments.

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 2020 remuneration mix for Medibank's ELT members as detailed in the 'statutory remuneration table'.

		Non-performance-related	Performance-related remuneration			
ELT member	Financial year	Fixed remuneration[1]	Cash STI	Deferred STI[2]	LTI[3]	Total performance-related remuneration
Craig Drummond	2020	71.4%	0.0%	14.9%	13.7%	28.6%
Kylie Bishop	2020	83.8%	0.0%	10.0%	6.2%	16.2%
John Goodall	2020	84.1%	0.0%	9.4%	6.5%	15.9%
David Koczkar	2020	81.6%	0.0%	11.8%	6.6%	18.4%
Mei Ramsay	2020	84.3%	0.0%	9.3%	6.4%	15.7%
Mark Rogers	2020	83.1%	0.0%	10.5%	6.4%	16.9%
Andrew Wilson	2020	81.7%	0.0%	11.4%	6.9%	18.3%

1. Fixed remuneration includes the accounting expense from all columns of the 'statutory remuneration table' other than 'cash STI' and 'performance rights'.
2. Deferred STI includes the 2020 accounting expense of the 2019 and 2020 deferred STI components within the 'performance rights' column of the 'statutory remuneration table'.
3. LTI includes the 2020 accounting expense of the 2018, 2019 and 2020 LTI component within the 'performance rights' column of the 'statutory remuneration table'.

10. Executive Leadership Team (ELT) equity awards

10.1 ELT equity award transactions

Details of 2020 ELT equity award transactions and outstanding holdings granted in previous years are set out below.

ELT member	Award type	Units granted	Grant date	Vesting and exercise date[1]	Unit price at grant $[2]
Craig Drummond	2020 LTI performance rights	665,028	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	202,404	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	790,720	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	277,008	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	830,684	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	765,306	01/03/2017	01/07/2019	2.94
Kylie Bishop	2020 LTI performance rights	100,578	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	44,567	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	117,524	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	51,257	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	119,132	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	100,000	01/03/2017	01/07/2019	2.94
John Goodall	2020 LTI performance rights	96,242	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	38,159	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	112,370	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	48,927	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	113,718	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	87,868	01/03/2017	01/07/2019	2.94
David Koczkar	2020 LTI performance rights	180,346	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	86,766	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	203,264	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	95,637	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	198,284	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	182,396	01/03/2017	01/07/2019	2.94
Mei Ramsay	2020 LTI performance rights	96,242	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	38,159	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	112,370	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	48,765	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	113,340	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	100,854	01/03/2017	01/07/2019	2.94
Mark Rogers	2020 LTI performance rights	150,288	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	65,102	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	152,576	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	51,444	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	149,458	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	117,346	01/03/2017	01/07/2019	2.94
Andrew Wilson	2020 LTI performance rights	180,346	28/11/2019	01/07/2022	3.46
	2019 deferred STI performance rights	82,346	28/11/2019	18/09/2020	3.41
	2019 LTI performance rights	214,432	06/12/2018	01/07/2021	2.91
	2018 deferred STI performance rights	106,389	06/12/2018	19/09/2019	2.90
	2018 LTI performance rights	220,576	27/12/2017	01/07/2020	2.77
	2017 LTI performance rights	203,400	01/03/2017	01/07/2019	2.94

1. The vesting and exercise dates represent 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. Any performance rights that do not vest at this point will immediately expire.
2. The unit price at grant represents the price used to determine the number of units granted, in line with Medibank's methodology of granting equity awards at face value. Unit prices have been rounded to the nearest cent.

	Vested			Lapsed			Unvested balance at 30 June 2020[4]	
Fair value at grant $[3]	Units	%	$	Units	%	$	Units	$
2.23	-	-	-	-	-	-	665,028	1,483,012
-	-	-	-	-	-	-	202,404	690,198
1.91	-	-	-	-	-	-	790,720	1,506,322
-	277,008	100	950,137	-	-	-	-	-
1.90	-	-	-	-	-	-	830,684	1,578,300
1.78	191,327	25	681,124	573,979	75	2,043,365	-	-
2.23	-	-	-	-	-	-	100,578	224,289
-	-	-	-	-	-	-	44,567	151,973
1.91	-	-	-	-	-	-	117,524	223,883
-	51,257	100	175,812	-	-	-	-	-
1.90	-	-	-	-	-	-	119,132	226,351
1.78	25,000	25	89,000	75,000	75	267,000	-	-
2.23	-	-	-	-	-	-	96,242	214,620
-	-	-	-	-	-	-	38,159	130,122
1.91	-	-	-	-	-	-	112,370	214,065
-	48,927	100	167,820	-	-	-	-	-
1.90	-	-	-	-	-	-	113,718	216,064
1.78	21,967	25	78,203	65,901	75	234,608	-	-
2.23	-	-	-	-	-	-	180,346	402,172
-	-	-	-	-	-	-	86,766	295,872
1.91	-	-	-	-	-	-	203,264	387,218
-	95,637	100	328,035	-	-	-	-	-
1.90	-	-	-	-	-	-	198,284	376,740
1.78	45,599	25	162,332	136,797	75	486,997	-	-
2.23	-	-	-	-	-	-	96,242	214,620
-	-	-	-	-	-	-	38,159	130,122
1.91	-	-	-	-	-	-	112,370	214,065
-	48,765	100	167,264	-	-	-	-	-
1.90	-	-	-	-	-	-	113,340	215,346
1.78	25,214	25	89,762	75,640	75	269,278	-	-
2.23	-	-	-	-	-	-	150,288	335,142
-	-	-	-	-	-	-	65,102	221,998
1.91	-	-	-	-	-	-	152,576	290,657
-	51,444	100	176,453	-	-	-	-	-
1.90	-	-	-	-	-	-	149,458	283,970
1.78	29,337	25	104,440	88,009	75	313,312	-	-
2.23	-	-	-	-	-	-	180,346	402,172
-	-	-	-	-	-	-	82,346	280,800
1.91	-	-	-	-	-	-	214,432	408,493
-	106,389	100	364,914	-	-	-	-	-
1.90	-	-	-	-	-	-	220,576	419,094
1.78	50,850	25	181,026	152,550	75	543,078	-	-

3. 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 2018, 2019 and 2020 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.

4. The unvested balance has been determined by multiplying the balance of short-term incentive (STI) performance rights at 30 June 2020 by the unit price at grant, and the balance of LTI performance rights at 30 June 2020 by the fair value at grant.

10.2 ELT members' ordinary shareholdings

Details of the ordinary shareholdings of ELT members and their related parties are provided in the table below.

ELT member	Balance 30 June 2019	Shares received on vesting of performance rights[2]	Net movement of shares due to other changes[3]	Balance 30 June 2020
Craig Drummond	256,041	476,537	-	**732,578**
Kylie Bishop	283,115	77,774	-	**360,889**
John Goodall	18,573	72,342	(7,500)	**83,415**
David Koczkar	732,921	144,067	(155,000)	**721,988**
Mei Ramsay	33,821	75,422	-	**109,243**
Mark Rogers	117,048	82,304	-	**199,352**
Andrew Wilson[1]	642,979	160,389	(75,000)	**728,368**

1. Includes 139,571 adjustment to opening balance.
2. Shares received on the vesting of deferred STI performance rights include the additional Medibank shares credited to ELT members upon the vesting of the 2018 deferred STI performance rights as a benefit equivalent to any dividends paid during the deferral period. For further information, please refer to section 6.3.3.
3. Net movement of shares relates to acquisition and disposal transactions by the ELT member and their related parties during the year.

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 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 Chairman 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 2020 and 2021 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).

In context of the current economic and social environment of COVID-19, and the position of non-executive directors against the median of the benchmark group, non-executive director base and committee fees have been maintained at their current levels for 2021. Based on this decision, Medibank's aggregate non-executive director fee spend for 2021 will remain at $1,940,000. Non-executive director fees applicable throughout 2020 and 2021 are set out in the table below:

Position	Fees 2020 & 2021 $
Chairman	445,000
Non-executive directors	165,000
Committee chairman fees	
Audit Committee	40,000
Risk Management Committee	40,000
People and Remuneration Committee	40,000
Investment and Capital Committee	40,000
Committee membership fees	
Audit Committee	20,000
Risk Management Committee	20,000
People and Remuneration Committee	20,000
Investment and Capital Committee	20,000

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, non-executive directors who sit on multiple boards can elect to be exempt from the superannuation guarantee where contributions are likely to take them over the annual concessional contribution limit of $25,000. 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 2020, all non-executive directors have either met the minimum shareholding requirement, or are on track to do so, within the five-year period. Further details of current non-executive director shareholdings are provided in section 12.

12. 2020 non-executive director remuneration statutory table

		Short-term benefits		Post-employment benefits	
Non-executive director	Financial year	Cash salary and fees $	Non-monetary[1] $	Super-annuation $	Total $
Elizabeth Alexander	**2020**	**427,250**	**-**	**21,174**	**448,424**
	2019	424,469	-	20,533	445,002
Tracey Batten	**2020**	**188,655**	**2,729**	**17,923**	**209,307**
	2019	181,735	2,608	17,265	201,608
Anna Bligh	**2020**	**188,654**	**3,119**	**17,922**	**209,695**
	2019	181,735	3,013	17,265	202,013
David Fagan	**2020**	**207,061**	**2,618**	**19,671**	**229,350**
	2019	198,174	3,355	18,827	220,356
Peter Hodgett	**2020**	**207,061**	**3,728**	**19,672**	**230,461**
	2019	198,174	2,872	18,827	219,873
Linda Bardo Nicholls	**2020**	**198,026**	**2,888**	**8,551**	**209,465**
	2019	182,648	3,497	17,352	203,497
Christine O'Reilly	**2020**	**217,346**	**2,602**	**9,385**	**229,333**
	2019	198,174	3,075	18,827	220,076
Mike Wilkins	**2020**	**188,655**	**3,612**	**17,922**	**210,189**
	2019	181,735	4,087	17,265	203,087
Total non-executive director remuneration	**2020**	**1,822,708**	**21,296**	**132,220**	**1,976,224**
	2019	1,746,844	22,507	146,161	1,915,512

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.

13. Non-executive director ordinary shareholdings

Non-executive director	Balance 30 June 2019	Acquired during the year	Balance 30 June 2020	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2020 $[2]	Minimum shareholding requirement timeline
Elizabeth Alexander	124,786	-	124,786	222,500	373,110	Requirement satisfied
Tracey Batten	34,285	15,715	50,000	82,500	149,500	Requirement satisfied
Anna Bligh	39,323	5,300	44,623	82,500	133,423	Requirement satisfied
David Fagan	47,016	-	47,016	82,500	140,578	Requirement satisfied
Peter Hodgett	67,800	-	67,800	82,500	202,722	Requirement satisfied
Linda Bardo Nicholls	45,000	-	45,000	82,500	134,550	Requirement satisfied
Christine O'Reilly	69,930	-	69,930	82,500	209,091	Requirement satisfied
Mike Wilkins	59,013	-	59,013	82,500	176,449	Requirement satisfied

1. Minimum shareholding requirement based on annual non-executive director base fees for 2020 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 2020 ($2.99).

14. Medibank's comparator groups

Detailed below are a list of energy and mining companies that have been excluded from one or more of Medibank's comparator groups for the period 2018-2021. As explained throughout this report, these comparator groups have been used 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 LTI Plan.

Note that a blank cell for any given year denotes the company was either outside the ASX 11-100 or was no longer considered exclusively as an energy and mining company for that year.

Excluded companies	2018	2019	2020	2021
Rio Tinto Limited	X			
Origin Energy Limited	X	X	X	X
Oil Search Limited	X	X	X	X
Newcrest Mining Limited	X	X	X	X
Caltex Australia Limited	X	X	X	X
Santos Limited	X	X	X	X
Fortescue Metals Group Limited	X	X	X	X
Alumina Limited	X	X	X	X
BlueScope Steel Limited	X	X	X	X
Iluka Resources Limited	X	X	X	X
South32 Limited	X	X	X	X
Woodside Petroleum Limited	X	X	X	X
Evolution Mining Limited	X	X	X	X
Northern Star Resources Limited	X	X	X	X
Oz Minerals Limited	X			
Washington H Soul Pattinson and Company Limited		X	X	X
Whitehaven Coal Limited		X	X	
Viva Energy Group Limited			X	X
Beach Energy Limited			X	X

Financial report

Consolidated statement of comprehensive income

For the financial year ended 30 June 2020

	Note	2020 $m	2019 $m
Continuing operations			
Revenue			
Health Insurance premium revenue	2(b) 3(a)	6,554.7	6,470.7
Medibank Health revenue		214.9	185.1
		6,769.6	**6,655.8**
Other income		**7.4**	**6.4**
Expenses			
Claims expense		(5,486.6)	(5,323.6)
Medical services expense		(27.0)	(18.3)
Employee benefits expense	13(a)(ii)	(429.0)	(412.1)
Office and administration expense		(82.6)	(82.4)
Marketing expense		(94.1)	(100.2)
Information technology expense		(72.1)	(66.8)
Professional service expense		(7.5)	(11.0)
Lease expense	18	-	(30.2)
Depreciation and amortisation expense		(126.9)	(104.1)
Finance expense	18	(3.4)	-
		(6,329.2)	**(6,148.7)**
Profit before net investment income and income tax		447.8	513.5
Net investment income	7(a)	2.4	102.8
Profit for the year before income tax		**450.2**	**616.3**
Income tax expense	14(a)	(134.6)	(178.6)
Profit for the year from continuing operations		**315.6**	**437.7**
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	15(c)	(0.6)	21.0
Profit for the year		**315.0**	**458.7**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on retirement benefit obligation		(0.2)	(0.1)
		(0.2)	**(0.1)**
Total comprehensive income for the year, net of tax, attributable to members of the parent arising from:			
Continuing operations		315.4	437.6
Discontinued operations		(0.6)	21.0
Total operations		**314.8**	**458.6**
Basic and diluted earnings per share attributable to ordinary equity holders of the Company		**Cents**	**Cents**
Continuing operations	6(b)	11.5	15.9
Total operations	6(b)	11.4	16.7

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

Consolidated statement of financial position

As at 30 June 2020

	Note	2020 $m	2019 $m
Current assets			
Cash and cash equivalents		871.4	656.5
Trade and other receivables	9(b)	207.1	283.9
Financial assets at fair value	7(b)	1,994.7	2,130.7
Deferred acquisition costs	4	34.5	35.2
Other assets		22.9	24.2
Total current assets		**3,130.6**	**3,130.5**
Non-current assets			
Property, plant and equipment	11	112.2	49.3
Intangible assets	12	386.0	405.9
Deferred acquisition costs	4	43.6	44.4
Deferred tax assets	14(c)	84.0	-
Other assets		7.4	0.7
Total non-current assets		**633.2**	**500.3**
Total assets		**3,763.8**	**3,630.8**
Current liabilities			
Trade and other payables	9(c)	320.2	370.0
Claims liabilities	3(b)	628.3	364.2
Unearned premium liability	5	671.1	682.8
Tax liability		57.7	21.3
Provisions and employee entitlements	13	73.6	79.2
Total current liabilities		**1,750.9**	**1,517.5**
Non-current liabilities			
Trade and other payables	9(c)	84.2	33.9
Claims liabilities	3(b)	10.9	13.4
Unearned premium liability	5	75.0	87.8
Deferred tax liabilities	14(c)	-	13.2
Provisions and employee entitlements	13	28.9	29.6
Total non-current liabilities		**199.0**	**177.9**
Total liabilities		**1,949.9**	**1,695.4**
Net assets		**1,813.9**	**1,935.4**
Equity			
Contributed equity		85.0	85.0
Reserves	10	22.4	24.4
Retained earnings		1,706.5	1,826.0
Total equity		**1,813.9**	**1,935.4**

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 2020

	Note	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2018		85.0	21.5	1,722.7	**1,829.2**
Profit for the year		-	-	458.7	458.7
Other comprehensive income		-	-	(0.1)	(0.1)
Total comprehensive income for the year		**-**	**-**	**458.6**	**458.6**
Transactions with owners in their capacity as owners:					
Dividends paid		-	-	(355.3)	(355.3)
Acquisition and settlement of share-based payment, net of tax		-	(2.9)	-	(2.9)
Share-based payment transactions		-	5.8	-	5.8
Balance at 30 June 2019		**85.0**	**24.4**	**1,826.0**	**1,935.4**
Adjustment on adoption of AASB 16 Leases, net of tax	18	-	-	(4.7)	(4.7)
Balance at 1 July 2019		**85.0**	**24.4**	**1,821.3**	**1,930.7**
Profit for the year		-	-	315.0	315.0
Other comprehensive income		-	-	(0.2)	(0.2)
Total comprehensive income for the year		**-**	**-**	**314.8**	**314.8**
Transactions with owners in their capacity as owners:					
Dividends paid		-	-	(429.6)	(429.6)
Acquisition and settlement of share-based payment, net of tax		-	(3.2)	-	(3.2)
Share-based payment transactions		-	1.2	-	1.2
Balance at 30 June 2020		**85.0**	**22.4**	**1,706.5**	**1,813.9**

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

Consolidated statement of cash flows

For the financial year ended 30 June 2020

	Note	2020 $m	2019 $m
Cash flows from operating activities			
Premium receipts		6,522.7	6,462.7
Medibank Health receipts		299.3	714.7
Other receipts		5.5	5.8
Payments for claims and levies		(5,233.2)	(5,309.1)
Payments to suppliers and employees		(827.9)	(1,240.2)
Income taxes paid		(194.0)	(217.8)
Net cash inflow from operating activities	9(d)	**572.4**	**416.1**
Cash flows from investing activities			
Interest received		27.8	42.9
Investment expenses		(4.6)	(4.6)
Proceeds from sale of financial assets		1,648.4	2,219.5
Purchase of financial assets		(1,533.1)	(2,009.1)
Purchase of businesses		-	(70.1)
Purchase of plant and equipment		(3.2)	(9.8)
Purchase of intangible assets		(26.1)	(39.7)
Net cash inflow/(outflow) from investing activities		**109.2**	**129.1**
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(3.8)	(3.5)
Lease principal and interest payments	18	(33.3)	-
Dividends paid		(429.6)	(355.3)
Net cash outflow from financing activities		**(466.7)**	**(358.8)**
Net increase/(decrease) in cash and cash equivalents		**214.9**	**186.4**
Cash and cash equivalents at beginning of the year		656.5	470.1
Cash and cash equivalents at end of the year		**871.4**	**656.5**

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 2020 were authorised for issue in accordance with a resolution of the directors on 20 August 2020. 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 15(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 off 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 2020 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 2020 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 14: Income tax

Note 3 and Note 14 include a new accounting judgement in relation to the COVID-19 claims liability.

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

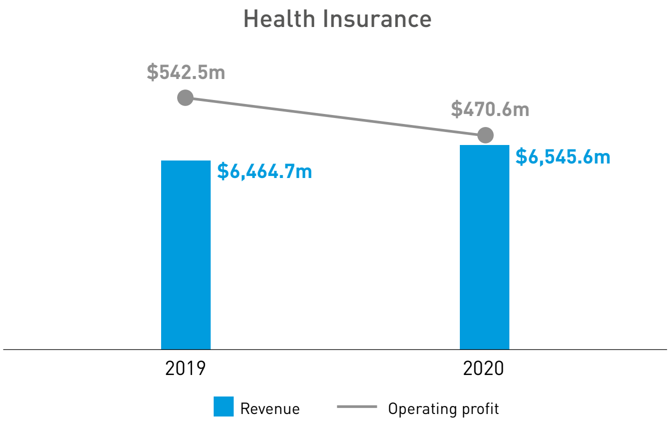
Segment information is reported on the same basis as the Group's internal management reporting structure at the reporting date. Transactions between segments are carried out on an arm's length basis and are eliminated on consolidation. The Group is not reliant on any one major customer.

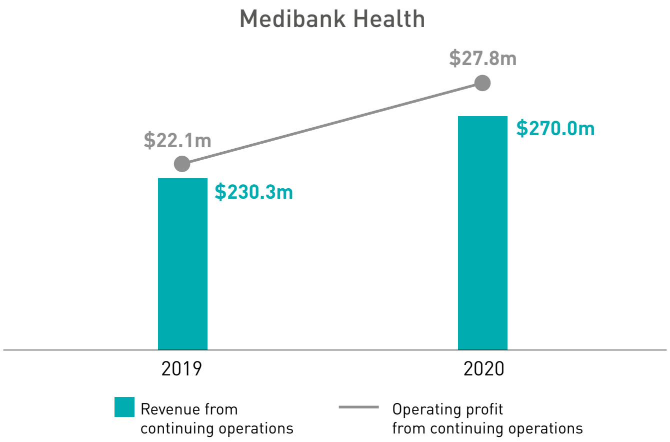
For the financial year ended 30 June 2020, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Medibank Health.

Health Insurance	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.
	Private Health Insurance Premium Revenue Recognition Accounting Policy 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.
Medibank Health	Derives its revenue from a range of activities including contracting with government and corporate customers to provide health management 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.
	Medibank Health Revenue Recognition Accounting Policy 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.

(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 2020 is as follows:





30 June 2020	Note	Health Insurance $m	Medibank Health $m	Total $m
Revenues				
Total segment revenue	2(c)(iii)	6,545.6	270.0	6,815.6
Inter-segment revenue		-	(46.0)	(46.0)
Revenue from external customers from continuing operations		**6,545.6**	**224.0**	**6,769.6**
Operating profit from continuing operations		**470.6**	**27.8**	**498.4**
Items included in segment operating profit:				
Depreciation and amortisation[1]		(105.2)	(7.9)	(113.1)

30 June 2019	Note	Health Insurance $m	Medibank Health $m	Total $m
Revenues				
Total segment revenue	2(c)(iii)	6,464.7	230.3	6,695.0
Inter-segment revenue		-	(39.2)	(39.2)
Revenue from external customers from continuing operations		**6,464.7**	**191.1**	**6,655.8**
Operating profit from continuing operations		**542.5**	**22.1**	**564.6**
Items included in segment operating profit:				
Depreciation and amortisation[1]		(90.0)	(4.3)	(94.3)

1. Total segment depreciation and amortisation for 30 June 2020 includes depreciation on right-of-use assets of $22.8 million. Refer to Note 18 for further information on leases.

(c) Other segment information

(i) Segment operating profit or loss

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

	Note	2020 $m	2019 $m
Total segment operating profit from continuing operations		498.4	564.6
Unallocated to operating segments:			
Corporate operating expenses		(37.4)	(36.1)
Group operating profit from continuing operations		**461.0**	**528.5**
Net investment income	7(a)	2.4	102.8
Acquisition intangible amortisation		(9.0)	(8.7)
Mergers and acquisitions expenses		(1.3)	(4.2)
Other income/(expenses)		(2.9)	(2.1)
Profit for the year before income tax from continuing operations		**450.2**	**616.3**

(ii) Other items

Segment operating profit excludes the following:

- Corporate operating expenses of $37.4 million (2019: $36.1 million) relating to the Group's corporate function.
- Net investment income, 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 $9.0 million (2019: $8.7 million) not allocated to segments.
- Expenses in relation to mergers and acquisitions which are not allocated to the operating activities of the Group's segments.
- Other income/(expenses) of $2.9 million (2019: $2.1 million) which do not relate to the current year's trading activities of the Group's segments, comprising primarily net sublease rent and a one-off lease transition adjustment (refer to Note 18 for further information).

(iii) Loyalty program

Segment private health insurance premium revenue is after $9.1 million (2019: $6.0 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.

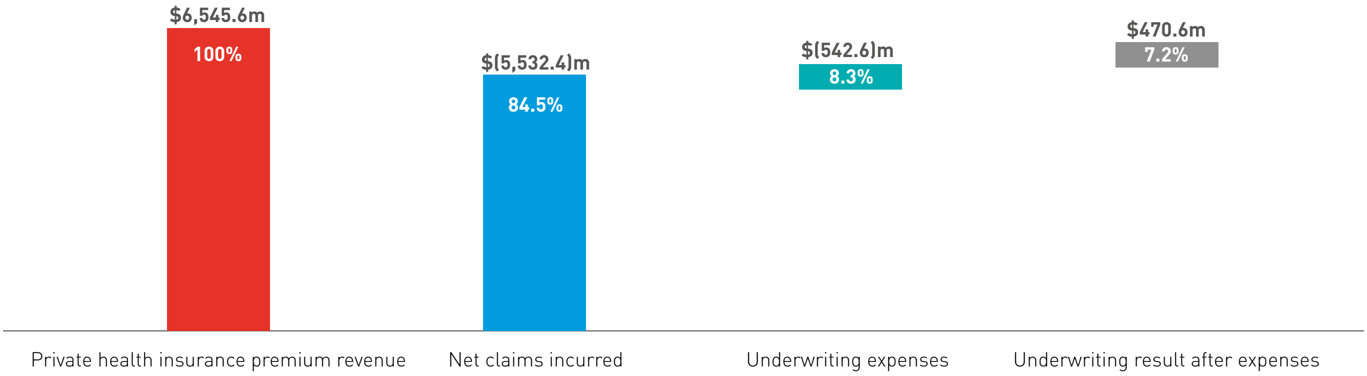
(v) Geographic information

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.

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.

2020 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.

In the current year, a specific COVID-19 claims liability has been recorded for deferred claims that were a result of surgeries and other health services being restricted for policyholders as a result of the COVID-19 pandemic. Medibank has an obligation to settle these claims over future periods.

(a) Insurance underwriting result

	Note	2020 $m	2019 $m
Private health insurance premium revenue	(i)	6,545.6	6,464.7
Claims expense			
Claims incurred	(ii)	(5,190.8)	(5,354.2)
COVID-19 deferred claims – hospital	(iv)	(234.4)	-
COVID-19 deferred claims – ancillary	(iv)	(62.7)	-
State levies		(51.6)	(50.4)
Net Risk Equalisation Special Account rebates		7.9	42.5
Net claims incurred excluding claims handling costs on outstanding claims liabilities		**(5,531.6)**	**(5,362.1)**
Movement in claims handling costs on outstanding claims liabilities		(0.8)	-
Net claims incurred	(iii)	**(5,532.4)**	**(5,362.1)**
Underwriting expenses	(i)	(542.6)	(560.1)
Underwriting result after expenses		**470.6**	**542.5**

(i) Private health insurance premium revenue and underwriting expenses are after $9.1 million of transfers between the Group's other operating segments (2019: $6.0 million).

(ii) Claims incurred are prior to elimination of transactions with the Group's other operating segments of $45.8 million (2019: $38.5 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 the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. 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.

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 policyholders' premiums 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.

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 unpresented and outstanding claims.

(b) Gross claims liability

	Note	2020 $m	2019 $m
Current			
Outstanding claims liability – central estimate	(i,ii)	284.4	318.4
COVID-19 claims liability	(vi)	297.1	-
Risk margin	(i,iii)	27.1	25.3
Claims handling costs	(iv)	8.6	7.7
		617.2	351.4
Claims liability – provision for bonus entitlements	(v)	11.1	12.8
Gross claims liability	(c)	628.3	364.2
Non-current			
Outstanding claims liability – central estimate	(i,ii)	2.1	2.4
Risk margin	(i,iii)	0.2	0.3
Claims handling costs	(iv)	0.1	-
		2.4	2.7
Claims liability – provision for bonus entitlements	(v)	8.5	10.7
Gross claims liability	(c)	10.9	13.4

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 comprise 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.

Claims Liability Accounting Policy continued

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 being restricted for policyholders as a result of the COVID-19 pandemic. Medibank has an obligation to settle these claims as they become known in future periods. The claims liability has been estimated on the basis of actual claims versus expected claims during the period in which health services were restricted, which was from March to June 2020 inclusive (the COVID-19 period). This took into account an estimate of the procedures and services deferred into the next financial period. The expected claims experience is based on observable daily claim amounts immediately preceding the COVID-19 restrictions, taking into account changes in the customer base during the COVID-19 period. The Group will continue to reassess the extent of any deferred claims as a result of any ongoing or future restrictions.

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 services 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

The central estimate is an estimate of the level of claims liability.

Key estimate

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. 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.

(ii) Discounting

The outstanding claims liability central estimate is discounted to present value using the three-month risk-free rate of 0.10% per annum which equates to a reduction in the central estimate of less than $0.1 million (2019: 1.20%, $0.5 million).

(iii) Risk margin

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 2020 is 9.2% (2019: 7.8%). The increase in the risk margin is reflective of the uncertainty in the claims environment and the risk inherent in the actuarial model due to changing service and payment patterns as a result of COVID-19 restrictions on surgeries and other health services.

Key estimate

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% (2019: 95%). The risk margin is not applied to the COVID-19 claims liability. Relevant risks and uncertainties have been taken into account in determining the best estimate of the COVID-19 claims liability.

(iv) Claims handling costs	The allowance for claims handling costs at 30 June 2020 is 3.0% of the outstanding claims liability (2019: 2.5%). The increase in the claims handling cost allowance is reflective of costs incurred and the relative fixed cost nature of handling claims.
(v) Claims liability – provision for bonus entitlements	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. The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership. **Key estimate** 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.
(vi) COVID-19 claims liability	The liability relates to claims deferred as a result of surgeries and other health services being restricted for policyholders during the COVID-19 pandemic period. This impacted health services for hospital, ancillary and overseas claims. **Key estimate** This liability is calculated by comparing the estimate of the insured surgeries and other procedures that were expected to occur during the period March 2020 to June 2020 (the COVID-19 period) and the actual insured surgeries and other procedures that occurred during this time. 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: • Statistical analysis of the expected claims level at the Single Equivalent Unit per policy (PSEU) during the COVID-19 period. • The expected claims level was based on the six monthly rolling cost per PSEU observed up until the period immediately preceding the COVID-19 pandemic restrictions (February 2020), adjusted for the average actual number of PSEUs during the COVID-19 period. • The expected rate that deferred insured surgeries and other 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 100% (2019: not applicable) for hospital claims and 50% (2019: not applicable) for ancillary claims. • This liability only includes insured surgeries and other health services that will ultimately be performed for policyholders of the Group.

(c) Reconciliation of movement in claims liabilities

	2020 $m	2019 $m
Balance at beginning of period (1 July)	**377.6**	**379.8**
Claims incurred during the period	5,120.0	5,324.5
COVID-19 claims liability	297.1	-
Claims paid during the period	(5,180.8)	(5,318.0)
Amount (over)/under provided on central estimate	22.3	(9.7)
Risk margin	1.7	0.7
Claims handling costs	0.8	-
Movement in discount rate	0.5	0.3
Balance at 30 June	**639.2**	**377.6**

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

(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 $20.1 million decrease/increase to profit after tax and equity (2019: $22.4 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 $44.8 million decrease/increase to profit after tax and equity (2019: not applicable).
- An increase/decrease of 10 percentage points in the adopted deferral rate for COVID-19 hospital claims would result in a $16.4 million decrease/increase to profit after tax and equity (2019: not applicable). The reasonable possible range for the hospital deferral assumption is 90-100% (2019: not applicable).
- An increase/decrease of 20 percentage points in the adopted deferral rate for COVID-19 ancillary claims would result in a $17.6 million decrease/increase to profit after tax and equity (2019: not applicable). The reasonable possible range for the ancillary deferral assumption is 30-70% (2019: not applicable)

(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.

The table below sets out the key variables upon which the cash flows of the insurance contracts 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 during the COVID-19 period included 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.

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2020 $m	2019 $m
Balance at 1 July	**79.6**	**84.9**
Costs deferred during the year	36.6	34.7
Amortisation expense	(38.1)	(40.0)
Balance at 30 June	**78.1**	**79.6**

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 (2019: 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

Movement in the unearned premium liability is as follows:

	2020 $m	2019 $m
Balance at 1 July	**770.6**	**772.9**
Deferral of premium on contracts written during the year	658.3	687.2
Earnings of premiums deferred in prior years	(682.8)	(689.5)
Balance at 30 June	**746.1**	**770.6**

Note: Movement includes both current and non-current.

The expected cash outflows and the risk margin in the 30 June 2020 liability adequacy testing (LAT) includes the impacts of COVID-19. The LAT did not result in the identification of any deficiency as at 30 June 2020 and 2019. 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

A liability adequacy test is required to be performed in respect of the unearned premium liability and insurance contracts renewable before the next pricing review (constructive obligation). The purpose of the test is to determine whether the insurance liability, net of related deferred acquisition costs, is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance coverage. An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The liability adequacy 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:

Present value of the expected future cash outflows relating to future claims *add* Additional risk margin to reflect the inherent uncertainty in the central estimate	greater than	Unearned premium liability *less* Related intangible assets *less* Related deferred acquisition costs	=	Deficiency

The entire deficiency is recorded immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded 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
2020			
2019 final fully franked dividend	7.40	203.8	26 September 2019
2019 final fully franked special dividend	2.50	68.9	26 September 2019
2020 interim fully franked dividend	5.70	157.0	26 March 2020
2019			
2018 final fully franked dividend	7.20	198.3	27 September 2018
2019 interim fully franked dividend	5.70	157.0	28 March 2019

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

On 20 August 2020, the directors determined a final fully franked ordinary dividend for the six months ended 30 June 2020 of 6.3 cents per share. The dividend is expected to be paid on 24 September 2020 and has not been provided for as at 30 June 2020.

(iii) Franking account

Franking credits available at 30 June 2020 for subsequent reporting periods based on a tax rate of 30% are $215.7 million (2019: $203.8 million).

(iv) Calculation of dividend paid

Medibank's target dividend payout ratio for the 2020 financial year is 75-85% (2019: 70-80%) 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.

	2020 $m	2019 $m
Profit for the year – after tax	**315.0**	**458.7**
Normalisation for growth asset returns	43.2	(7.9)
Normalisation for defensive asset returns – credit spread movement	8.5	(2.9)
Underlying NPAT	**366.7**	**447.9**

Dividends Accounting Policy

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

(b) Earnings per share

	2020	2019
Attributable to ordinary equity holders of the Company		
Profit for the year attributable to ordinary equity holders of the Company ($m)	315.0	458.7
Basic and diluted earnings per share attributable to ordinary equity holders of the Company (cents)	11.4	16.7
Attributable to continuing operations		
Profit for the year attributable to ordinary equity holders of the Company ($m)	315.6	437.7
Basic and diluted earnings per share attributable to ordinary equity holders of the Company (cents)	11.5	15.9
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 contains information on the Group's net investment income and the carrying amount of the Group's investments.

Medibank has established two investment portfolios for managing its investment assets, the Health Fund Investment Portfolio and the Non-Health Fund Investment Portfolio.

The Chief Financial Officer (CFO) is responsible for the management of the Health Fund Investment Portfolio 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. The asset allocation of Medibank's 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 has maintained the short-term target asset allocation for the Health Fund Investment Portfolio at 20%/80% for growth and defensive assets. The long-term target asset allocation remains at 25%/75% for growth and defensive assets. During, and because of, the COVID-19 pandemic the Fund created a sub-portfolio of the Health Fund Investment Portfolio (the Short-term Operational Cash sub-portfolio) consisting of exclusively defensive assets with the express purpose of funding the COVID-19 liability. Given its short-term nature, this sub-portfolio is managed separate from the Target Asset Allocation (TAA) framework. This 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 securities with a minimum credit rating of AA-.

The Non-Health Fund Investment Portfolio was established to provide the Group with additional liquidity and financial flexibility. The CFO is responsible for the management of the Non-Health Fund Investment Portfolio in accordance with the Board's approved Investment Management Policy, investment strategy and delegation from the Investment and Capital Committee. This portfolio resides outside of the health fund and is not subject to the same regulatory requirements as the Health Fund Investment Portfolio. 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 securities with a minimum credit rating of AA-.

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

Portfolio composition 30 June 2020 ($m)	Health Fund Investment Portfolio	Non-Health Fund Investment Portfolio	Total
Cash portfolio			
Cash and cash equivalents (as reported in the statement of financial position)[1,3]	676.5	170.5	**847.0**
Cash investments with longer maturities[2]	185.0	-	**185.0**
Fixed income portfolio			
Fixed income (as reported in the statement of financial position)[4]	1,480.7	47.2	**1,527.9**
Less cash investments with longer maturities	(185.0)	-	**(185.0)**
Growth portfolio			
Equities and investment trusts	466.8	-	**466.8**
Total investment portfolio	**2,624.0**	**217.7**	**2,841.7**

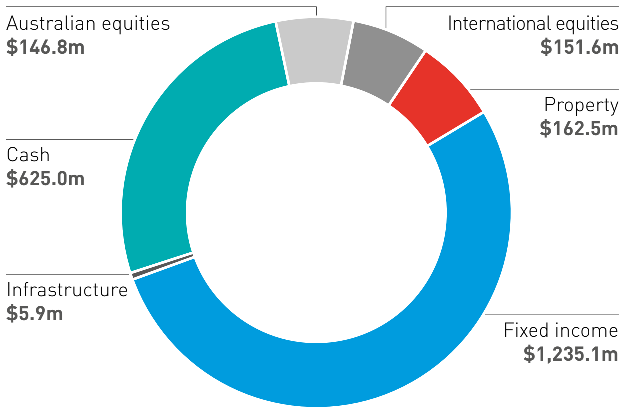
Portfolio composition 30 June 2019 ($m)	Health Fund Investment Portfolio	Non-Health Fund Investment Portfolio	Total
Cash portfolio			
Cash and cash equivalents (as reported in the statement of financial position)[1,3]	538.0	26.6	**564.6**
Cash investments with longer maturities	219.3	61.7	**281.0**
Fixed income portfolio			
Fixed income (as reported in the statement of financial position)[4]	1,554.5	61.7	**1,616.2**
Less cash investments with longer maturities	(219.3)	(61.7)	**(281.0)**
Growth portfolio			
Equities and investment trusts	514.5	-	**514.5**
Total investment portfolio	**2,607.0**	**88.3**	**2,695.3**

1. Cash and cash equivalents as reported in the statement of financial position also include operational cash of $24.4 million (2019: $91.9 million).
2. Cash investments with longer maturities include a $110.2 million change in the classification of maturities of highly liquid financial instruments.
3. Cash and cash equivalents in the Health Fund Investment Portfolio includes $236.5 million (2019: nil) in relation to the Short-term Operational Cash sub-portfolio.
4. Fixed income in the Health Fund Investment Portfolio includes $60.6 million (2019: nil) relating to the Short-term Operational Cash sub-portfolio.

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

	Portfolio composition 30 June 2020	Portfolio composition 30 June 2019	Target asset allocation
Growth			
Australian equities	6.3%	5.1%	5.0%
International equities	6.5%	6.5%	6.0%
Property	7.0%	6.0%	7.0%
Infrastructure	0.3%	2.1%	2.0%
	20.1%	**19.7%**	**20.0%**
Defensive			
Fixed income	53.0%	51.3%	52.0%
Cash	26.9%	29.0%	28.0%
	79.9%	**80.3%**	**80.0%**
	100.0%	**100.0%**	**100.0%**

Health Fund Investment Portfolio



Financial Assets at Fair Value Accounting Policy

Investments in listed and unlisted equity securities held by Medibank's health insurance fund are accounted for at fair value through profit or loss (FVTPL). Fixed income investments held by Medibank's health insurance fund 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. Financial assets at FVTPL, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

Fixed income investments not held by Medibank's health insurance fund 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.

Financial Assets at Fair Value Accounting Policy continued

These assets are initially and subsequently carried at fair value, with gains and losses recognised within equity in other comprehensive income until the asset is derecognised. When the assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest income accrues using the effective interest method and is included within net investment income in the consolidated statement of comprehensive income.

For financial assets classified at FVOCI, the Group applies the general impairment approach under AASB 9, which requires 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. The hierarchy is described in (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

Net investment income is presented net of investment management fees in the consolidated statement of comprehensive income.

	2020 $m	2019 $m
Interest[1]	29.7	47.3
Trust distributions	29.5	42.2
Investment management fees	(4.6)	(4.6)
Net gain/(loss) on fair value movements on financial assets	(53.0)	5.2
Net gain/(loss) on disposal of financial assets	0.8	12.7
Net investment income	**2.4**	**102.8**

1. Includes interest income of $1.7 million (2019: $1.7 million) relating to financial assets at fair value through other comprehensive income (Non-Health Fund Investments).

Net Investment Income Accounting Policy

Gains or losses arising from changes in the fair value of the financial assets at FVTPL category are presented in the consolidated statement of comprehensive income within net investment income in the period in which they arise.

Trust distribution income derived from financial assets at FVTPL is recognised in the consolidated statement of comprehensive income as part of net investment income when the Group's right to receive payments is established. Interest income from financial assets accrues using the effective interest method and is also included in net investment income.

(b) Fair value hierarchy

The fair value of the Group's investments are measured 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.

30 June 2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss				
Australian equities[1]	-	146.8	-	**146.8**
International equities[1]	-	151.6	-	**151.6**
Property[1]	-	162.5	-	**162.5**
Infrastructure	-	-	5.9	**5.9**
Fixed income	97.9	1,382.8	-	**1,480.7**
Financial assets at fair value through other comprehensive income – Fixed income	-	47.2	-	**47.2**
Balance at 30 June 2020	**97.9**	**1,890.9**	**5.9**	**1,994.7**
30 June 2019				
Financial assets at fair value through profit or loss				
Australian equities[1]	-	132.2	-	**132.2**
International equities[1]	-	169.8	-	**169.8**
Property[1]	0.6	156.1	-	**156.7**
Infrastructure[1]	-	55.8	-	**55.8**
Fixed income	95.1	1,459.4	-	**1,554.5**
Financial assets at fair value through other comprehensive income – Fixed income	-	61.7	-	**61.7**
Balance at 30 June 2019	**95.7**	**2,035.0**	**-**	**2,130.7**

1. Australian equities, international equities and property are categorised within level 2 of the fair value measurement hierarchy as they are indirectly held through unit trusts. In 2019, infrastructure was also categorised within level 2 of the fair value measurement hierarchy as it was 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.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 30 June 2020.

The Group recognises transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer. There were no transfers between level 1 and level 2 during the year.

Fair value measurements using significant unobservable market data (level 3)

During the year, the Group purchased $5.9 million of infrastructure financial assets which are held in unlisted unit trusts. The fair value of these financial assets is based on the discounted cashflow methodology. The inputs in this methodology are not based on observable market data, which results in the financial assets being classified as level 3 in the fair value measurement hierarchy.

A 10% increase/decrease in the discount rate in the valuation methodology of the investment would decrease/increase the fair value of the financial asset by $0.6 million.

There were no transfers in or out of level 3 during the year.

Note 8: Financial risk management

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

A strategic asset allocation is set and reviewed at least annually by the Board, which establishes the maximum and minimum exposures in each asset class. Transacting in individual instruments is subject to delegated authorities and an approval process which is also established and reviewed by the Investment and Capital Committee. At no time throughout the period will trading of derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Investment and Capital Committee. The Group was in compliance with this policy during the current and prior financial year.

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 consideration and control of financial risks rests with the Investment and Capital Committee 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.

(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. At balance date, the Group had exposure to the risk of changes in market interest rates in respect of its cash and cash equivalents and fixed income investments. Both classes of financial assets have variable interest rates and are therefore exposed to cash flow movements if these interest rates change.
Exposure	At balance date, the Group's cash and cash equivalents (2020: $871.4 million, 2019: $656.5 million) and fixed income investments (2020: $1,527.9 million, 2019: $1,616.2 million) were exposed to Australian variable interest rate risk. 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 investments had a modified duration of 0.6 years (2019: 0.8 years).
Sensitivity	50 bps increase/decrease in interest rates for the entire reporting period, with all other variables remaining constant, would have resulted in a $3.9 million increase/decrease to profit after tax and equity (2019: $3.4 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. All of the Group's investments with a non-AUD currency exposure are fully economically hedged, except for international equities which has a 50% target hedge ratio.
Exposure	At 30 June 2020, $76.0 million (2019: $83.9 million) of the international equities portfolio, within financial assets at fair value through profit or loss, 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 $5.9 million decrease/increase to profit after tax and equity (2019: $6.5 million). 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. The Group is exposed to price risk in respect of its fixed income investments 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.

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 average balances at balance date. It shows the effect on profit after tax and equity if market prices had moved, with all other variables held constant.

	2020 $m		2019 $m	
	+10.0%	-10.0%	+10.0%	-10.0%
Australian equities	9.5	(9.5)	9.6	(9.6)
International equities	11.1	(11.1)	11.9	(11.9)
Property	10.9	(10.9)	11.0	(11.0)
Infrastructure	1.1	(1.1)	3.7	(3.7)

In relation to fixed income investments, a 25 bps increase/decrease in credit spreads, with all other variables remaining constant, would have resulted in a $6.1 million decrease/increase to profit after tax and equity (2019: $6.2 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 through profit or loss

Description	The risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group and credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.
Exposure	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. 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.
Sensitivity	The Group's cash and fixed income portfolio is subject to counterparty exposure limits. These limits specify that no more than 25% (2019: 25%) of the cash portfolio can be invested in any one counterparty bank and no more than 10% (2019: 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% (2019: 50%) and 15% (2019: 15%) of the portfolio respectively. As at 30 June 2020 and 2019, the counterparty exposure of the Group was within these limits.

(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 when 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 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 premium credit risk within the Group.

(iii) Counterparty credit risk ratings

The following tables outline the Group's credit risk exposure at 30 June 2020 by classifying assets according to credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade.

The table highlights the short-term rating as well as the equivalent long-term rating bands as per published Standard & Poor's correlations. 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.

Within the not rated fixed income portfolio, $290.1 million (2019: $297.4 million) is invested in unrated unit trusts, of which the majority of the underlying securities held are investment grade assets and Senior Loans.

Short-term Long-term 2020	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	-	836.4	35.0	-	-	-	**871.4**
Premiums in arrears	-	-	-	-	-	10.8	**10.8**
Trade and other receivables	-	-	-	-	-	196.3	**196.3**
Financial assets							
Australian equities	-	-	-	-	-	146.8	**146.8**
International equities	-	-	-	-	-	151.6	**151.6**
Property	-	-	-	-	-	162.5	**162.5**
Infrastructure	-	-	-	-	-	5.9	**5.9**
Fixed income	81.1	483.6	328.6	271.9	-	315.5	**1,480.7**
Financial assets at fair value through other comprehensive income	-	47.2	-	-	-	-	**47.2**
Total	**81.1**	**1,367.2**	**363.6**	**271.9**	**-**	**989.4**	**3,073.2**
2019							
Cash and cash equivalents	-	392.9	158.7	104.9	-	-	**656.5**
Premiums in arrears	-	-	-	-	-	9.9	**9.9**
Trade and other receivables	-	-	-	-	-	274.0	**274.0**
Financial assets							
Australian equities	-	-	-	-	-	132.2	**132.2**
International equities	-	-	-	-	-	169.8	**169.8**
Property	-	-	-	-	-	156.7	**156.7**
Infrastructure	-	-	-	-	-	55.8	**55.8**
Fixed income	67.7	563.4	381.6	183.4	22.0	336.4	**1,554.5**
Fixed income – Non-health fund investments	-	61.7	-	-	-	-	**61.7**
Total	**67.7**	**1,018.0**	**540.3**	**288.3**	**22.0**	**1,134.8**	**3,071.1**

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	2020 $m	2019 $m
Premiums in arrears		14.9	13.9
Allowance for impairment loss		(4.1)	(4.0)
	(i)	**10.8**	**9.9**
Trade receivables		51.4	99.5
Allowance for impairment loss		(3.2)	(3.2)
	(ii)	**48.2**	**96.3**
Government rebate scheme		124.2	125.0
Risk Equalisation Special Account		6.5	12.1
Accrued revenue		14.7	39.4
Other receivables		2.7	1.2
		148.1	**177.7**
Total trade and other receivables		**207.1**	**283.9**

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 at 30 June 2020 for the Group are $10.8 million (2019: $9.9 million).

(ii) Trade receivables past due but not impaired at 30 June 2020 for the Group are $3.7 million (2019: $9.9 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.

Trade and Other Receivables Accounting Policy

Trade and other receivables are:

- Recognised initially at fair value.
- Subsequently measured at amortised cost using the effective interest method, less an allowance for impairment loss.
- Presented as current assets except for those with maturities greater than 12 months after the reporting period.
- Non-interest bearing.
- Generally due for settlement within 7 - 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. For trade receivables, the Group applies the simplified impairment approach under AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected lifetime losses are assessed based on historical bad and doubtful debt roll rates adjusted for forward looking information, where required. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Any impairment loss on trade receivables is recognised within other expenses in the consolidated statement of comprehensive income. Subsequent recoveries of previously written off trade receivables are credited against other expenses in the consolidated statement of comprehensive income. Any impairment loss on premiums in arrears is offset against premium revenue.

(c) Trade and other payables

	Note	2020 $m	2019 $m
Current			
Trade creditors[1]		230.2	275.6
Other creditors and accrued expenses[2]		53.8	70.4
Lease incentives	18	27.9	4.0
Other payables[3]		8.3	20.0
Total current		**320.2**	**370.0**
Non-current			
Lease incentives	18	81.3	26.2
Other payables[3]		2.9	7.7
Total non-current		**84.2**	**33.9**

Terms and conditions relating to the above financial instruments:

1. Trade creditors are non-interest bearing and are normally settled up to 30 days.
2. Other creditors and accrued expenses are non-interest bearing.
3. Other payables include a contract liability in relation to the loyalty program. Refer to the accounting policy in Note 20(c).

Trade and Other Payables Accounting Policy

Trade and other payables, with the exception of lease liabilities, are:

- Recognised initially at their fair value.
- Subsequently measured at amortised cost using the effective interest method.
- Unsecured.
- Presented as current liabilities unless payment is not due within 12 months from the reporting date.

Refer to Note 18 for the accounting policy for lease liabilities.

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

	Note	2020 $m	2019 $m
Profit for the year		**315.0**	**458.7**
Depreciation		13.2	13.2
Depreciation of right-of-use assets		27.0	-
Amortisation of intangibles assets		48.6	51.1
Amortisation of deferred acquisition costs		38.1	40.0
Net loss/(gain) on disposal of assets		-	0.1
Impairment of trade receivables		-	-
Net realised loss/(gain) on financial assets		(0.8)	(12.7)
Net unrealised loss/(gain) on financial assets		53.0	(5.2)
Interest income		(29.7)	(47.3)
Trust distribution reinvested		(29.5)	(42.2)
Investment expenses		4.6	4.6
Interest paid – leases	18	3.4	-
AASB 16 transition adjustment – recognition of finance subleases	18	3.3	-
Non-cash share-based payments expense		1.2	5.8

	Note	2020 $m	2019 $m
Change in operating assets and liabilities – continuing operations:			
Decrease/(increase) in trade and other receivables		9.9	6.3
Decrease/(increase) in deferred acquisition costs		(36.7)	(34.7)
Decrease/(increase) in other assets		(5.4)	(7.5)
(Decrease)/increase in net deferred tax liabilities		(95.5)	(4.1)
(Decrease)/increase in trade and other payables		(38.6)	5.1
(Decrease)/increase in unearned premium liability		(23.5)	(3.3)
(Decrease)/increase in claims liabilities		261.6	(2.1)
(Decrease)/increase in income tax liability		36.3	(26.1)
(Decrease)/increase in provisions and employee entitlements		8.6	(7.6)
Change in operating assets and liabilities – discontinued operations:			
Decrease/(increase) in trade and other receivables		66.9	7.4
(Decrease)/increase in trade and other payables		(47.6)	9.3
(Decrease)/increase in provisions and employee entitlements		(11.0)	7.3
Net cash inflow from operating activities		**572.4**	**416.1**

Cash and Cash Equivalents Accounting Policy

Cash and cash equivalents are stated at amortised cost which approximates fair value and include cash on hand, short-term bank bills and term deposits, commercial paper, negotiable certificate of deposit, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include all cash assets, net of outstanding bank overdrafts.

(e) 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 28% (2019: 28%) 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 2020, 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 2020.

	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
2020						
Other trade and other payables[1]	292.1	0.2	0.4	2.5	295.2	295.2
Lease liabilities[2]	15.3	14.5	27.8	58.2	115.8	109.2
Total trade and other payables	307.4	14.7	28.2	60.7	411.0	404.4
Claims liabilities	310.3	20.9	6.5	4.4	342.1	342.1
COVID-19 claims liability[3]	145.7	151.4	-	-	297.1	297.1
Total claims liabilities	456.0	172.3	6.5	4.4	639.2	639.2
2019						
Trade and other payables[1]	358.7	7.3	5.1	2.6	373.7	373.7
Claims liabilities	342.3	22.3	8.2	5.3	378.1	377.6

1. Contractual cash flows greater than six months primarily relate to the loyalty program.
2. Refer to Note 18 for further information on lease liabilities.
3. 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 claims liability extending beyond 12 months.

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, at a meeting of Medibank, and in a winding up or 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 or reduction of capital, entitle their holders to participate in the distribution of the surplus assets of Medibank.

(b) Reserves

Reserve	2020 $m	2019 $m	Nature and purpose of reserve
Equity reserve	17.8	17.8	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.
Share-based payment reserve	4.6	6.6	The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to key management personnel. Refer to Note 16 for further information.
Total	22.4	24.4	

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 book amount

	Note	2020 $m	2019 $m
Closing net book amount			
Plant and equipment	(b)	6.1	8.8
Leasehold improvements	(b)	31.0	38.2
Assets under construction	(b)	3.0	2.3
Right-of-use assets	18	72.1	-
Total property, plant and equipment		112.2	49.3

(b) Reconciliation of the net book amount at the beginning and end of the period

	Plant and equipment $m	Leasehold improvements $m	Assets under construction $m	Total $m
2020				
Gross carrying amount				
Balance at 1 July 2019	14.3	90.2	2.3	106.8
Additions	0.3	1.3	2.8	4.4
Transfers in/(out)	0.4	1.7	(2.1)	-
Disposals	-	(0.4)	-	(0.4)
Balance at 30 June 2020	**15.0**	**92.8**	**3.0**	**110.8**
Accumulated depreciation and impairment				
Balance at 1 July 2019	(5.5)	(52.0)	-	(57.5)
Depreciation expense	(3.4)	(9.8)	-	(13.2)
Disposals	-	-	-	-
Balance at 30 June 2020	**(8.9)**	**(61.8)**	**-**	**(70.7)**
2019				
Gross carrying amount				
Balance at 1 July 2018	13.2	85.2	3.6	102.0
Additions	0.9	4.5	2.8	8.2
Transfers in/(out)	0.9	4.0	(4.1)	0.8
Disposals	(0.7)	(3.5)	-	(4.2)
Balance at 30 June 2019	**14.3**	**90.2**	**2.3**	**106.8**
Accumulated depreciation and impairment				
Balance at 1 July 2018	(2.8)	(45.6)	-	(48.4)
Depreciation expense	(3.3)	(9.9)	-	(13.2)
Disposals	0.6	3.5	-	4.1
Balance at 30 June 2019	**(5.5)**	**(52.0)**	**-**	**(57.5)**
Closing net book amount				
As at 30 June 2020	6.1	31.0	3.0	40.1
As at 30 June 2019	8.8	38.2	2.3	49.3

(c) Property, plant and equipment capital expenditure commitments

	2020 $m	2019 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	-	0.9

Property, Plant and Equipment Accounting Policy

Refer to Note 18 for the accounting policy for right-of-use assets.

Land and buildings (none of which are investment properties) are shown at fair value less subsequent depreciation for buildings. Other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in a reserve in equity. To the extent that the increase reverses a decrease previously recognised in the consolidated statement of comprehensive income, the increase is first recognised in the consolidated statement of comprehensive income. Decreases that reverse previous increases of the same assets are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to the consolidated statement of comprehensive income.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful life or lease term as follows:

Land	not depreciated
Assets under construction	not depreciated until in use
Leasehold improvements	the lease term
Buildings	40 years
Plant and equipment	3 - 15 years

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. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Note 12: Intangible assets

	Goodwill[1] $m	Customer contracts and relationships $m	Software $m	Assets under construction $m	Total $m
2020					
Gross carrying amount					
Balance at 1 July 2019	282.9	89.7	426.4	38.2	837.2
Additions	-	-	2.5	26.2	28.7
Transfers in/(out)	-	-	36.4	(36.4)	-
Disposals	-	-	-	-	-
Balance at 30 June 2020	**282.9**	**89.7**	**465.3**	**28.0**	**865.9**
Accumulated amortisation and impairment					
Balance at 1 July 2019	(78.4)	(72.4)	(280.5)	-	(431.3)
Amortisation expense	-	(9.0)	(39.6)	-	(48.6)
Disposals	-	-	-	-	-
Balance at 30 June 2020	**(78.4)**	**(81.4)**	**(320.1)**	**-**	**(479.9)**
2019					
Gross carrying amount					
Balance at 1 July 2018	219.6	82.8	415.8	12.1	730.3
Additions	63.3	6.9	1.9	35.6	107.7
Transfers in/(out)	-	-	8.7	(9.5)	(0.8)
Disposals	-	-	-	-	-
Balance at 30 June 2019	**282.9**	**89.7**	**426.4**	**38.2**	**837.2**
Accumulated amortisation and impairment					
Balance at 1 July 2018	(78.4)	(63.7)	(238.1)	-	(380.2)
Amortisation expense	-	(8.7)	(42.4)	-	(51.1)
Disposals	-	-	-	-	-
Balance at 30 June 2019	**(78.4)**	**(72.4)**	**(280.5)**	**-**	**(431.3)**
Closing net book amount					
As at 30 June 2020	204.5	8.3	145.2	28.0	386.0
As at 30 June 2019	204.5	17.3	145.9	38.2	405.9

1. In the previous financial year, MH Investment Holdings Pty Ltd acquired a 100% interest in the in-home care business Home Support Services Pty Ltd (HSS) which resulted in the recognition of goodwill of $63.3 million. The goodwill was allocated to the Home Care group of CGUs, which is comprised of HealthStrong, HSS and the internally developed businesses of CareComplete and Medibank at Home.

(a) Impairment tests for goodwill

Impairment Accounting Policy

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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 called cash-generating units (CGUs). 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.

(b) Key assumptions and judgements

Below is a CGU-level summary of the Group's goodwill allocation and the key assumptions made in determining the recoverable amounts.

	2020			2019		
	Goodwill allocation $m	Growth rate %	Pre-tax discount rate %	Goodwill allocation $m	Growth rate %	Pre-tax discount rate %
Health Insurance	96.2	2.5	10.7	96.2	2.5	13.9
Medibank Health Telehealth	11.1	2.5	11.3	11.1	2.5	16.2
Medibank Health Home Care	97.2	2.5	11.3	97.2	2.5	16.2

Growth rates and discount rates

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates as per industry forecasts.

In performing the recoverable amount calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The discount rates used reflect specific risks relating to the relevant CGU.

During the period, the Group reassessed the Medibank Health discount rate methodology. The revised methodology takes into account the long-term risk-free rate and continued diversification of cash flows within the segment. The revised discount rate has been reasonably benchmarked against the discount rate profile for ASX listed businesses of similar size. There are no reasonably possible movements in the discount rate that would result in an impairment loss for any of the CGUs in the current financial year.

Health Insurance CGU

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on the Corporate Plan approved by the Board. Cash flows beyond the Corporate Plan period are extrapolated using the estimated growth rates, with a terminal value assumed in the calculations.

Key assumptions

- Forecast revenue comprising estimated change in the number of members and future premium revenue rate rises.
- Forecast claims and operating expenses.

<table>
<tr>
<td>Medibank Health Telehealth CGU</td>
<td>
The recoverable amount is based on a value-in-use calculation, which uses a three-year cash flow projection per the Group's Corporate Plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates. No terminal value has been assumed in the calculations.
Key assumptions

Forecast revenue for the market sector and specific forecasts for key customer contracts.
Forecast direct expenses and allocated corporate costs.
Period over which to assess the forecasts.

The key assumption in the Medibank Health Telehealth CGU is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's Corporate Plan, could impact the recoverability of the CGU. The business model of the CGU is contract based by nature and the forecast cash flows contain assumptions around expected contract renewals, new wins and losses. This cash flow estimate assumes that current contract renewal options will be exercised by the customers. This assumption is based on management's past experience and knowledge of the market in which the CGU operates.
</td>
</tr>
<tr>
<td>Medibank Health Home Care group of CGUs</td>
<td>
Home Care 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 recoverable amount is based on a value-in-use calculation, which uses a three-year cash flow projection per the Group's Corporate Plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates with a terminal value assumed in the calculations.
Key assumptions

Forecast revenue based on market sector growth, customer contracts and specific volume forecasts for geographic areas.
Forecast direct expenses and allocated corporate costs.
Expected synergies from:

Single go-to-market approach.
Integration of the chronic disease management and rehab at home programs.
Workforce management.

The key assumption in the Medibank Health Home Care group of CGUs is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's Corporate Plan, could impact the recoverability of the CGUs. The business model of the Home Care group of CGUs is volume and contract based and the forecast cash flows contain assumptions including volumes of services performed across geographic areas and expected contract renewals, new wins and losses. The cash flow forecast assumes that service volumes will increase based on geographic growth and new contracts. This assumption is based on management's past experience and knowledge of the market in which the CGUs operate.
</td>
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</table>

The expected impact of COVID-19 on the cash flow forecasts has been taken into consideration in determining the recoverable amounts of the CGUs.

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 financial year.

(c) Intangible assets capital expenditure commitments

	2020 $m	2019 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	1.7	1.1

Intangible Assets Accounting Policy

	Accounting policy	Key estimates
Goodwill	Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.	Refer to Note 12(b) above for further information on the assumptions used in the recoverable amount calculations.
Software	Software intangibles are carried at cost less accumulated amortisation and impairment losses. Costs incurred in acquiring software and licences (including external direct costs of materials and service and direct payroll-related costs of employees' time spent on the project) are capitalised 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 and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income. The expected useful lives of the Group's software were reassessed during the financial year and are now 1.5 to 10 years (2019: 1.5 to 7 years). This change did not have a material impact on the Group's amortisation expense this period.	The estimated useful lives are based on projected product lifecycles and could change significantly as a result of technical innovations and competitor actions.
Customer contracts and relationships	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) and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income.	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 key assumption in assessing customer contracts and relationships for impairment is the retention of the underlying contracts. Assumptions are made around renewal of these contracts, associated cash flows based on contracted renewal options and the Group's commercial and strategic long-term plans.

Note 13: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements

	2020 $m	2019 $m
Employee entitlements		
Current	43.2	45.6
Non-current	21.9	20.8
Total employee entitlements	**65.1**	**66.4**

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

(ii) Employee benefits expense

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

	2020 $m	2019 $m
Superannuation expense	29.7	28.3
Other long-term benefits expense	5.0	4.5
Termination benefits expense	2.7	2.6
Share-based payment expense	1.2	5.7

Employee Entitlements Accounting Policy

Short-term obligations

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.

Other long-term employee benefit obligations – key estimate

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:

- Expected future wage and salary levels.
- Experience of employee departures.
- Periods of service.

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.

Bonus plans

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.

Termination benefits

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:

- 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 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

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.

(b) Provisions

	Commissions $m	Restructuring $m	Make good $m	Medical services $m	Other $m	Total $m
Balance at 1 July 2019	9.6	2.5	2.9	6.5	20.9	42.4
Additional provision	6.5	0.5	1.6	-	12.3	20.9
Amounts utilised during the year	(6.2)	(0.9)	-	(6.5)	(7.5)	(21.1)
Reversal of unused provision	(1.8)	(1.7)	-	-	(1.3)	(4.8)
Balance at 30 June 2020	8.1	0.4	4.5	-	24.4	37.4
Balance comprised of:						
Current	8.1	0.4	1.3	-	20.6	30.4
Non-current	-	-	3.2	-	3.8	7.0

(i) Commissions provision

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

(ii) Restructuring provision

Onerous lease provisions are included in the restructuring provision where they relate to space that the Group will no longer continue to utilise as a result of undertaking a restructuring program. Onerous lease provisions that do not arise from restructuring programs are classified as other provisions.

(iii) 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.

(iv) Medical services provision

This provision related to the estimated cost of sub-contracted medical services incurred but not settled or processed at balance date in relation to the Garrison Health Services contract. The provision has a nil balance at 30 June 2020 as services under the contract ceased on 30 June 2019. Refer to Note 15(c) for further information.

(v) Other provision

The other provision includes other provisions that have arisen in course of business. Other provisions at 30 June 2020 include the following:

- Provision for workers compensation of $4.8 million.
- Provision for corporate loyalty benefits of $6.7 million.

The Group has entered into $8.8 million (2019: $7.0 million) of bank guarantees in relation to its self-insured workers compensation obligations.

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.

(c) 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 regulatory bodies such as the ACCC, ASIC or APRA 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.

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 14: 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

	2020 $m	2019 $m
Continuing operations		
Current tax	226.8	184.2
Deferred tax[1]	(93.9)	(2.9)
Adjustment for tax of prior period	1.7	(2.7)
Income tax expense reported in the statement of comprehensive income	134.6	178.6

1. Includes deferred tax of $89.1 million (2019: nil) in relation to the COVID-19 claims liability. Refer to Note 3(b) for further information on the COVID-19 claims liability.

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

	2020 $m	2019 $m
Profit for the year from continuing operations before income tax expense	450.2	616.3
Tax at the Australian tax rate of 30%	135.1	184.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non assessable gains on disposal	-	(0.1)
Tax offset for franked dividends	(1.8)	(1.5)
Other items	(0.4)	(2.0)
	132.9	181.3
Adjustment for tax of prior period	1.7	(2.7)
Income tax expense reported in the statement of comprehensive income	134.6	178.6

(c) Deferred tax assets and liabilities

	2020 $m	2019 $m
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	2.1	2.2
Financial assets at fair value through profit or loss	(16.0)	(27.6)
Deferred acquisition costs	(23.4)	(23.9)
Property, plant and equipment[1]	(22.8)	2.9
Intangible assets	(16.8)	(17.2)
Trade and other payables[1]	34.5	10.7
Employee entitlements	19.5	19.6
Claims liabilities[2]	95.0	7.1
Provisions	11.4	9.6
Business capital costs	0.5	0.6
Other (liabilities)/assets	(0.6)	2.3
Recognised in the income statement	**83.4**	**(13.7)**
Recognised directly in other comprehensive income		
Actuarial loss on retirement benefit obligation	0.6	0.5
Recognised directly in other comprehensive income	**0.6**	**0.5**
Net deferred tax (liabilities)/assets	**84.0**	**(13.2)**

1. Includes deferred tax in relation to the application of AASB 16 Leases. Refer to Note 18 for further information.
2. Includes deferred tax in relation to the COVID-19 claims liability. Refer to Note 3(b) for further information on the COVID-19 claims liability.

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.

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

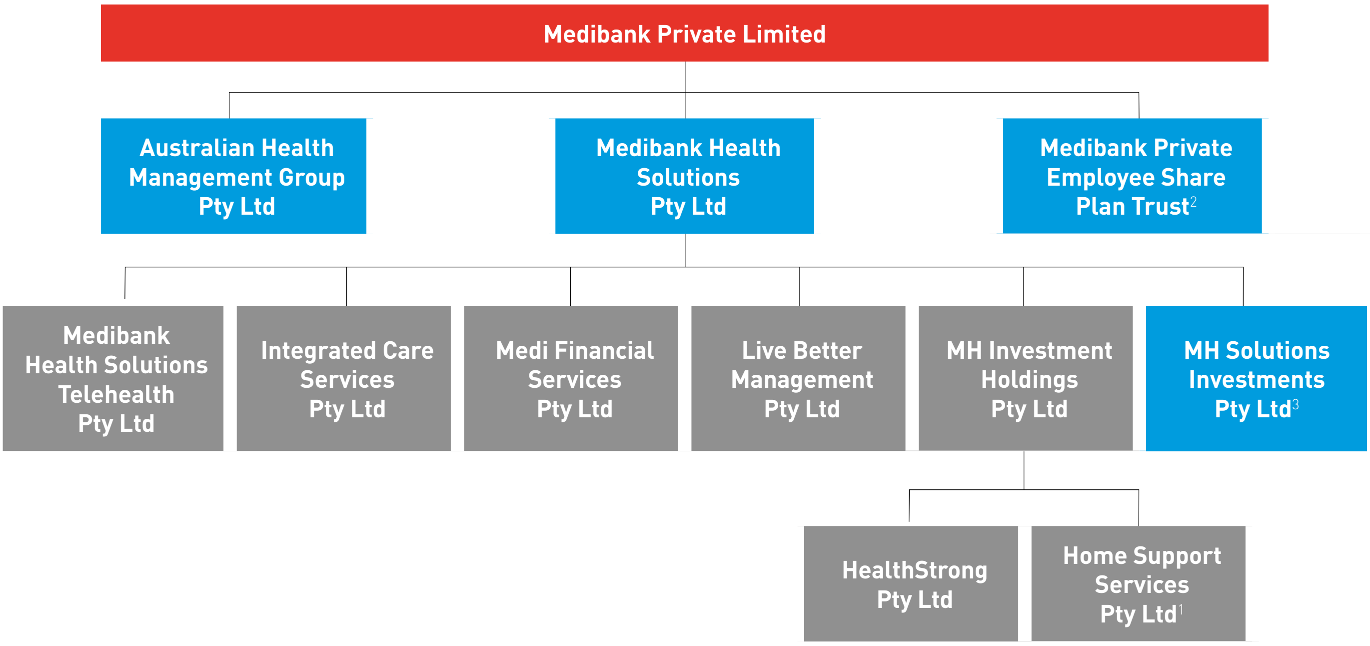
The deferred tax asset in relation to the COVID-19 claims liability has been recognised in the consolidated statement of financial position. Recognition is on the basis that the Group can demonstrate that:

- 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 15: Group structure

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries, which 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.*

1. In the previous financial year, MH Investment Holdings Pty Ltd acquired a 100% interest in the home care business Home Support Services Pty Ltd (HSS).
2. Refer to Note 16(a) for further information on the Employee Share Plan Trust.
3. MH Solutions Investments Pty Ltd was registered on 26 June 2020.

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) Parent entity financial information

(i) Summary financial information

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

	2020 $m	2019 $m
Statement of financial position		
Current assets	3,029.6	2,903.8
Total assets	3,700.3	3,479.1
Current liabilities	1,707.3	1,420.3
Total liabilities	1,970.4	1,625.0
Shareholders' equity		
Issued capital	85.0	85.0
Reserves		
Equity reserve	6.3	6.3
Share-based payment reserve	4.5	6.6
Retained earnings	1,634.1	1,756.2
Total shareholders' equity	**1,729.9**	**1,854.1**
Profit for the year	**312.1**	**437.8**
Total comprehensive income	**312.1**	**437.8**

(ii) Guarantees entered into by parent entity

The parent entity has entered into $8.5 million (2019: $6.8 million) of bank guarantees in relation to its self-insured workers compensation obligations. Refer to Note 13(b)(v) for further information on the provision for workers compensation. The parent entity also provided guarantees in respect of service obligations assumed by members of the Group. No liability has been recognised in relation to these guarantees by the parent entity or the Group as the fair value of the guarantees is not material.

(iii) Contingent liabilities of the parent entity

Refer to Note 13(c) for details of the contingent liability of the parent entity.

(iv) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2020, the parent entity had nil contractual commitments for the acquisition of property, plant and equipment (2019: $0.9 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

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.

(c) Discontinued operations

On 19 November 2018, Medibank was informed by the Australian Government Department of Defence that it had not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract. Services under the contract ceased on 30 June 2019. The Garrison Health Services contract has been classified as a discontinued operation at 30 June 2020 in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

	2020 $m	2019 $m
Results of discontinued operations		
Revenue	6.0	453.9
Expenses	(6.8)	(423.7)
Profit/(loss) for the year before income tax	**(0.8)**	30.2
Income tax expense	0.2	(9.2)
Profit/(loss) after tax attributable to ordinary equity holders of the Company	**(0.6)**	21.0
Cash flows of discontinued operations		
Net cash inflow/(outflow) from operating activities	(5.0)	34.8
Net cash inflow from investing activities	-	-
Net cash outflow from financing activities	-	-
Net cash flows for the year from discontinued operations	**(5.0)**	**34.8**
Basic and diluted earnings per share for discontinued operations (cents)	(0.02)	0.76

The 30 June 2019 balance sheet includes the following amounts in relation to the discontinued operations:

- Trade and other receivables – $66.9 million.
- Trade and other payables – $47.6 million.
- Provisions – $11.0 million.

(d) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2020 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors or specified executives during the current or prior financial years.

Note 16: Share-based payments

(a) Share-based payments arrangements

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

- Align the interests of employees participating in the plan 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 ELT and SEG members.

Performance rights granted do not carry any voting rights.

During the 2018 financial year, an Employee Share Plan Trust was established to manage Medibank's share-based payments arrangements. Shares allocated by the trust to employees are acquired on-market prior to allocation. The Trust held nil shares at 30 June 2020.

(i) LTI offer

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

- 35% of the performance rights (2019: 50%) will be subject to a vesting condition based on Medibank's absolute earnings per share compound annual growth rate (EPS CAGR) over the performance period.
- 35% of the performance rights (2019: 50%) 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 (2019: not applicable) 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 (new performance hurdle in 2020).

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 2020 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 28 June 2019.This average price was $3.46.

(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 Payment 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.

(b) Performance rights – Group

	Number of equity instruments	
	2020	2019
Outstanding at 1 July	8,430,879	5,947,911
Granted	3,338,273	3,931,547
Forfeited[1]	(594,482)	(305,066)
Exercised[2]	(1,068,721)	(1,120,017)
Lapsed[3]	(1,167,876)	(23,496)
Outstanding at 30 June	8,938,073	8,430,879
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 EPS and TSR performance hurdles.

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2019 and 2020 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 performance rights		Market share performance rights[1]
	2020	2019	2020	2019	2020
Grant date	1 July 2019	1 July 2018	1 July 2019	1 July 2018	1 July 2019
Date of commencement of service and performance period	1 July 2019	1 July 2018	1 July 2019	1 July 2018	1 July 2019
Expected vesting date	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022
Fair value at grant date	$1.09	$1.37	$2.80	$2.44	$2.80
Share price at grant date	$3.21	$2.92	$3.21	$2.92	$3.21
Dividend yield (per annum effective)	4.0%	4.5%	4.0%	4.5%	4.0%
Franking rate	100.0%	100.0%	100.0%	100.0%	100.0%
Risk free discount rate (per annum)	0.6%	2.1%	n/a	n/a	n/a
Valuation method	Monte Carlo simulation model	Monte Carlo simulation model	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
Volatility assumptions (per annum)					
Medibank	20%	20%	n/a	n/a	n/a
Comparator group average	23%	22%	n/a	n/a	n/a
Correlation between comparator companies' TSR	25%	25%	n/a	n/a	n/a

1. A new performance hurdle was introduced in the 2020 LTI plan in relation to Medibank's private health insurance market share (as reported by APRA). Refer to Note 16(a)(i) for further information.

Note 17: Key management personnel remuneration

The names of persons who were directors and specified executives of the Group at any time during the financial year are disclosed in the directors' report. Detailed remuneration disclosures are provided in the remuneration report.

	2020 $	2019 $
Short-term benefits	7,722,918	9,279,333
Post-employment benefits	300,528	312,099
Long-term benefits	323,044	186,193
Share-based payments	1,641,366	4,255,725
Total key management personnel	**9,987,856**	**14,033,350**

Note 18: Leases

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.

(a) Transition to AASB 16 *Leases*

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods. The Group has applied the modified retrospective method of adoption from 1 July 2019, which does not require restatement of comparative information. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening balance sheet at 1 July 2019.

Impact of the new definition of a lease

The Group applied the practical expedient available on transition to AASB 16 and, for those contracts entered prior to the date of initial application, did not reassess whether a contract is or contains a lease.

Impact on lessee accounting

The Group's lease contracts include retail stores and office spaces. On adoption of AASB 16, the group recognised lease liabilities in relation to its property leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019.

Lease payments are generally discounted using the interest rate implicit in a lease. The Group has concluded this cannot be readily determined and have used an incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In determining the incremental borrowing rate, the following components were considered:

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

The Group applied the practical expedient and used a single discount rate to portfolios of leases with reasonably similar characteristics. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.86%.

The associated right-of-use assets leases were measured on a lease-by-lease basis at:

- An amount as if AASB 16 had applied from lease commencement (but using incremental borrowing rate at date of transition), with the difference between the asset and liability being recognised in opening retained earnings at transition; or
- At an amount equal to lease liability.

The Group applied the practical expedient and relied on previous assessments on whether leases are onerous.

The provision for onerous lease contracts which was required under AASB 117 of $3.9 million was derecognised against the right-of-use assets.

As at 30 June 2020, management have determined it is not reasonably certain that any of its leases will be extended or terminated.

Impact on lessor accounting

Two of the Group's four subleases are classified as finance leases under AASB 16 as the present value of the lease payments amounts to substantially all of the fair value of the underlying asset and the lease terms are for the major part of the economic life of the underlying asset. As an intermediate lessor, the Group has accounted for the head lease and the sublease as two separate contracts.

On transition, as a lessor the Group derecognised $7.5 million of the right-of-use assets and recognised finance lease receivables of $10.8 million. The difference of $3.3 million was recorded in other income within the consolidated statement of comprehensive income.

Finance lease receivables are presented within other assets in the consolidated statement of financial position.

Impact of adoption of AASB 16

Below is a reconciliation of the Group's operating lease commitments as at 30 June 2019 to the lease liability recognised as at 1 July 2019:

	2020 $m
Operating lease commitments disclosed as at 30 June 2019	143.4
Discounted using the Group's incremental borrowing rate at the date of initial application	(10.9)
Lease liability recognised as at 1 July 2019	**132.5**
Balance comprised of:	
Current lease liabilities	30.9
Non-current lease liabilities	101.6

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Prepayments – decreased by $3.5 million
- Finance lease receivables – increased by $10.8 million
- Right-of-use assets – increased by $88.0 million
- Deferred tax assets – increased by $1.3 million
- Trade and other payables – decreased by $30.6 million
- Lease liabilities – increased by $132.5 million
- Provisions – decreased by $3.9 million.

The net impact after tax on retained earnings on 1 July 2019 was a decrease of $4.7 million.

The AASB 16 transition impact was reviewed and revised after the Group's Interim Financial Report was published, with the primary changes being a decrease to the impact on deferred tax assets of $3.4 million and a corresponding increase in the net impact on retained earnings of $3.4 million.

Depreciation expense in relation to right-of-use assets amounted to $27.0 million and finance expenses in relation to the lease liabilities amounted to $3.4 million in the period. In the comparative period, lease related expenses were classified as 'lease expense' in the consolidated statement of comprehensive income.

In the current period, lease payments are classified as cash flows from financing activities in the consolidated statement of cash flows. In the comparative period, lease payments were classified as payments to suppliers and employees.

(b) Summary of lease related balances

	Note	2020 $m	2019 $m
Statement of comprehensive income			
Depreciation expense on right-of-use assets		(27.0)	-
Interest paid – leases		(3.4)	-
Sub-lease income		**2.3**	-
Statement of financial position			
Finance lease receivables			-
Current		1.9	-
Non-current		7.0	-
Right-of use assets[1]	11	72.1	
Lease liabilities			
Current	9(c),(e)	27.9	-
Non-current	9(c),(e)	81.3	-
Statement of cash flows			
Lease principal payments		29.9	-
Lease interest payments		3.4	-

1. Includes additions to the right-of-use assets during the period of $11.3 million (2019: not applicable).

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.

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.

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.

As a lessor
The Group acts as an intermediate lessor for two of its four 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.

Accounting policies applicable for the comparative period

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recorded in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Lease incentives
Lease incentives received are recognised as a liability. Lease payments are allocated between the rental expense and the reduction of the liability over the term of the lease.

Onerous lease contracts
The Group recognises a provision for losses on lease contracts (refer to Note 13(b)) when the unavoidable minimum net costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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:

	2020 $	2019 $
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	1,581,094	1,529,841
Other assurance services in relation to the Company and any other entity within the Group:		
- Audit of regulatory compliance returns	342,264	178,430
- Accounting and other assurance services	64,260	-
Other services in relation to the Company and any other entity within the Group:		
- Other non-audit services[1]	-	204,676
Total remuneration of PwC	**1,987,618**	**1,912,947**

1. Other services include advisory services in relation to tax and business integration.

Note 20: Other

(a) New and amended standards adopted

Refer to Note 18 for further information on the impact of adopting AASB 16 *Leases*.

Other accounting standards became effective for the annual reporting period commencing on 1 July 2019 but did not have a material impact on the Group's accounting policies or on the consolidated interim 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 2020 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*

This standard 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 plans to apply AASB 17 for the annual period beginning 1 July 2023.

The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long-term contracts, the Premium Allocation Approach for short-term contracts and a Variable Fee Approach for direct participating products. The IASB has published a number of amendments which are designed to minimise the risk of disruption to implementation and do not change the fundamental principles of the standard.

The Group is continuing its assessment of the potential impact on its consolidated financial statements. Disclosure changes and impacts on the profit and loss are expected.

(ii) Amendments to References to the Conceptual Framework in IFRS Standards

The amendments noted below are effective for reporting periods beginning on or after 1 January 2020 and are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

The IASB issued the revised Conceptual Framework (RCF) in March 2018, and also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

(iii) 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.

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.

(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 2020.

Directors' declaration

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

(a) the financial statements and notes set out on pages 73 to 120 are in accordance with the *Corporations Regulations 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2020 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 and the Group will be able to pay their 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 2020.

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

On behalf of the Board,

Elizabeth Alexander AO	**Craig Drummond**
Chairman	Chief Executive Officer

20 August 2020
Melbourne

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Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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.

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
20 August 2020

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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 2020 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 2020
- 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 a summary of significant accounting policies
- 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 and 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.

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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

For the purpose of our audit we used overall Group materiality of $22.5 million, which represents approximately 5% of the Group's profit before tax.

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.

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.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

We performed:

- An audit of the financially significant component of the Group, being the private health insurance segment.
- Specific audit procedures over significant risks and financially significant balances of the Medibank Health segment.

Key audit matters

Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee:

- Recognition and measurement of the COVID-19 claims liability
- Estimation of the outstanding claims liability
- Reliance on automated processes and controls
- Impairment test of goodwill allocated to Home Care Group of Cash Generating Units (CGUs)

These are further described in the *Key audit matters* section of our report.

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*
Recognition and measurement of the COVID-19 claims liability $297.1m *Refer to note 3 for accounting policy and disclosures* Australia's federal, state and territory governments put in place a number of restrictions from March 2020 to slow the spread of the global Coronavirus (COVID-19) pandemic. As a result, private health insurers experienced abnormally low claims volumes due to the temporary closure of elective surgery and reduced access to ancillary services during the six months ended 30 June 2020. In response, prior to 30 June 2020 the Group publicly announced and commenced a number of commitments to policyholders to pass-back any unforeseen COVID-19 related financial gains that may emerge. A number of Australian Accounting Standard requirements were considered by the Group to account for the impact of the COVID-19 pandemic on claims volumes, the resulting financial performance of private health insurers, and the Group's COVID-19 policyholder commitments. The Group's public commitments created an expectation as at 30 June 2020 that any financial gains relating to the COVID-19 restrictions on hospital, overseas and ancillary claims would be temporary. This gave rise to a constructive obligation to policyholders, expected to be delivered through the payment of claims for benefits that were unable to be made prior to 30 June 2020. Accordingly, the Group has recognised a COVID-19 claims liability as at 30 June 2020 and an associated claims expense. This COVID-19 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 KAM titled '*Estimation of outstanding claims liability*').	We performed the following audit procedures, amongst others: • Evaluated the design of the Group's relevant key controls over the COVID-19 provisioning process and assessed whether a sample of the relevant key controls were operating effectively throughout the year, including the impact of the COVID-19 pandemic on relevant key controls. • Developed an understanding of the Group's public announcements and commitments to financial analysts, shareholders and policyholders. • Evaluated the Group's accounting policy to recognise the deferral of claims during the COVID-19 pandemic, and resulting impact on financial performance, against applicable Australian Accounting Standard requirements and private health insurance industry practices. • Assessed, on a sample basis, the key data inputs used in the Group's modelling and measurement of the COVID-19 claims liability. • Together with PwC actuarial experts, we: ○ Assessed the key assumptions applied by the Group in determining the impact of COVID-19 restrictions on hospital, overseas and ancillary claims deferred to future periods, including consideration of practices adopted across the private health insurance industry.

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Key audit matter	*How our audit addressed the key audit matter*
We considered this a key audit matter due to the: • significant financial impact of the COVID-19 pandemic on claims trends across the private health insurance industry • judgement required by the Group in determining the applicable Australian Accounting Standard requirements to recognise the impact of COVID-19 restrictions on claims and resulting impact on financial performance • measurement estimation involved in determining the deferred entitlement to policyholders for claims not incurred due to COVID-19 restrictions • adequacy of disclosure of the COVID-19 claims liability within the Group's financial report.	○ Considered the appropriateness of the Group's methodologies used to determine claims deferred to future periods including consideration of reasonable alternatives. ○ On a sample basis, performed recalculations over the mathematical accuracy of the Group's COVID-19 claims liability model. • Assessed the adequacy of disclosure of the COVID-19 claims liability in the financial report against the requirements of the applicable Australian Accounting Standards.
Estimation of the outstanding claims liability $322.5m *Refer to note 3 for accounting policy and disclosures* 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. 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 impact of unprecedented events, such as the COVID-19 pandemic, on claims incurred given the inherent difficulty in determining the practical effect of such events on claims emergence patterns. 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% (2019: 95%).	We performed the following audit procedures, amongst others: **Controls design and operating effectiveness** • We evaluated the design of the Group's relevant key controls over the claims reserving process, taking into consideration the impact on a sample of the relevant key controls of the COVID-19 pandemic (including data reconciliation, data inputs, data quality, and the Group's review of the estimate) and assessed whether these controls were operating effectively throughout the year. **The Group's use of actuarial expertise** Together with PwC actuarial experts, we: • Considered whether the Group's actuarial methodologies were consistent with actuarial practices and those used in the industry. • On a sample basis, performed recalculations over the mathematical accuracy of the Group's actuarial models.

Key audit matter	How our audit addressed the key audit matter
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: • 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 member claiming patterns. We considered this a key audit matter because of the significant judgement required by the Group in estimating claims liabilities, including uncertainty as to the economic 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.	• Assessed the key 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 key actuarial assumptions to the Group's historical experience, observable market trends, environmental factors, estimated payment patterns, member claiming patterns, and our industry knowledge. • Considered the sensitivity of the estimate to reasonably plausible alternative service levels by reference to payment history, recent claims trends, and COVID-19 environmental factors. • 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 probability of adequacy. **Claims received after the year-end** • We considered whether actual claiming activity after year-end supported the key assumptions used by the Group to estimate the outstanding claims liability at year-end.
Reliance on automated processes and controls The Group utilises a number of complex and interdependent Information Technology (IT) systems to capture, process and report a high volume of transactions. We considered this a key audit matter because the: • 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.	We developed an understanding of the Group's IT governance framework as well as the internal controls designed to mitigate the risk of fraud or error over: • program development and changes • access to programs and data • computer operations • business process. Together with PwC IT specialists, we performed the following procedures, amongst others: • Considered the impact of the COVID-19 pandemic on the IT control environment. • Assessed the design and operating effectiveness of a sample of key IT controls that are relevant to the financial reporting process and our audit.

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Key audit matter	How our audit addressed the key audit matter
	• Recalculated a sample of key automated calculations within the Group's systems to test mathematical accuracy. • Compared a sample of system generated reports, which are critical to processing and reporting financial transactions, back to source data.
Impairment test of goodwill allocated to Home Care Group of Cash Generating Units (CGUs) $97.2m *Refer to note 12 for accounting policy and disclosures* The Group recognised goodwill of $97.2 million in respect of the acquisition of a number of in-home care businesses. For the purposes of impairment testing, this goodwill has been allocated to a group of Cash Generating Units (CGUs). This group of CGUs is referred to as the Home Care Group of CGUs (Home Care). An impairment assessment is performed annually by the Group at the Home Care level by comparing the carrying value of Home Care to the recoverable amount. The impairment assessment methodology of Home Care was revised during the period, with particular emphasis on the discount rate applied. We considered this to be a key audit matter due to the: • financial significance of the goodwill allocated to Home Care which accounts for 48% of the goodwill balance recognised by the Group. • 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, including the growth rates and discount rate, applied by the Group in determining the revised impairment assessment methodology. • effects of the COVID-19 pandemic on the realisation of planned strategic objectives and the resulting impact on the performance of Home Care.	We performed the following procedures, amongst others: • Developed an understanding of the Home Care strategy including how performance is managed and monitored by the Group. • 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 the practical effects of the COVID-19 pandemic. • 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. • 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. • Tested the mathematical accuracy of the value-in-use model and reperformed the Group's sensitivity analysis, considering reasonably possible changes in key assumptions. • Developed an understanding of the impairment assessment methodology, including judgements and assumptions applied. • Compared the growth rate assumed in the cash flow projects extrapolated beyond three years (terminal growth rate) to industry research. • Together with PwC valuation experts, compared the discount rate assumptions to market data, comparable data, and industry research.

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 2020, 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.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 48 to 72 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2020 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.

PricewaterhouseCoopers.

PricewaterhouseCoopers

CJ Heath

CJ Heath
Partner

Melbourne
20 August 2020

Shareholder information

The shareholder information below is current as at 20 August 2020.

Distribution of equity securities

Size of shareholding	Number of shareholders	Number of shares
1 - 1,000	44,390	40,334,999
1,001 - 5,000	145,983	412,779,914
5,001 - 10,000	15,088	103,882,812
10,001 - 100,000	6,926	147,519,632
100,001 & over	184	2,049,485,883
Total	**212,571**	**2,754,003,240**

Unmarketable parcels

There were 1,093 holdings of less than a marketable parcel ($500) of shares (175 shares based on a market price of $2.86 per share) and such holders held a total of 59,954 shares.

20 largest shareholdings

		Number of shares	% of issued capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	843,775,076	30.64
2	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	565,553,382	20.54
3	CITICORP NOMINEES PTY LIMITED	231,986,783	8.42
4	NATIONAL NOMINEES LIMITED	150,880,935	5.48
5	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	70,767,066	2.57
6	BNP PARIBAS NOMS PTY LTD <DRP>	41,621,581	1.51
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	27,939,044	1.01
8	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	11,436,005	0.42
9	NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	6,858,618	0.25
10	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	6,739,696	0.24
11	THE SENIOR MASTER OF THE SUPREME COURT <COMMON FUND NO 3 A/C>	6,500,000	0.24
12	UBS NOMINEES PTY LTD	6,419,250	0.23
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	4,428,496	0.16
14	AMP LIFE LIMITED	4,420,770	0.16
15	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,875,287	0.14
16	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	3,659,226	0.13
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,973,110	0.11
18	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	2,252,577	0.08
19	NATIONAL NOMINEES LIMITED <DB A/C>	2,231,402	0.08
20	BNP PARIBAS NOMS (NZ) LTD <DRP>	2,176,759	0.08
Total		**1,996,495,063**	**72.49**

Substantial shareholders

As at 20 August 2020 the following holders had provided a substantial shareholding notice:

Name of holder	Number of shares	% of issued capital
Blackrock Inc.	166,096,036	6.03
The Vanguard Group	137,963,568	5.01

Voting rights

At a general meeting of the Company, every shareholder present (including virtually present) or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each share held.

On-market purchases of shares

During the financial year ended 30 June 2020, 1,088,835 Medibank ordinary shares were purchased on market at an average price of $3.50 for the purposes of Medibank's employee incentive schemes.

On-market share buy-back

There is no current on-market share buy-back.

Financial calendar

Key dates

Full year results announcement	20 August 2020
Ex-dividend share trading commences	2 September 2020
Record date for final dividend	3 September 2020
Payment date for final dividend	24 September 2020
Annual general meeting	12 November 2020
Half year results announcement	February 2021
Payment date for interim dividend	March 2021

The above dates and payments are subject to confirmation.
Any change will be notified to the Australian Securities Exchange (ASX).

Corporate directory

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Share registry

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medibank

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