medibank
For Better Health

MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259
RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group Financial year ended 30 June			
	2019 $m	2018 $m	Movement $m	Movement %
Health Insurance premium revenue	6,470.7	6,319.5	151.2	2.4%
Medibank Health revenue	185.1	149.3	35.8	24.0%
Revenue (excluding net investment and other income) from continuing operations	**6,655.8**	**6,468.8**	**187.0**	**2.9%**
Revenue from discontinued operations [1]	**453.9**	**437.6**	**16.3**	**3.7%**
Net investment and other income	109.2	108.1	1.1	1.0%
Total income from operations	**7,218.9**	**7,014.5**	**204.4**	**2.9%**
Profit from continuing operations after tax attributable to shareholders	**437.7**	**424.2**	**13.5**	**3.2%**
Profit from discontinued operations after tax attributable to shareholders [1]	**21.0**	**20.9**	**0.1**	**0.5%**
Net profit attributable to shareholders	**458.7**	**445.1**	**13.6**	**3.1%**

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

The results are summarised as follows:

- Health Insurance premium revenue increased 2.4% or $151.2 million to $6,470.7 million.
- Medibank Health revenue increased 24.0% or $35.8 million to $185.1 million.
- Net investment and other income increased 1.0% or $1.1 million to $109.2 million.
- Profit from continuing operations increased 3.2% or $13.5 million to $437.7 million.
- Net profit attributable to shareholders increased 3.1% or $13.6 million to $458.7 million.

For further information refer to the directors' report in the attached financial report of Medibank Private Limited for the year ended 30 June 2019.

Dividend information

A fully franked final ordinary dividend of 7.40 cents per ordinary share was declared on 22 August 2019 in respect of the six months ended 30 June 2019. A fully franked special dividend of 2.50 cents per ordinary share was also declared on 22 August 2019. These dividends are payable on 26 September 2019 to shareholders on the register at close of business on 5 September 2019.

A fully franked interim ordinary dividend of 5.70 cents per ordinary share was declared on 15 February 2019 in respect of the six months ended 31 December 2018, paid on 28 March 2019 to shareholders on the register at close of business on 6 March 2019.

Net tangible assets per ordinary share

	30 June 2019 cents	30 June 2018 cents
Net tangible assets per ordinary share	55.5	53.7

Net tangible assets are defined as the net assets of the Medibank Private Limited Group less intangible assets.

This report should be read in conjunction with the Medibank Private Limited financial report for the year ended 30 June 2019, and is lodged with the ASX under listing rule 4.3A.

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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 2019, we had 3,818 full-time equivalent (FTE) employees, which included an additional 273 FTE employees from the acquisition of Home Support Services in August 2018. Following the completion of the Garrison Health Services contract on 1 July 2019, we have 3,419 FTE employees, of which 31% are health professionals.

2. Financial and operating performance

References to “2018” and “2019” are to the financial years ended on 30 June 2018 and 30 June 2019 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 Garrison Health Services contract ceased on 30 June 2019, with the financial contribution of this contract reported as discontinued operations.

2.1 Group summary income statement

Year ended 30 June ($m)	2019	2018	Change
Group revenue from external customers[1]	**6,655.8**	**6,468.8**	**2.9%**
Health Insurance operating profit	542.5	535.6	1.3%
Medibank Health operating profit	22.1	17.4	27.0%
Segment operating profit	**564.6**	**553.0**	**2.1%**
Corporate overheads	(36.1)	(34.1)	5.9%
Group operating profit – continuing operations	**528.5**	**518.9**	**1.9%**
Net investment income	102.8	95.6	7.5%
Amortisation of intangibles	(8.7)	(7.6)	14.5%
Other income/(expenses)	(6.3)	(8.5)	(25.9%)
Profit before tax	**616.3**	**598.4**	**3.0%**
Income tax expense	(178.6)	(174.2)	2.5%
NPAT - continuing operations	**437.7**	**424.2**	**3.2%**
NPAT - discontinued operations	21.0	20.9	0.5%
NPAT - total operations	**458.7**	**445.1**	**3.1%**
Effective tax rate[2]	29.0%	29.2%	(20 bps)
EPS (cents)[2]	16.7	16.2	3.1%
Underlying[3] NPAT	**447.9**	**436.4**	**2.6%**
Underlying[3] EPS (cents)	16.3	15.8	2.6%
Dividend per share (cents)	13.10	12.70	3.1%
Dividend payout ratio[3]	80%	80%	-

1. Excludes discontinued operations. Discontinued operations relate to Garrison Health Services (FY19 operating profit of $30.2m) which ceased on 30 June 2019.
2. Calculated on total operations.
3. Dividend payout ratio based on underlying NPAT, normalised for investment market returns, per Note 6(a)(iv) of the Consolidated Financial Statements.

Group operating profit on a continuing basis increased by $9.6 million or 1.9%, from $518.9 million in 2018 to $528.5 million in 2019. This was largely attributable to Health Insurance operating profit which increased by $6.9 million or $4.9 million after tax, reflecting the further improvement in Medibank's policyholder trajectory, a subdued claims environment and good cost control.

Net investment income rose by $7.2 million or 7.5% in 2019, reflecting higher market returns during the second half of the financial year.

The increase in Health Insurance operating profit and net investment income resulted in a $13.6 million or 3.1% increase in NPAT total operations from $445.1 million in 2018 to $458.7 million in 2019.

The current period effective tax rate for the Group was 29.0% in 2019, which is broadly consistent with the rate in 2018 at 29.2%.

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

Health Insurance

Year ended 30 June ($m)	2019	2018	Change
Health Insurance premium revenue[1]	6,464.7	6,319.5	2.3%
Net claims expense (including risk equalisation)	(5,362.1)	(5,226.7)	2.6%
Gross profit	**1,102.6**	**1,092.8**	**0.9%**
Management expenses	(560.1)	(557.2)	0.5%
Operating profit	**542.5**	**535.6**	**1.3%**
Gross margin	**17.1%**	**17.3%**	**(20bps)**
Management expense ratio	8.7%	8.8%	(10bps)
Operating margin	**8.4%**	**8.5%**	**(10bps)**

1. Health insurance premium revenue is after $6.0 million (2018: nil) of transfers between the Group's other operating segments.

Health Insurance premium revenue increased by 2.3%, underpinned by the Government-approved average premium rate rise of 3.88% effective from 1 April 2018 and 3.30% effective from 1 April 2019. The average revenue per policy unit increased by 2.0%.

In a market with industry growth continuing to slow, our customer base remained stable at 3.77 million compared to 3.74 million in 2018. It is pleasing that our market share has grown 5 basis points over the year, driven by our dual brand strategy and improved customer acquisition and retention. Medibank's market share was 26.9% as at 30 June 2019.

At a fund level, our resident policyholder numbers grew by 0.8% in 2019, compared to 0.3% growth in 2018. This was driven by a stable acquisition rate and a 50 basis point improvement in retention. Medibank is well placed to maintain this improving trend with our ongoing focus on differentiated products and services, and enhanced healthcare value for customers. The regulatory reform package implemented from 1 April 2019 created some uncertainty in the market. Despite a more subdued switching rate, ahm continued to grow with the number of policyholders up 7.9% which was driven by a 50 basis point improvement in retention.

Health claims paid on behalf of customers, also known as claims expenses, are the largest cost for the Health Insurance business. Net claims paid on behalf of customers increased by $135.4 million, or 2.6%, to $5.4 billion, representing 82.9% of Health Insurance premium revenue and a claims cost per policy unit increase of 2.3%.

Overall, the Health Insurance gross margin before allowance for management expenses was slightly down by 20 basis points from 17.3% in 2018 to 17.1% in 2019.

Management expenses increased by $2.9 million or 0.5% in 2019. The ratio of management expenses to premium revenue (MER) fell from 8.8% in 2018 to 8.7% in 2019. Depreciation and amortisation increased by $6.4 million, largely reflecting the full year impact of the enterprise resource planning (ERP) system commissioning. The deferred acquisition cost remained relatively stable, reflecting the progressive shift in ahm customer acquisition toward direct channels. Medibank's productivity program delivered savings of $20.4 million during the year, driven by savings in procurement, consulting spend, technology and automation. We are on track to deliver another $20 million of productivity savings in 2020 and have committed to a further $30 million by the end of 2022.

Health Insurance operating profit of $542.5 million was 1.3% higher than 2018, with our Health Insurance operating margin down 10 basis points from 8.5% in 2018 to 8.4% in 2019.

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 was 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 through HealthStrong. 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.

Medibank Health operating profit from continuing operations increased $4.7 million to $22.1 million, with the increase largely reflecting the contribution from HSS.

Our services to the Australian Defence Force under the Garrison Health Services contract ceased on 30 June 2019, with the financial contribution of this contract reported as discontinued operations. Our current milestone to double Medibank Health's segment share of operating profit from FY16 to FY19 has been met when we include the Garrison contract, achieving 9.6% compared to 4.6% in 2016. Our revised milestone for continuing operations is to organically replace the $30 million full year 2018 operating profit of Garrison Health Services by full year 2022. We expect this milestone to be achieved with a combination of the expansion of HSS, growth in diversified insurance and $8 million of cost savings in 2020.

Medibank Health revenue (continued operations) increased by $51.6 million to $230.3 million up 28.9% in 2019, largely reflecting the contribution from the acquisition of HSS. HSS contributed 10 months revenue and operating profit of $30.3 million and $4.8 million respectively.

Growth across other business lines was largely offset by softer earnings from HealthStrong and Telehealth. Performance in these businesses was impacted by operational factors, with HealthStrong also experiencing challenging market conditions in the residential aged care sector. Operating margin was down slightly from 9.7% in 2018 to 9.6% in 2019, with a reduction in gross margin offset by MER, which fell from 37.3% in 2018 to 34.0% in 2019.

Net investment income

Medibank's investment portfolio was $2.7 billion at 30 June 2019. This investment 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 increased by $7.2 million or 7.5% in 2019, reflecting stronger investment returns during the second half of the year.

Following the transition of our domestic equities to a low carbon portfolio in February 2019, both our domestic and international equity investments align with socially responsible investment principles.

2.2 Group financial position

Medibank's net asset position increased by $106.2 million or 5.8% to $1,935.4 million at 30 June 2019.

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

- An increase in cash and cash equivalents and decrease in financial assets at fair value was driven by a rebalancing to cash investments.
- An increase in intangible assets due to goodwill resulting from our acquisition of HSS.

As at 30 June 2019, 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 14% of premium revenue after the allowance for declared but unpaid dividends, as at 30 June 2019. This was at the top end of Medibank's target range of 12% - 14%.

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 13.10 cents per share fully franked, amounting to $360.8 million comprising:

- An interim ordinary dividend of 5.70 cents per share fully franked, amounting to $157.0 million paid on 28 March 2019 in respect of the six-month period ended 31 December 2018.
- A final ordinary dividend of 7.40 cents per share fully franked, amounting to $203.8 million to be paid on 26 September 2019 in respect of the six-month period ended 30 June 2019.

The full year 2019 ordinary dividend represents an 80% payout ratio of underlying NPAT, normalising for investment market returns. The Board's revised policy from 2020 is to target an annual payout ratio of between 75% and 85% of underlying NPAT, normalising for investment market returns.

The change in our capital range from 12% - 14% to 11% - 13% of premium revenue reduces required capital by approximately $66 million, which will be returned to shareholders via a special fully franked dividend of 2.50 cents. The fully franked special dividend will be paid to shareholders on 26 September 2019.

2.4 Management changes

There were no changes to Medibank's Executive Leadership Team in 2019.

3. Strategy and future prospects

Medibank's purpose is 'Better Health for Better Lives' and we are committed to helping Australians achieve a better quality of life. By working to provide affordable and quality health outcomes, we seek to sustainably build our customer base and grow shareholder value.

Delivering for our customers and broadening the relationships we have with them through expanded offerings continued to be a key focus in 2019. Medibank's offering has been strengthened by growing our capability to proactively understand and address our customers' needs.

In line with this strategy, we launched the 24/7 Medibank Mental Health Phone Support to give customers with hospital cover access to qualified mental health professionals over the phone. We also expanded the Medibank Health Concierge service. Our leading data analytics capability is helping us meet a growing customer demand for a more personalised experience and targeted health communications. We had more than 1.5 million health interactions with our customers during the year, which was above our target for 2020.

We finalised the roll out of Medibank's Priority program to recognise our customers with a tenure of more than 10 years, rewarding them through a one-off giveback and ongoing access to enhanced services. In the second half of 2019, we launched the Live Better rewards program. The free Live Better app is available to all Australians, helping them to track and measure their everyday activities. In an industry first, Medibank customers with hospital or extras cover can earn Live Better reward points to use towards lowering their premium or getting more on their extras like a remedial massage or physio service.

Affordability remains a key issue for customers. Recognising the importance of managing costs within the health system, we maintained strong cost discipline and have delivered $40.4 million of productivity savings over the last two years. We will also target a further $50 million in productivity across the next three years, including $20 million in 2020.

Medibank and ahm implemented all the private health reforms, including the voluntary measures, put forward by the Federal Government to give customers more choice, better support and greater affordability. With out-of-pocket costs an ongoing concern for our customers, we also developed a new dental network which saved customers $3 million in the first six months. Based on the success of the Members' Choice Advantage network, we will introduce a new optical network in the first half of financial year 2020.

We continue to play a broader role in alternative ways of delivering healthcare 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.

With the acquisition of HSS, our in-home care capability 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. Our acquisition of HSS and growth of Medibank at Home helped us create approximately 200 virtual beds on average on any given day across the health system. These are beds where patients can choose treatment at home instead of hospital, where appropriate. Scale is the critical enabler of sustainable change and disruption in the industry, and Medibank is well positioned to lead this change.

In addition to this, Medibank joined an innovative trial with Nexus Hospitals. We are funding early to home or short stay joint replacements where clinically appropriate, with Nexus offering participating Medibank customers a zero medical out-of-pocket experience. Early to home or short stay joint replacements have been offered for years internationally. A wide body of clinical research has shown that patients can fare better when they go home soon after their joint replacement surgery. They experience fewer complications, including a lower infection rate, and patients report better outcomes and higher satisfaction scores.

We made pleasing progress against our 2019 strategic pillars and milestones, which we will continue to build on in 2020. This will involve continued growth of Medibank's core Health Insurance business via our dual brand strategy, and expanding our broader health services offering through Medibank Health.

Reflecting on our progress, we have revised our milestones to focus on differentiation, our health services transformation and productivity.

Medibank's strategy and strategic pillars remain unchanged. Looking ahead, Medibank is positioned for growth. We will leverage our dual brand strategy to build competitive advantage in the private health insurance sector and continue our transformation to be a broader healthcare company. Aligned with this overarching strategy, our milestone objectives and priorities for 2020 are detailed below.

Objectives	FY19 update		
Customer advocacy **Drive Service and Customer NPS for Medibank and ahm to be best in class[1]**	**Brand NPS** **(Gap to peers)** Continued improvement	**Average Service NPS** | | **FY18** | **FY19** | | Medibank | 15.3 | 24.8 | | ahm | 28.1 | 38.5 |	**PHIO complaints** FY19: 22.4% share at March 2019 **Customer check-ins[2]** FY19: 519,200 vs 500,000 target
Health interactions **By 2020 every Medibank customer[3] has at least one health interaction[4] through the year with our company**	**FY17** | **FY18** | **FY19** | **FY20[3]** <100k | c. 500k | c. 1.57 m | target c.1.8 m		
			Revised milestones
PHI growth **To grow market share in FY19**	**Policyholder growth** **For FY19** +0.8% / +15,100	**Market share** **2H18** | **1H19** | **2H19** up 5bps | up 2bps | up 3bps	**Medibank brand volumes to stabilise by end of FY20 and grow during FY21**
Medibank at Home **More than double the number of customers receiving Medibank at Home[5] services in FY19**	**FY18** | **1H19** | **FY19** 936 customers | 1,004 customers | 2,144 customers		**Virtual hospital beds more than 300 by end of FY22[6]**
Medibank Health **More than double Medibank Health's segment share of operating profit from FY16 to FY19**	**FY16** | **FY17** | **FY18** | **FY19[7]** 4.6% | 6.7% | 8.1% | 9.6%		**By FY22 organically replace the reported FY18 $30m operating profit of Garrison**
Productivity **3 year target of $60m from FY18 to FY20**	**FY18 – FY19** $40.4m productivity delivered		**FY20 productivity target of $20m and additional $30m during FY21-FY22**

1. Against major private health insurance peers (Bupa, HCF and nib) by the end of calendar year 2019.
2. Inbound or outbound conversations with customers about the appropriateness of their cover.
3. Based on number of policyholders that consent to contact for marketing purposes, some exclusions may apply. Excludes new joins and customer lapses over the period. FY20 includes LiveBetter.
4. Includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications.
5. Excludes HSS which was acquired by Medibank August 2018.
6. Virtual beds equals the number of people receiving hospital care at home on any given day. The calculation is total days of hospital at home service / 365. FY19 virtual beds was approximately 200.
7. FY19 MHS operating profit calculation includes discontinuing operations and an adjustment for excluding one off $5m exit costs.

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
2020 priorities	• Personalise and integrate health into our customers' experience. • Simplify and enhance our cover options. • Enhance loyalty offering to recognise and reward membership.	• Focus on reducing low value care and improving customer health outcomes by providing greater choice and transparency. • Drive reform in the near term to target lower premium increases. • Facilitating a shift to alternative ways of delivering care to improve health outcomes, enhance patient experience and reduce costs.	• Strengthen and broaden our partnerships. • Grow corporate, non-resident and diversified portfolios. • Health services expansion – build scale and grow capability in conjunction with health providers and payors. • Expand the scope and commercialise our payor services including payment integrity program.
Enablers	People | Data | Simplicity		

4. Material business risks

The material business risks which could adversely affect Medibank's operations, business strategies and financial prospects are summarised below:

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, political 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, political and customer risks), we undertake detailed analysis on threats or opportunities that specific scenarios may pose to our business.
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.
Insurance The risk of mis-estimation 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.

Risk description	Risk management strategy
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.
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 and people risks. Management of operational risk is overseen by divisional risk committees, the Executive Risk Committee and the Board's Risk Management Committee.
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.

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 2019.

References to 2018 and 2019 are to the financial years ended on 30 June 2018 and 30 June 2019 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
- Tracey Batten
- Anna Bligh AC
- David Fagan
- Peter Hodgett
- Linda Bardo Nicholls AO
- Christine O'Reilly
- Mike Wilkins AO

Details of each director's qualifications, experience and special responsibilities are set out on pages 11 to 13 and form part of the directors' report.

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. Medibank acquired Home Support Services Pty Ltd in August 2018 to broaden its provision of health-related services. There were no other significant changes in the nature of those activities during the year.

Operating and financial review

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

Significant changes in state of affairs

Medibank's Garrison Health Services contract with the Australian Government Department of Defence ceased on 30 June 2019. The net profit after tax from the contract in 2019 was $21 million. Medibank's objective is to organically replace the 2018 operating profit from Garrison by 2022.

Events since end of financial year

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

The *Medibank Private Sale Act 2006* (Cth) stipulates that no single person (aggregated with their associates) may hold more than a 15% stake in the Company (an "unacceptable ownership situation"). These restrictions will cease to apply on 1 December 2019, being five years after the Commonwealth's sale of its equity in the Company.

Future developments

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

Dividends

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

- A fully franked ordinary dividend of 7.20 cents per share was determined in respect of the six-month period to 30 June 2018 and paid on 27 September 2018 to shareholders registered on 6 September 2018.
- A fully franked interim ordinary dividend of 5.70 cents per share was determined in respect of the six-month period to 31 December 2018 and paid on 28 March 2019 to shareholders registered on 6 March 2019.
- The following dividends have been determined, payable 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; and
  - a fully franked special dividend of 2.50 cents per share.

Directors' qualifications, experience and special responsibilities

Details of each director's qualifications, experience and special responsibilities are set out below.

Elizabeth Alexander AO - Chairman and Independent Non-executive Director
BCom, FAICD, FCA, FCPA

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.

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.

Elizabeth is currently Chairman of DEXUS Wholesale Property Limited, and a director of the IOOF Foundation and the Victorian Registration and Qualifications Authority.

Craig Drummond – Chief Executive Officer
BCom, FCA, SF Fin

Craig was appointed Chief Executive Officer in July 2016.

Prior to joining Medibank, Craig was Group Executive Finance and Strategy of National Australia Bank Limited (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. Craig is also a former director of the Florey Institute of Neuroscience and Mental Health.

Dr Tracey Batten – Independent Non-executive Director
MBBS, MHA, MBA, FAICD, FRACMA

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.

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.

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.

Anna Bligh AC – Independent Non-executive Director
BA (QLD)

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 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 is currently the Chief Executive Officer of the Australian Banking Association and a director of Bangarra Dance Theatre Australia.

David Fagan – Independent Non-executive Director
LLB, LLM, GAICD

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 banking and major projects lawyer with more than 39 years of experience. He acted for major banks and corporate clients with Clayton Utz, and was Clayton Utz's Chief Executive Partner from May 2001 to June 2010. 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 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 Director Advisory Panel.

Peter Hodgett – Independent Non-executive Director
BSc (Hons), FAICD

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.

Linda Bardo Nicholls AO – Independent Non-executive Director
BA, MBA (Harvard), FAICD

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 was previously Chairman of Healthscope, Chairman of KDR Victoria Pty Ltd (Yarra Trams) and a director of Pacific Brands Limited (October 2013 to July 2016), Sigma Pharmaceuticals Limited (December 2005 to December 2015) and Fairfax Media Limited (February 2010 to December 2018).

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.

Christine O'Reilly – Independent Non-executive Director
BBus

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 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 is currently a director of CSL Limited (since February 2011), Transurban Group (since April 2012), Stockland (since August 2018) and The Baker Institute.

Mike Wilkins AO – Independent Non-executive Director
BCom, MBA, FAICD, FCA

Mike was appointed a director in May 2017. He is a member of the Risk Management Committee and the Investment and Capital Committee.

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 was previously a director of Maple-Brown Abbott Limited, Alinta Limited, The Geneva Association and the Australian Business and Community Network.

Mike served as Executive Chairman (April 2018 to June 2018) and Acting Chief Executive Officer (April 2018 to December 2018) of AMP Limited, and continues to be a director (since September 2016) of AMP Limited. He is also a director of QBE Insurance Group Limited (since November 2016).

Company Secretary

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, previously having held the position of Group General Counsel from 2011. She was appointed Company Secretary in 2014. She is responsible for providing legal, governance and regulatory compliance 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 internal counsel and in private practice. Prior to joining Medibank, Mei held various legal positions at Cummins, Coles Myer, Southcorp, Minter Ellison and Arnold Bloch Leibler.

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	6	6	4	4	5	5		5*	1	1		4*
Dr Tracey Batten	9	9	6	6		4*	5	4		5*		1*	4	4
Anna Bligh	9	9	6	5		1*		1*	5	5		1*	4	4
Craig Drummond	9	9	6	6		4*		5*		5*				4*
David Fagan	9	9	6	5		4*	5	5	5	5	1	1		4*
Peter Hodgett	9	9	6	6	4	4		3*	5	5	1	1		4*
Linda Bardo Nicholls	9	9	6	5		4*		4*		5*	1	1	4	4
Christine O'Reilly	9	9	6	5	4	4	5	5		5*	1	1		3*
Mike Wilkins	9	9	6	4		4*	5	5	5	5		1*		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.

Options and performance rights

During the financial year, 3,931,547 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, 1,120,017 performance rights became eligible to vest and were exercised. Further information regarding performance rights is included in the remuneration report on page 17.

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	–
Craig Drummond	256,041	2,663,718
Dr Tracey Batten	34,285	–
Anna Bligh	39,323	–
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 49.

Non-audit services

During the year PricewaterhouseCoopers, the Group's external auditor, performed certain other services to the Group in addition to its statutory responsibilities as auditor.

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

Year ended 30 June – $'000	2019	2018
Audit fees	1,529.8	1,587.0
Assurance services fees:		
Audit of regulatory returns	178.4	142.1
Non-audit service fees	204.7	-
Total	**1,912.9**	**1,729.1**

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

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

Remuneration report

The remuneration report on pages 17 to 47 forms part of the directors' report.

Rounding of amounts

The amounts contained in this directors' report and in the financial report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) unless specifically stated otherwise under the relief available pursuant to ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Medibank is an entity to which that relief applies.

Dear Shareholder,

Medibank is pleased to present its remuneration report for 2019. This report details remuneration outcomes for the Executive Leadership Team (ELT) and non-executive directors after considering Company results, individual performance and the expectations of both customers and shareholders.

Our remuneration strategy has been developed to ensure remuneration is fair, competitive and transparent, with reward outcomes aligned to the achievement of Medibank and individual performance measures. With heightened community and regulatory expectations, the Board has continued to focus on a remuneration governance framework that meets our regulatory compliance obligations, addresses community and customer expectations and delivers sustainable shareholder returns. The Board regularly reviews Medibank's remuneration practices to ensure they remain effective at attracting, motivating and retaining talented executives.

Remuneration decisions at a glance

- All ELT members met their individual risk, compliance and behaviour gateways for 2019
- Discretion was exercised to reduce 2019 short-term incentive (STI) outcomes for ELT members from an average of 71% of their maximum opportunity to 56%
- Discretion was exercised on the calculation of the relative Total Shareholder Return (TSR) performance hurdle for Medibank's 2017 long-term incentive (LTI), resulting in 25% vesting
- Fixed remuneration for ELT members has increased by an average of 2.7% for 2020
- Medibank's 2020 LTI offer includes the adoption of a strategic measure of Customer Growth
- Non-executive director aggregate committee fees have been increased by 2.5% for 2020

Short-term incentives

Medibank delivered solid operational and financial performance in 2019 with behaviours aligned to our values and purpose of 'better health for better lives'. Group operating profit and Health Insurance revenue growth exceeded target, and despite significant year-on-year improvement, Brand Net Promoter Score (NPS) falling below target.

These performance outcomes resulted in STI awards for ELT members that averaged 71% of their maximum opportunity. However, with consideration for the overall Company performance in 2019, including the loss of the Garrison Health Services contract, the Board exercised its discretion to reduce ELT incentive outcomes resulting in STI awards for ELT members that averaged 56% of their maximum opportunity. A similar reduction was applied to the Company-wide incentive pool. In the Board's view, final incentive awards reflect an appropriate outcome based on overall Company performance in 2019.

Long-term incentives

Medibank's 2017 LTI was tested following the completion of the three-year performance period on 30 June 2019, against two equally weighted measures of earnings per share compound annual growth rate (EPS CAGR) and relative TSR against the comparator group.

Medibank's EPS of 2.4% fell below the plan's threshold vesting level of 5% and resulted in no vesting of the EPS performance rights. When assessing performance of the relative TSR hurdle against the comparator group, the Board exercised its discretion in the calculation method, resulting in 50% vesting of the relative TSR perfomance rights. Further detail on the relative TSR calculation can be found in section 7.4 of this report.

In total, 25% of the 2017 LTI performance rights will vest for ELT members, which is an outcome the Board believes strikes the right balance between shareholder outcomes and executive reward.

2020 ELT remuneration

Following a review of fixed remuneration levels of ELT members against the median of Medibank's market comparator group, the fixed remuneration of ELT members was increased by an average of 2.7%, effective 1 July 2019. This included no fixed remuneration increase for the Chief Executive Officer (CEO), Craig Drummond for the second consecutive year. An adjustment was also made to the annual STI target percentages for the Group Executive – Technology & Operations and the Group Executive – Legal, Governance & Regulatory Affairs, and an adjustment to the STI target and LTI opportunity percentages for the Group Executive – Chief Financial Officer. These adjustments were made to improve positioning of these individuals against the market median.

2020 LTI – adoption of a strategic customer measure

In line with the Board's approach to regularly review Medibank's remuneration framework, Medibank's 2020 LTI offer will include the introduction of 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 to 30 June 2022. 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 private health insurance market share as a positive indicator of our 'customers first' focus. The introduction of this strategic measure also ensures our LTI performance hurdles are not over-weighted to financial metrics, a key component of APRA's recent consultation paper on strengthened remuneration prudential requirements that has positioned financial measures on incentive rewards being capped at 50%.

With the adoption of the Customer Growth performance hurdle at a 30% weighting, the existing measures of EPS CAGR and relative TSR will have their weightings reduced from 50% to 35% respectively. Further details of the 2020 LTI offer and performance targets for the growth of Medibank's private health insurance market share will be detailed in Medibank's notice of meeting.

2020 Board and committee fees

Board and committee fees were reviewed against the median of Medibank's market comparator group with a decision made to increase committee chairman fees by $5,000 and committee membership fees by $3,000. No increases were applied to annual base fees for non-executive directors. Effective from 1 July 2019, these changes will result in Medibank's aggregate non-executive director fee spend increasing by 2.5% from $1,893,000 in 2019 to $1,940,000 in 2020. The total fee pool approved by shareholders at the annual general meeting last year remains unchanged.

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

REMUNERATION REPORT

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1. Key management personnel overview

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

In 2019, KMP were as follows:

Executive Leadership Team (ELT) member	Position	Term as KMP
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

The remuneration framework and outcomes for non-executive directors are detailed in sections 11 to 13 of this report.

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 the Chief Executive Officer (CEO), Craig Drummond was not increased for the second consecutive year and remains at $1,534,000. • Fixed remuneration of ELT members was increased by an average of 2.7%, effective 1 July 2019.
Short-term incentive (STI)	• STI awards for ELT members reflected Group operating profit and Health Insurance revenue growth exceeding target, and despite significant year-on-year improvement, Brand Net Promoter Score (NPS) falling below target. • Discretion was exercised to reduce 2019 STI outcomes for ELT members from an average of 71% of their maximum opportunity to 56% • 50% of STI awards for ELT members is deferred for 12 months in the form of performance rights. • The CEO received an STI award of $1,380,400. • To improve their positioning against the market median, an adjustment was made to the 2020 annual STI target percentages for the Group Executive – Chief Financial Officer, Group Executive – Technology & Operations and Group Executive – Legal, Governance & Regulatory Affairs.
Long-term incentive (LTI)	• Discretion was exercised on the calculation of the relative Total Shareholder Return (TSR) performance hurdle for Medibank's 2017 LTI, resulting in 25% vesting. Unvested performance rights have been forfeited in accordance with plan rules. • To improve positioning against the market median, an adjustment was made to the 2020 LTI opportunity percentage for the Group Executive – Chief Financial Officer.

Non-executive directors

Component	Outcomes
Non-executive director fees	• No increases were applied to the annual base fee for the Chairman or other non-executive directors. • Committee chairman fees were increased by $5,000 to $40,000 and committee membership fees were increased by $3,000 to $20,000, both effective 1 July 2019. • These changes will result in Medibank's aggregate non-executive director fee spend increasing by 2.5%, well within the fee cap of $2,300,000 approved by shareholders at our annual general meeting in 2018.

3. Medibank's remuneration strategy

At Medibank, we believe that remuneration is a significant driver of behaviour and can be used as a tool to reinforce our culture. Medibank's culture is focused on three key areas: customer, purpose and values, and diversity and inclusion. These provide well-defined parameters for people to lead with clarity and accountability to ensure we do the right thing by our employees, our customers and the community in a responsible and ethical manner.

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 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 2019 remuneration is delivered to ELT members.

Medibank's remuneration strategy

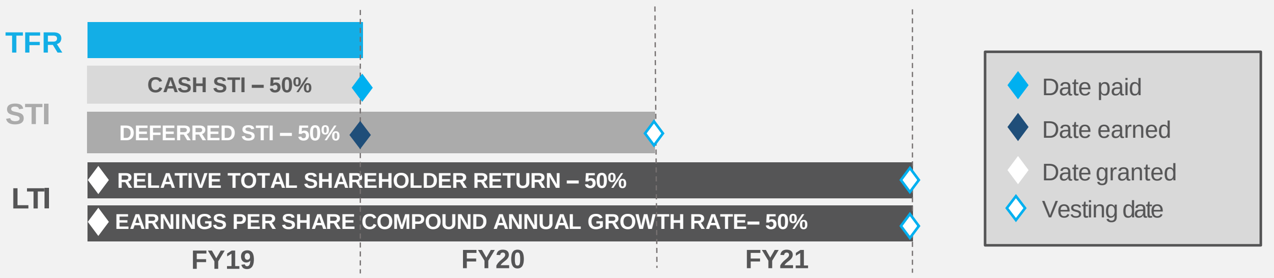
Focus ELT members on responsibly executing Group strategy to increase customer and shareholder value with behaviours aligned with Medibank's values and purpose

- 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
- Aligning 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)
DELIVERED	Cash and superannuation	50% cash and 50% performance rights deferred for 12 months	Three-year deferred performance rights
2019 PERFORMANCE MEASURES & GATEWAYS • Risk, compliance and behaviour gateway • Financial gateway		**STI** • Group operating profit • Health Insurance revenue growth • Brand NPS • Role-specific metrics	**LTI** • Earnings per share compound annual growth rate • Relative total shareholder return

2019 remuneration timeline

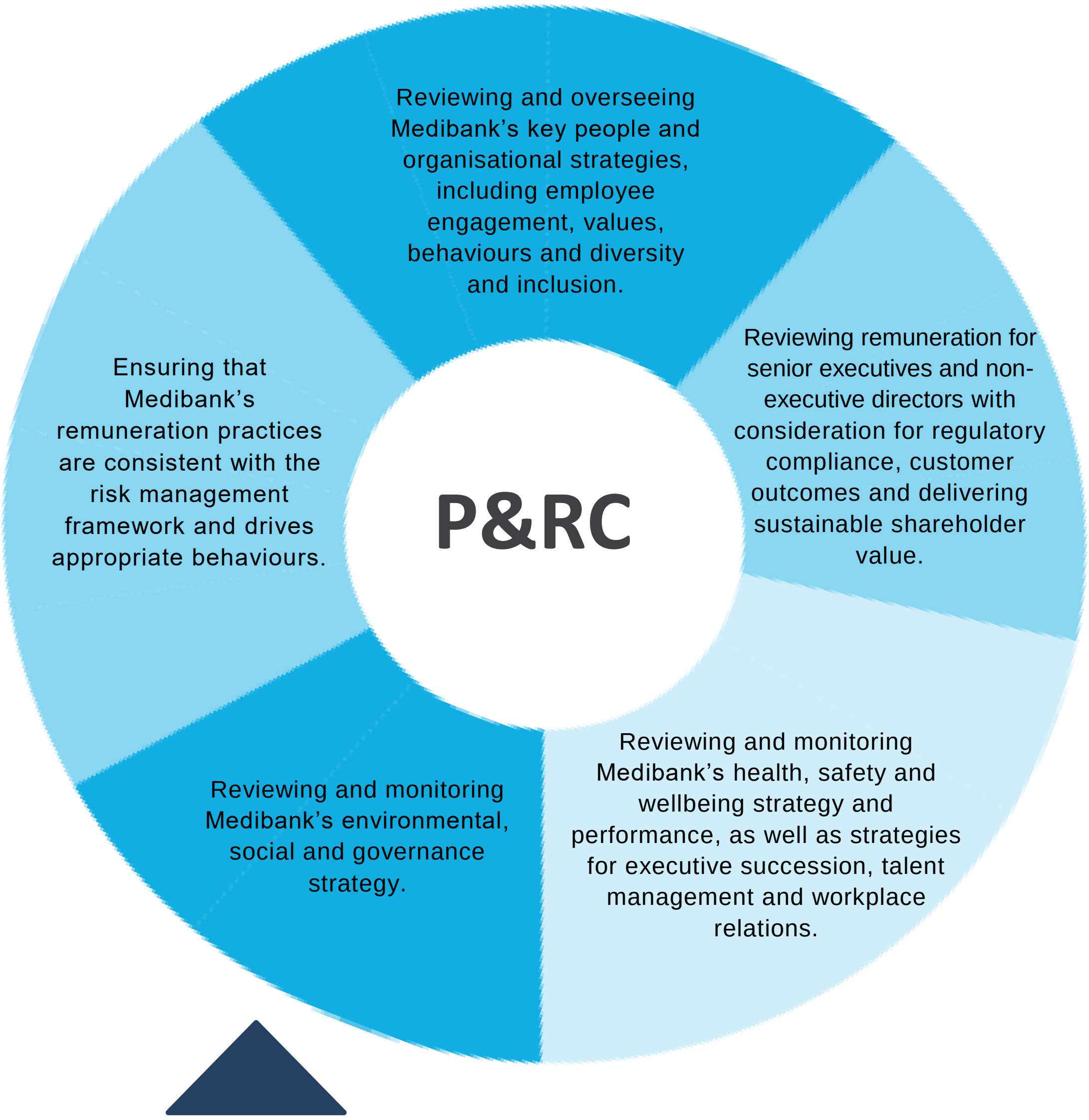


4. Remuneration governance

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 and community outcomes and the delivery of sustainable shareholder value.

4.1 The role of the Board in remuneration

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



Independent remuneration advisor

- KPMG provides information to assist the P&RC in making remuneration decisions and recommendations to the Board
- The work undertaken by KPMG in 2019 did not constitute a remuneration recommendation

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. For P&RC meeting attendance information, refer to the table on page 14 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. If the gateway is met, ELT members are then individually assessed against Company and role-specific performance measures to determine short-term incentive (STI) outcomes. Role-specific performance, experience, the complexity of the role and Medibank's market comparator group are considered to determine fixed remuneration increases. 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 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, 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 had 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.

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 executive (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 2019, 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 2019 $[2]	Minimum shareholding requirement timeline
Craig Drummond	1,534,000	1,860,341	Requirement satisfied
Kylie Bishop	570,000	1,166,958	Requirement satisfied
John Goodall	545,000	235,575	5 December 2021
David Koczkar	910,000	2,891,667	Requirement satisfied
Mei Ramsay	545,000	288,225	14 September 2021
Mark Rogers	740,000	588,037	3 January 2022
Andrew Wilson	960,000	3,102,397	Requirement satisfied

1. Minimum shareholding requirement based on ELT members' total fixed remuneration (TFR) as at 30 June 2019.
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 28 June 2019 ($3.49).

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 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

A positive, sustainable culture is contingent on alignment between purpose, values, culture 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. This strong purpose and values focus are the cornerstone of our organisational culture and has been consistently solid over several years. 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 both 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 and Group Executive – Legal, Governance and 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 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 ensuring 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 rule documents 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 2019, 29 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 consideration for a fixed remuneration increase. A further eight individuals in 2019 had their employment terminated following an incident of misconduct.

6. Executive remuneration components

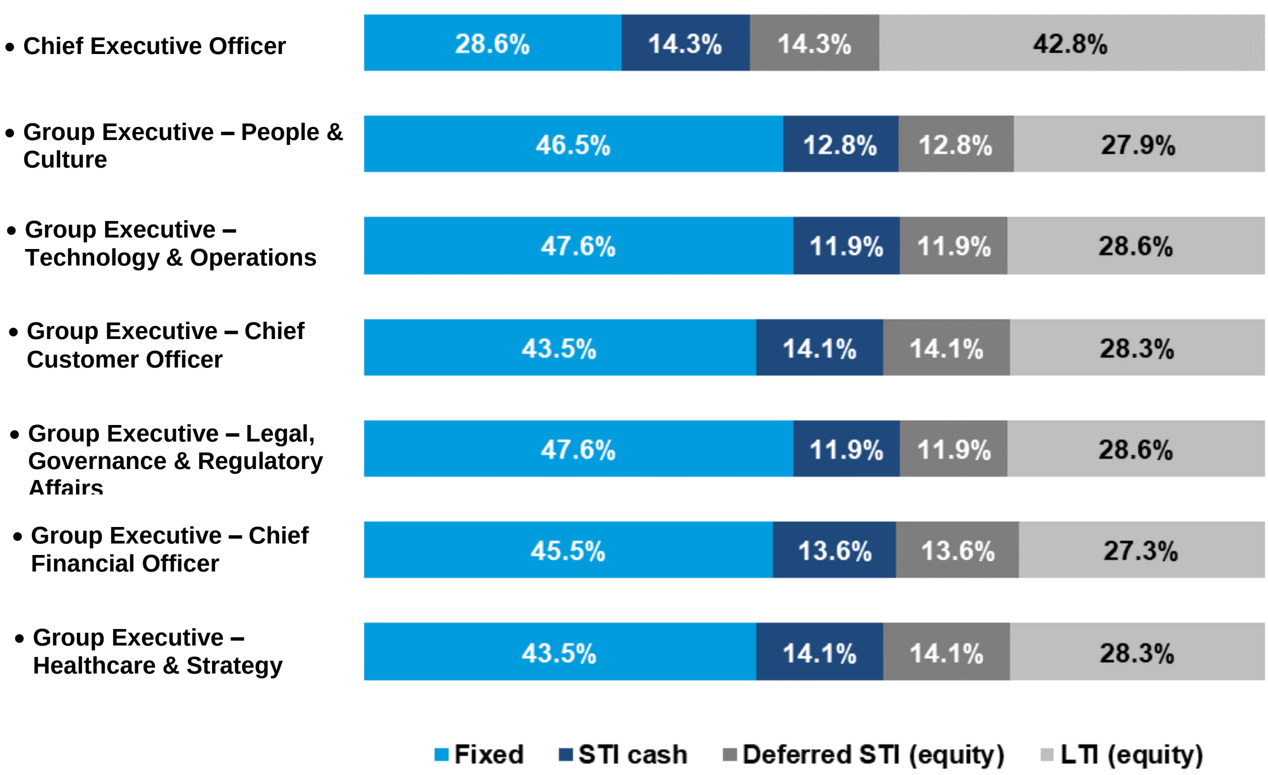
Target remuneration for Executive Leadership Team (ELT) members is designed to reward sustained business performance with behaviours aligned with Medibank's values and purpose that benefits both customers and shareholders. The Board aims to find a balance between:

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

6.1 2019 target remuneration mix

The 2019 target remuneration mix for the Chief Executive Officer (CEO) and other ELT members is shown below.

2019 target remuneration mix



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.

6.2.1 2019 and 2020 total fixed remuneration

Details of 2019 and 2020 fixed remuneration levels for all ELT members are provided below:

ELT member	Total fixed remuneration 2019 $	Total fixed remuneration 2020 $
Craig Drummond	1,534,000	1,534,000
Kylie Bishop	570,000	580,000
John Goodall	545,000	555,000
David Koczkar	910,000	960,000
Mei Ramsay	545,000	555,000
Mark Rogers	740,000	800,000
Andrew Wilson	960,000	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.
- 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.
- Complete all mandatory compliance training.

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 2019, this baseline financial performance was a Group operating profit target.

6.3.2 STI performance measurement

At the start of the 2019 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 values and purpose. 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 2019 deferred STI component the VWAP will be calculated on the 10 trading days up to and including 19 September 2019.
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 2019, 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 2019.
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.

	2019		2020	
ELT member	**Target**	**Maximum**	**Target**	**Maximum**
Craig Drummond	100%	150%	100%	150%
Kylie Bishop	55%	100%	55%	100%
John Goodall	50%	100%	55%	100%
David Koczkar	65%	100%	65%	100%
Mei Ramsay	50%	100%	55%	100%
Mark Rogers	60%	100%	65%	100%
Andrew Wilson	65%	100%	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 both in terms of product offering and price, the Board considers it appropriate to measure long term performance over a three-year period. Each year executives 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 2019 LTI Plan?	The performance period for the 2019 LTI Plan is three financial years commencing 1 July 2018. 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 grant of the performance rights, or 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 2019 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, 30 June 2018. This average price was $2.91.
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 2019 LTI Plan?	Performance rights issued under the 2019 LTI Plan are subject to two separate performance hurdles: • 50% 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 2018 and the performance period for the EPS performance hurdle will run for three years from 1 July 2018 through to 30 June 2021. Further detail on the profit measure used in the calculation of EPS is provided in section 6.4.3. • 50% 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). These performance hurdles were chosen by the Board as they are aligned with shareholders' interests and both measures are transparent, well understood and tested mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation. Both performance hurdles under the 2019 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

	2019	2020
ELT member	**LTI allocation value as % of TFR**	
Craig Drummond	150%	150%
Kylie Bishop	60%	60%
John Goodall	60%	60%
David Koczkar	65%	65%
Mei Ramsay	60%	60%
Mark Rogers	60%	65%
Andrew Wilson	65%	65%

6.4.3 LTI hurdles explained

Prior to the 2019 LTI grant, the Board reviewed the targets and vesting conditions in the context of Medibank's operating environment. The Board is committed to setting targets that are appropriately challenging and ultimately support the delivery of strong sustainable results for our customers and shareholders.

The Board believes that the vesting conditions set for the 2019 grant are robust targets which require strong performance. The Board will continue to review the LTI performance measures and targets to ensure they continue to align with our business strategy and the experience of our customer and shareholders.

2019 EPS performance rights

In this context, the Board approved a threshold EPS CAGR target of 3% for the 2019 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. The CAGR from an EPS base calculated at the beginning of the performance period will be calculated on Medibank's fully diluted

EPS using Medibank's underlying NPAT for the year ending 30 June 2021. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS performance rights.

2019 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 2019 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2019 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 2019 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.

7. Linking remuneration and performance 2019

7.1 2019 short-term incentive (STI) performance scorecard

The following table details the 2019 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		2019 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, and feedback on risk culture from employees.	Gateway	Gateway	*All achieved*
Financial gateway	Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2019, this baseline financial performance was a Group operating profit target.	Gateway	Gateway	*Achieved*
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%	*Above 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%	*Above 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*
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. **Market share** – to grow market share in FY19 4. **Medibank at Home** – more than double the number of customers receiving Medibank at Home services in FY19 5. **Medibank Health** – more than double Medibank Health's segment share of operating profit from FY16 to FY19 and to organically replace the reported FY18 operating profit of Garrison by FY22 6. **Productivity** – 3 year target of $60m Progress against each of these milestones is outlined on page 6 of the operating and financial review.	15%	20%	*Ranging between 'on-track' to 'ahead of target'*

7.2 Medibank's 2019 financial performance

Medibank's 2019 annual financial performance is provided in the table below in addition to the average 2019 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	2015	2016	2017	2018	2019[3]
Health Insurance premium revenue growth	5.1%	4.0%	1.2%	1.2%	2.4%
Group operating profit[1]	\$320.0m	\$505.5m	\$500.5m	\$548.8m	\$558.7m
Group net profit after tax (NPAT)[1]	\$291.8m	\$417.6m	\$449.5m	\$445.1m	\$458.7m
Dividend	5.3 cents p/s	11.0 cents p/s	12.0 cents p/s	12.7 cents p/s	13.1 cents p/s
Share price as at 1 July[2]	\$2.15	\$2.01	\$2.95	\$2.80	\$2.92
Share price as at 30 June	\$2.01	\$2.95	\$2.80	\$2.92	\$3.49
Average ELT STI as a percentage of maximum opportunity	64%	59%	44%	58%	56%

1. Consistent with the prospectus, the Group operating profit and Group NPAT figures for 2015 reflect pro forma financial information and is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publicly listed entity and the exclusion of the one-off costs of the initial public offering and certain significant and other items.
2. The 2015 share price of \$2.15 reflects Medibank's share price at the time of listing on the ASX on 25 November 2014.
3. 2019 Group operating profit of \$558.7m includes \$30.2m of operating profit attributable to discontinued operations.

7.3 2019 STI awards

The table below provides a summary of STI awards for the 2019 performance year. Performance outcomes outlined in 7.1 would have resulted in STI awards for ELT members that averaged 71% of their maximum opportunity. However, with consideration for the overall Company performance in 2019, including the loss of the Garrison contract, the Board exercised its discretion to reduce ELT incentive outcomes resulting in STI awards for ELT members that averaged 56% of their maximum opportunity.

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	1,380,400	690,200	690,200	90.0%	60.0%
Kylie Bishop	303,950	151,975	151,975	97.0%	53.3%
John Goodall	260,250	130,125	130,125	95.5%	47.8%
David Koczkar	591,750	295,875	295,875	100.0%	65.0%
Mei Ramsay	260,250	130,125	130,125	95.5%	47.8%
Mark Rogers	444,000	222,000	222,000	100.0%	60.0%
Andrew Wilson	561,600	280,800	280,800	90.0%	58.5%

7.4 2017 Long-term incentive Plan outcomes

The performance period for the 2017 LTI Plan concluded on 30 June 2019. The table below outlines the final outcome against each performance hurdle and associated vesting percentage for each hurdle, and the Plan.

Performance hurdle	Outcome	Vesting percentage
EPS CAGR	2.4%	0%
Relative TSR	50th percentile	50%
Total 2017 LTI vesting percentage		**25%**

Medibank's 2017 LTI was tested following the completion of the performance period on 30 June 2019. Medibank's earnings per share compound annual growth rate (EPS CAGR) of 2.4% fell below the threshold vesting level of 5% and resulted in no vesting of the EPS performance rights. When assessing performance against the relative total shareholder return (TSR) hurdle, it was necessary for the Board to consider the treatment of a number of companies that were in the relative TSR comparator group at the commencement of the performance period, but delisted from the Australian Securities Exchange (ASX) during the performance period.

In undertaking the relative TSR calculation, the Board exercised its discretion to include the performance of the delisted companies that were trading on the ASX for more than two-thirds of the performance period. This reflected that these companies had been operating for sufficient time to enable a reasonable comparison of TSR performance against that of Medibank. This resulted in Medibank's relative TSR performance being assessed at the 50th percentile of the comparator group, and a vesting of 50% of the relative TSR performance rights.

In reaching this conclusion, the Board considered several factors to ensure the outcome was an appropriate reflection of Medibank's relative TSR performance. Consideration was given to a number of scenarios, including: all delisted companies included in the calculation regardless of the length of time they were listed (which would have resulted in a relative TSR ranking at the 52nd percentile and vesting of 54%); only including delisted companies who were in the group for more than half of the performance period (which would have resulted in a relative TSR ranking at the 50th percentile and vesting of 50%), and excluding all companies that delisted in the performance period (which would have resulted in a relative TSR ranking at the 48th percentile and no vesting).

The Board considered that vesting 50% of the relative TSR performance rights (and overall vesting of 25% of the 2017 LTI) strikes the right balance between shareholder outcomes and executive reward, having regard to Medibank's 8.7% TSR per annum over the period and the discretion exercised to reduce the 2019 STI awards as a result of the loss of the Garrison contract.

The performance rights under the 2017 LTI Plan that do not vest as a result of the performance hurdle outcomes not being met will lapse immediately. The 2018 and 2019 LTI plans remain in restriction and will be assessed against their performance hurdles at the completion of the 2020 and 2021 financial years respectively.

8. 2019 actual remuneration

The table below represents the 2019 'actual' remuneration for Executive Leadership Team (ELT) members and includes all cash payments made in relation to 2019, in addition to deferred short-term incentive (STI) awards that vested in 2019.

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 2019	Total cash payments in relation to 2019	Deferred equity awards that vested in 2019[1]	Total 2019 actual remuneration	Equity awards that lapsed in 2019[2]
Craig Drummond	1,534,000	690,200	**2,224,200**	575,636	**2,799,836**	-
Kylie Bishop	570,000	151,975	**721,975**	457,465	**1,179,440**	(13,005)
John Goodall	545,000	130,125	**675,125**	51,890	**727,015**	-
David Koczkar	910,000	295,875	**1,205,875**	937,358	**2,143,233**	(26,212)
Mei Ramsay	545,000	130,125	**675,125**	94,489	**769,614**	-
Mark Rogers	740,000	222,000	**962,000**	61,582	**1,023,582**	-
Andrew Wilson	960,000	280,800	**1,240,800**	909,325	**2,150,125**	(23,753)

1. Deferred equity awards that vested in 2019 for Kylie Bishop, David Koczkar and Andrew Wilson relate to the 2016 LTI performance rights that vested during the year and the deferred STI performance rights granted in respect to the 2017 performance year. The deferred equity awards for all other ELT members relate to the deferred STI performance rights granted in respect to the 2017 performance year only.
2. Equity awards that lapsed in 2019 relate to the portion of the 2016 long-term incentive (LTI) performance rights that lapsed following the testing of the performance hurdles in July 2018.

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 2019 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2019 that are yet to, and may never be realised by the ELT member.

ELT member	Financial year	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-based benefits	Other	Total remuneration $
		Salary $[1]	Short-term incentive (STI) $	Other $	Non-monetary benefits $[2]	Superannuation $	Leave $[3]	Performance rights $[4]	Termination benefits $	
Craig Drummond	**2019**	**1,473,782**	**690,200**	**-**	**25,612**	**25,000**	**37,725**	**1,839,316**	**-**	**4,091,635**
	2018	1,482,063	803,324	-	30,341	25,000	38,919	1,293,005	-	3,672,652
Kylie Bishop	**2019**	**509,067**	**151,975**	**-**	**12,992**	**24,872**	**13,625**	**306,650**	**-**	**1,019,181**
	2018	519,554	148,647	-	16,173	25,000	26,586	273,382	-	1,009,342
John Goodall	**2019**	**478,524**	**130,125**	**-**	**12,483**	**25,000**	**13,000**	**287,392**	**-**	**946,524**
	2018	494,820	141,891	-	20,214	25,000	12,927	176,914	-	871,766
David Koczkar	**2019**	**865,933**	**295,875**	**-**	**15,059**	**20,533**	**22,237**	**556,530**	**-**	**1,776,167**
	2018	802,421	277,349	-	23,589	19,954	22,654	533,009	-	1,678,976
Mei Ramsay	**2019**	**504,792**	**130,125**	**-**	**19,660**	**25,000**	**28,208**	**288,443**	**-**	**996,228**
	2018	506,188	141,420	-	20,316	24,638	12,457	192,515	-	897,534
Mark Rogers	**2019**	**715,747**	**222,000**	**-**	**17,051**	**20,533**	**48,023**	**389,727**	**-**	**1,413,081**
	2018	699,963	149,188	-	20,400	20,044	33,476	340,654	-	1,263,725
Andrew Wilson	**2019**	**935,000**	**280,800**	**-**	**23,180**	**25,000**	**23,375**	**587,667**	**-**	**1,875,022**
	2018	855,485	308,530	-	33,442	25,000	34,705	572,198	-	1,829,360
Total ELT remuneration	**2019**	**5,482,845**	**1,901,100**	**-**	**126,037**	**165,938**	**186,193**	**4,255,725**	**-**	**12,117,838**
	2018	5,360,494	1,970,349	-	164,475	164,636	181,724	3,381,677	-	11,223,355

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.

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 2019 remuneration mix for Medibank's ELT members as detailed in the 'statutory remuneration table'.

ELT member	Financial year	*Non-performance-related*	*Performance-related remuneration*			Total performance-related remuneration
		Fixed remuneration[1]	Cash STI	Deferred STI[2]	LTI[3]	
Craig Drummond	2019	38.2%	16.9%	18.2%	26.7%	61.8%
Kylie Bishop	2019	55.0%	14.9%	14.8%	15.3%	45.0%
John Goodall	2019	55.9%	13.7%	14.4%	16.0%	44.1%
David Koczkar	2019	52.0%	16.7%	16.1%	15.2%	48.0%
Mei Ramsay	2019	58.0%	13.1%	13.6%	15.3%	42.0%
Mark Rogers	2019	56.7%	15.7%	13.1%	14.5%	43.3%
Andrew Wilson	2019	53.7%	15.0%	15.7%	15.6%	46.3%

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 2019 accounting expense of the 2018 and 2019 deferred STI components within the 'performance rights' column of the 'statutory remuneration table'.
3. LTI includes the 2019 accounting expense of the 2017, 2018 and 2019 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 2019 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]	Fair value at grant $[3]	Vested			Lapsed			Unvested balance at 30 June 2019[4]	
							Units	%	$	Units	%	$	Units	$
Craig Drummond	2019 LTI performance rights	790,720	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	790,720	1,506,322
	2018 deferred STI performance rights	277,008	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	277,008	803,323
	2018 LTI performance rights	830,684	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	830,684	1,578,300
	2017 deferred STI performance rights	200,570	27/12/2017	20/09/2018	2.98	-	200,570	100	575,636	-	-	-	-	-
	2017 LTI performance rights	765,306	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	765,306	1,362,245
Kylie Bishop	2019 LTI performance rights	117,524	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	117,524	223,883
	2018 deferred STI performance rights	51,257	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	51,257	148,645
	2018 LTI performance rights	119,132	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	119,132	226,351
	2017 deferred STI performance rights	30,830	27/12/2017	20/09/2018	2.98	-	30,830	100	88,482	-	-	-	-	-
	2017 LTI performance rights	100,000	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	100,000	178,000
	2016 LTI performance rights	125,242	29/10/2015	01/07/2018	2.06	1.82	120,978	96.6	368,983	4,264	3.4	13,005	-	-
John Goodall	2019 LTI performance rights	112,370	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	112,370	214,065
	2018 deferred STI performance rights	48,927	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	48,927	141,888
	2018 LTI performance rights	113,718	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	113,718	216,064
	2017 deferred STI performance rights	18,080	27/12/2017	20/09/2018	2.98	-	18,080	100	51,890	-	-	-	-	-

	2017 LTI performance rights	87,868	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	87,868	156,405
David Koczkar	2019 LTI performance rights	203,264	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	203,264	387,218
	2018 deferred STI performance rights	95,637	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	95,637	277,347
	2018 LTI performance rights	198,284	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	198,284	376,740
	2017 deferred STI performance rights	67,481	27/12/2017	20/09/2018	2.98	-	67,481	100	193,670	-	-	-	-	-
	2017 LTI performance rights	182,396	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	182,396	324,665
	2016 LTI performance rights	252,426	29/10/2015	01/07/2018	2.06	1.82	243,832	96.6	743,688	8,594	3.4	26,212	-	-
Mei Ramsay	2019 LTI performance rights	112,370	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	112,370	214,065
	2018 deferred STI performance rights	48,765	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	48,765	141,419
	2018 LTI performance rights	113,340	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	113,340	215,346
	2017 deferred STI performance rights	32,923	27/12/2017	20/09/2018	2.98	-	32,923	100	94,489	-	-	-	-	-
	2017 LTI performance rights	100,854	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	100,854	179,520
Mark Rogers	2019 LTI performance rights	152,576	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	152,576	290,657
	2018 deferred STI performance rights	51,444	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	51,444	149,188
	2018 LTI performance rights	149,458	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	149,458	283,970
	2017 deferred STI performance rights	21,457	27/12/2017	20/09/2018	2.98	-	21,457	100	61,582	-	-	-	-	-
	2017 LTI performance rights	117,346	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	117,346	208,876
Andrew Wilson	2019 LTI performance rights	214,432	06/12/2018	01/07/2021	2.91	1.91	-	-	-	-	-	-	214,432	408,493
	2018 deferred STI performance rights	106,389	06/12/2018	19/09/2019	2.90	-	-	-	-	-	-	-	106,389	308,528
	2018 LTI performance rights	220,576	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	220,576	419,094

	2017 deferred STI performance rights	82,005	27/12/2017	20/09/2018	2.98	-	82,005	100	235,354	-	-	-	-	-
	2017 LTI performance rights	203,400	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	203,400	362,052
	2016 LTI performance rights	228,762	29/10/2015	01/07/2018	2.06	1.82	220,974	96.6	673,971	7,788	3.4	23,753	-	-

1. The vesting and exercise date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board, with Medibank to notify the holder at that time. 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.
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 2017, 2018 and 2019 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 2019 by the unit price at grant, and the balance of LTI performance rights at 30 June 2019 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 2018	Shares received on vesting of performance rights[1]	Net movement of shares due to other changes[2]	Balance 30 June 2019
Craig Drummond	50,000	206,041	-	**256,041**
Kylie Bishop	244,239	152,649	(113,773)	**283,115**
John Goodall	-	18,573	-	**18,573**
David Koczkar	557,462	313,153	(137,694)	**732,921**
Mei Ramsay	-	33,821	-	**33,821**
Mark Rogers	95,006	22,042	-	**117,048**
Andrew Wilson	477,334	305,216	-	**782,550**

1. Shares received on the vesting of deferred STI performance rights include the additional Medibank shares credited to ELT members upon the vesting of the 2017 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.
2. 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 2019 and 2020 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).

As in 2019, the Board considered it appropriate to position the non-executive directors at the median of the benchmark group for 2020. To ensure non-executive director fees remain competitive, having regard to the size, complexity and market position of Medibank, following the benchmarking exercise the Board chose to make:

- No change to chairman or non-executive director base fees
- Increase committee chairman fees to $40,000
- Increase committee membership fees to $20,000

Effective from 1 July 2019, these changes will result in Medibank's aggregate non-executive director fee spend increasing by 2.5% from $1,893,000 in 2019 to $1,940,000 in 2020. Non-executive director fees applicable throughout 2019 and 2020 are set out in the table below:

Position	Fees 2019 $	Fees 2020 $
Chairman	445,000	445,000
Non-executive directors	165,000	165,000
Committee chairman fees		
Audit Committee	35,000	40,000
Risk Management Committee	35,000	40,000
People and Remuneration Committee	35,000	40,000
Investment and Capital Committee	35,000	40,000
Committee membership fees		
Audit Committee	17,000	20,000
Risk Management Committee	17,000	20,000
People and Remuneration Committee	17,000	20,000
Investment and Capital Committee	17,000	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.

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 2019, 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. 2019 non-executive director remuneration statutory table

Non-executive director	Financial year	Short-term benefits		Post-employment benefits	Total $
		Cash salary and fees $	Non-monetary[1] $	Superannuation $	
Elizabeth Alexander	**2019**	**424,469**	**-**	**20,533**	**445,002**
	2018	404,951	-	20,057	425,008
Tracey Batten	**2019**	**181,735**	**2,608**	**17,265**	**201,608**
	2018	138,704	1,024	13,177	152,905
Anna Bligh	**2019**	**181,735**	**3,013**	**17,265**	**202,013**
	2018	172,603	2,869	16,397	191,869
David Fagan	**2019**	**198,174**	**3,355**	**18,827**	**220,356**
	2018	198,775	2,273	18,884	219,932
Peter Hodgett	**2019**	**198,174**	**2,872**	**18,827**	**219,873**
	2018	189,042	2,609	17,959	209,610
Linda Bardo Nicholls	**2019**	**182,648**	**3,497**	**17,352**	**203,497**
	2018	173,516	2,701	16,484	192,701
Christine O'Reilly	**2019**	**198,174**	**3,075**	**18,827**	**220,076**
	2018	189,042	2,511	17,959	209,512
Mike Wilkins	**2019**	**181,735**	**4,087**	**17,265**	**203,087**
	2018	172,603	1,665	16,397	190,665
Former non-executive director					
Cherrell Hirst	**2019**	-	-	-	-
	2018	30,390	173	2,887	33,450
Total non-executive director remuneration	**2019**	**1,746,844**	**22,507**	**146,161**	**1,915,512**
	2018	1,669,626	15,825	140,201	1,825,652

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 2018	Acquired during the year	Balance 30 June 2019	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2019 $[2]	Minimum shareholding requirement timeline
Elizabeth Alexander	124,786	-	124,786	222,500	435,503	Requirement satisfied
Tracey Batten	10,000	24,285	34,285	82,500	119,655	Requirement satisfied
Anna Bligh	39,323	-	39,323	82,500	137,237	Requirement satisfied
David Fagan	47,016	-	47,016	82,500	164,086	Requirement satisfied
Peter Hodgett	67,800	-	67,800	82,500	236,622	Requirement satisfied
Linda Bardo Nicholls	45,000	-	45,000	82,500	157,050	Requirement satisfied
Christine O'Reilly	69,930	-	69,930	82,500	244,056	Requirement satisfied
Mike Wilkins	33,500	25,513	59,013	82,500	205,955	Requirement satisfied

1. Minimum shareholding requirement based on annual non-executive director base fees for 2019 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 28 June 2019 ($3.49).

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 2017-2020. 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.

Excluded companies	2017	2018	2019[1]	2020
Rio Tinto Limited	X	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
Northern Star Resources Limited		X	X	X
Oz Minerals Limited		X		
Washington H Soul Pattinson and Company Limited			X	X
Whitehaven Coal Limited			X	X
Viva Energy Group Limited				X
Beach Energy Limited				X

1. A company is no longer denoted as excluded when it falls outside the ASX 11-100 or it is no longer considered exclusively as an energy and mining company.

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

Elizabeth Alexander AO
Chairman

Craig Drummond
Chief Executive Officer

22 August 2019
Melbourne

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
22 August 2019

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1. Basis of preparation	**2.** Segment information	**7.** Investment portfolio	**11.** Property, plant and equipment	**14.** Income tax
	3. Insurance underwriting result	**8.** Financial risk management	**12.** Intangible assets	**15.** Group structure
	4. Deferred acquisition costs	**9.** Working capital	**13.** Provisions and employee entitlements	**16.** Share-based payments
	5. Unearned premium liability	**10.** Contributed equity and reserves		**17.** Key management personnel remuneration
	6. Shareholder returns			**18.** Commitments
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Signed reports

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Consolidated statement of comprehensive income

For the financial year ended 30 June 2019

	Note	2019 $m	2018 $m
Continuing operations			
Revenue			
Health Insurance premium revenue	2(b) 3(a)	6,470.7	6,319.5
Medibank Health revenue		185.1	149.3
		6,655.8	**6,468.8**
Other income		**6.4**	**12.5**
Expenses			
Claims expense		(5,323.6)	(5,197.2)
Medical services expense		(18.3)	(9.6)
Employee benefits expense	13(a)(ii)	(412.1)	(368.3)
Office and administration expense		(82.4)	(89.4)
Marketing expense		(100.2)	(102.7)
Information technology expense		(66.8)	(73.6)
Professional service expense		(11.0)	(12.6)
Lease expense		(30.2)	(29.9)
Depreciation and amortisation expense		(104.1)	(95.2)
		(6,148.7)	**(5,978.5)**
Profit before net investment income and income tax		**513.5**	**502.8**
Net investment income	7(a)	102.8	95.6
Profit for the year before income tax		**616.3**	**598.4**
Income tax expense	14(a)	(178.6)	(174.2)
Profit for the year from continuing operations		**437.7**	**424.2**
Discontinued operations			
Profit after tax for the year from discontinued operations	15(c)	21.0	20.9
Profit for the year		**458.7**	**445.1**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on retirement benefit obligation		(0.1)	0.7
		(0.1)	**0.7**
Total comprehensive income for the year, net of tax, attributable to members of the parent arising from:			
Continuing operations		437.6	424.9
Discontinued operations		21.0	20.9
Total operations		**458.6**	**445.8**
Basic and diluted earnings per share attributable to ordinary equity holders of the Company		**Cents**	**Cents**
Continuing operations	6(b)	15.9	15.4
Total operations	6(b)	16.7	16.2

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

Consolidated statement of financial position

As at 30 June 2019

	Note	2019 $m	2018 $m
Current assets			
Cash and cash equivalents		656.5	470.1
Trade and other receivables	9(b)	283.9	292.2
Financial assets at fair value	7(b)	2,130.7	2,276.5
Deferred acquisition costs	4	35.2	36.2
Other assets		24.2	16.0
Total current assets		**3,130.5**	**3,091.0**
Non-current assets			
Property, plant and equipment	11	49.3	53.6
Intangible assets	12	405.9	350.1
Deferred acquisition costs	4	44.4	48.7
Other assets		0.7	1.5
Total non-current assets		**500.3**	**453.9**
Total assets		**3,630.8**	**3,544.9**
Current liabilities			
Trade and other payables	9(c)	370.0	350.6
Claims liabilities	3(b)	364.2	365.6
Unearned premium liability	5	682.8	689.5
Tax liability		21.3	47.4
Provisions and employee entitlements	13	79.2	80.9
Total current liabilities		**1,517.5**	**1,534.0**
Non-current liabilities			
Trade and other payables	9(c)	33.9	41.0
Claims liabilities	3(b)	13.4	14.2
Unearned premium liability	5	87.8	83.4
Deferred tax liabilities	14(c)	13.2	15.9
Provisions and employee entitlements	13	29.6	27.2
Total non-current liabilities		**177.9**	**181.7**
Total liabilities		**1,695.4**	**1,715.7**
Net assets		**1,935.4**	**1,829.2**
Equity			
Contributed equity		85.0	85.0
Reserves	10	24.4	21.5
Retained earnings		1,826.0	1,722.7
Total equity		**1,935.4**	**1,829.2**

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 2019

	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2017	85.0	24.4	1,610.4	**1,719.8**
Profit for the year	-	-	445.1	**445.1**
Other comprehensive income	-	-	0.7	**0.7**
Total comprehensive income for the year	**-**	**-**	**445.8**	**445.8**
Transfers upon sale of property	-	(2.3)	3.9	**1.6**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(337.4)	**(337.4)**
Acquisition and settlement of share-based payment, net of tax	-	(4.1)	-	**(4.1)**
Share-based payment transactions	-	3.5	-	**3.5**
Balance at 30 June 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**

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

Consolidated statement of cash flows

For the financial year ended 30 June 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Premium receipts		6,462.7	6,355.5
Medibank Health receipts		714.7	668.0
Other receipts		5.8	6.1
Payments for claims and levies		(5,309.1)	(5,208.1)
Payments to suppliers and employees		(1,240.2)	(1,182.2)
Income taxes paid		(217.8)	(231.0)
Net cash inflow from operating activities	9(d)	**416.1**	**408.3**
Cash flows from investing activities			
Interest received		42.9	40.1
Investment expenses		(4.6)	(4.4)
Proceeds from sale of financial assets		2,219.5	990.2
Purchase of financial assets		(2,009.1)	(1,168.7)
Purchase of businesses		(70.1)	(37.5)
Proceeds from sale of land and buildings		-	33.3
Purchase of plant and equipment		(9.8)	(3.8)
Purchase of intangible assets		(39.7)	(40.0)
Net cash inflow/(outflow) from investing activities		**129.1**	**(190.8)**
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(3.5)	(4.6)
Dividends paid		(355.3)	(337.4)
Net cash outflow from financing activities		**(358.8)**	**(342.0)**
Net increase/(decrease) in cash and cash equivalents		**186.4**	**(124.5)**
Cash and cash equivalents at beginning of the year		470.1	594.6
Cash and cash equivalents at end of the year		**656.5**	**470.1**

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 2019 were authorised for issue in accordance with a resolution of the directors on 22 August 2019. 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 through profit or loss, land and buildings which are measured at fair value, and claims 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 2019 reporting periods. Refer to Note 20(a) for further details.
- Do not apply any pronouncements before their operative date. Refer to Note 20(b) for details of new standards and interpretations which have been issued but are not effective for 30 June 2019 reporting periods.
- Include, where necessary, updates to prior year comparatives for changes in classification of amounts in the current reporting period.

Impact of discontinued operations on disclosures
Prior year comparatives in the consolidated statement of comprehensive income and applicable notes have been re-presented to show discontinued operations separately from continuing operations.

(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

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 at 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 2019, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Medibank Health.

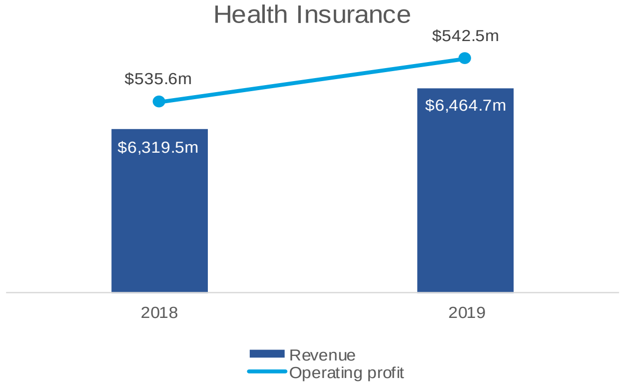
Health Insurance	Offers private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas ancillary cover provides members with health cover 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 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.

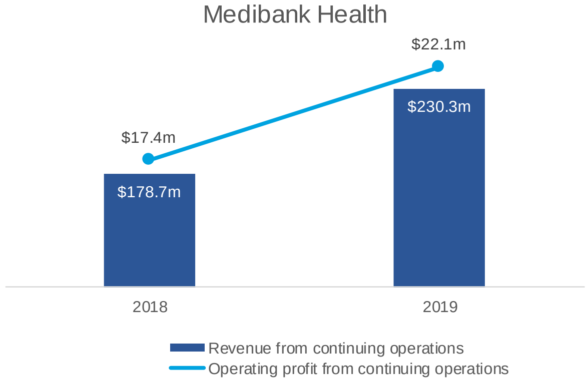
SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(b) Segment information provided to the CEO

The CEO measures the performance of the Group's reportable segments based on the operating profit of the segments. The segment information provided to the CEO for the year ended 30 June 2019 is as follows:





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		(90.0)	(4.3)	**(94.3)**

30 June 2018	Health Insurance $m	Medibank Health $m	Total $m
Revenues			
Total segment revenue	6,319.5	178.7	**6,498.2**
Inter-segment revenue	-	(29.4)	**(29.4)**
Revenue from external customers from continuing operations	**6,319.5**	**149.3**	**6,468.8**
Operating profit from continuing operations	**535.6**	**17.4**	**553.0**
Items included in segment operating profit:			
Depreciation and amortisation	(83.6)	(2.9)	**(86.5)**

SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(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	2019 $m	2018 $m
Total segment operating profit from continuing operations		**564.6**	**553.0**
Unallocated to operating segments:			
Corporate operating expenses		(36.1)	(34.1)
Group operating profit from continuing operations		**528.5**	**518.9**
Net investment income	7(a)	102.8	95.6
Acquisition intangible amortisation		(8.7)	(7.6)
Gain on sale of property		-	4.9
Brand investment		-	(5.2)
Customer settlement		(0.4)	(4.7)
Mergers and acquisitions expenses		(4.2)	(1.4)
Other income/(expenses)		(1.7)	(2.1)
Profit for the year before income tax from continuing operations		**616.3**	**598.4**

(ii) Other items

Segment operating profit excludes the following:

- Corporate operating expenses of $36.1 million (2018: $34.1 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 $8.7 million (2018: $7.6 million) not allocated to segments.
- One-off income/(expenses) in relation to the gain on sale of property, brand investment, customer settlement and mergers and acquisitions which do not relate to the current operating activities of the Group's segments.
- Other income/(expenses) of $1.7 million (2018: $2.1 million) which do not relate to the trading activities of the Group's segments, comprising primarily net sublease rent.

(iii) Loyalty program

Segment private health insurance premium revenue is after $6.0 million (2018: nil) of transfers between the Group's other operating segments in relation to the loyalty program.

(iv) Segment assets and segment liabilities

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

(v) Geographic information

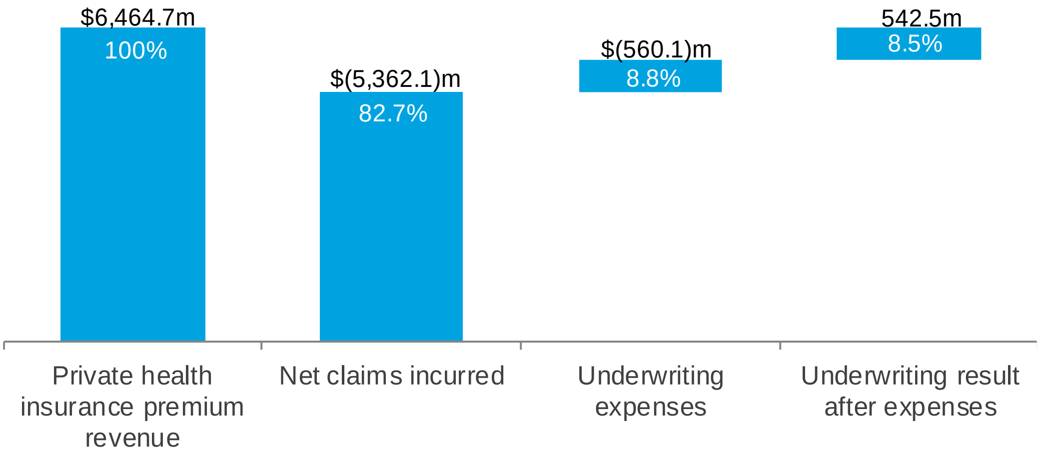
Segment revenue based on the geographical location of customers has not been disclosed, as the Group derives all of its revenues from its Australian operations.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result

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

2019 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, where the Group does not act as an underwriter, all other types of insurance cover are insurance contracts.

(a) Insurance underwriting result

	Note	2019 $m	2018 $m
Private health insurance premium revenue	(i)	6,464.7	6,319.5
Claims expense			
Claims incurred	(ii)	(5,354.2)	(5,232.0)
State levies		(50.4)	(49.1)
Net Risk Equalisation Special Account rebates		42.5	54.4
Net claims incurred excluding claims handling costs on outstanding claims liabilities		(5,362.1)	(5,226.7)
Movement in claims handling costs on outstanding claims liabilities		-	0.7
Net claims incurred	(iii)	(5,362.1)	(5,226.0)
Underwriting expenses	(i)	(560.1)	(557.9)
Underwriting result after expenses		**542.5**	**535.6**

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(a) Insurance underwriting result (continued)

(i) Private health insurance premium revenue and underwriting expenses are after $6.0 million of transfers between the Group's other operating segments (2018: nil).
(ii) Claims incurred are prior to elimination of transactions with the Group's other operating segments of $38.5 million (2018: $28.8 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 and costs incurred in providing dental, optical and health management services.

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

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. Provisions for estimated 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.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability

	Note	2019 $m	2018 $m
Current			
Outstanding claims liability - central estimate	(i,ii)	318.4	313.1
Risk margin	(i,iii)	25.3	24.8
Claims handling costs	(iv)	7.7	7.7
		351.4	**345.6**
Claims liability - provision for bonus entitlements	(v)	12.8	20.0
Gross claims liability	(c)	**364.2**	**365.6**
Non-current			
Outstanding claims liability - central estimate	(i,ii)	2.4	1.8
Risk margin	(i,iii)	0.3	0.1
Claims handling costs	(iv)	-	-
		2.7	**1.9**
Claims liability - provision for bonus entitlements	(v)	10.7	12.3
Gross claims liability	(c)	**13.4**	**14.2**

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.

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 service levels such as major variability to claims processing volumes.

The process for establishing the outstanding claims provision 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.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability (continued)

(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 a risk-free rate of 1.20% per annum which equates to a reduction in the central estimate of $0.5 million (2018: 2.11%, $0.9 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 2019 is 7.8% (2018: 7.8%). ***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% (2018: 95%).
(iv) Claims handling costs	The allowance for claims handling costs at 30 June 2019 is 2.5% of the outstanding claims liability (2018: 2.5%).
(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.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(c) Reconciliation of movement in claims liabilities

	2019 $m	2018 $m
Balance at beginning of period (1 July)	**379.8**	**404.4**
Claims incurred during the period	5,324.5	5,251.4
Claims paid during the period	(5,318.0)	(5,231.9)
Amount over provided on central estimate	(9.7)	(42.0)
Risk margin	0.7	(1.3)
Claims handling costs	-	(0.7)
Movement in discount rate	0.3	(0.1)
Balance at 30 June	**377.6**	**379.8**

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 outstanding claims provision

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 $22.4 million decrease/increase to profit after tax and equity (2018: $22.0 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.

(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 are dependent.

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

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

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(e) Insurance risk management (continued)

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.
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.

SECTION 2: OPERATING PERFORMANCE

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2019 $m	2018 $m
Balance at 1 July	**84.9**	**87.5**
Costs deferred during the year	34.7	37.1
Amortisation expense	(40.0)	(39.7)
Balance at 30 June	**79.6**	**84.9**

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 (2018: four years). The recoverability of deferred acquisition costs is considered as part of the liability adequacy testing (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:

	2019 $m	2018 $m
Balance at 1 July	**772.9**	**758.9**
Deferral of premium on contracts written during the year	687.2	699.7
Earnings of premiums deferred in prior years	(689.5)	(685.7)
Balance at 30 June	**770.6**	**772.9**

Note: Movement includes both current and non-current.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2019 and 2018.

SECTION 2: OPERATING PERFORMANCE

Note 5: Unearned premium liability (continued)

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.

SECTION 2: OPERATING PERFORMANCE

Note 6: Shareholder returns

(a) Dividends

(i) Dividends paid or payable

	Cents per fully paid share	$m	Payment date
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
2018			
2017 final fully franked dividend	6.75	185.9	28 September 2017
2018 interim fully franked dividend	5.50	151.5	28 March 2018

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

On 22 August 2019, the directors declared a final fully franked dividend for the year ended 30 June 2019 of 7.40 cents per share. A fully franked special dividend of 2.50 cents per share was also declared on 22 August 2019. The dividends are expected to be paid on 26 September 2019 and have not been provided for as at 30 June 2019.

(iii) Franking account

Franking credits available at 30 June 2019 for subsequent reporting periods based on a tax rate of 30% are $203.8 million (2018: $136.0 million).

(iv) Calculation of dividend paid

Medibank's target dividend payout ratio for the 2019 financial year is 70-80% (2018: 70-80%) of full year normalised net profit after tax (underlying NPAT). For the 2020 financial year, this range has been revised to 75-85%. 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 equity investments and movement in credit spreads, and for one-off items, especially those that are non-cash, such as impairments.

	2019 $m	2018 $m
Profit for the year	**458.7**	**445.1**
Normalisation of equity returns	(7.9)	(8.6)
Normalisation for credit spread movement	(2.9)	(0.1)
Underlying NPAT	**447.9**	**436.4**

Dividends Accounting Policy

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

SECTION 2: OPERATING PERFORMANCE

Note 6: Shareholder returns (continued)

(b) Earnings per share

	2019	2018
Attributable to ordinary equity holders of the Company		
Profit for the year attributable to ordinary equity holders of the Company ($m)	458.7	445.1
Basic and diluted earnings per share attributable to ordinary equity holders of the Company (cents)	16.7	16.2
Attributable to continuing operations		
Profit for the year attributable to ordinary equity holders of the Company ($m)	437.7	424.2
Basic and diluted earnings per share attributable to ordinary equity holders of the Company (cents)	15.9	15.4
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 portfolio

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.

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 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 short-term domestic money market securities with a minimum credit rating of A-1+ and a maximum tenure of six months.

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

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)	(i)	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)		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**

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

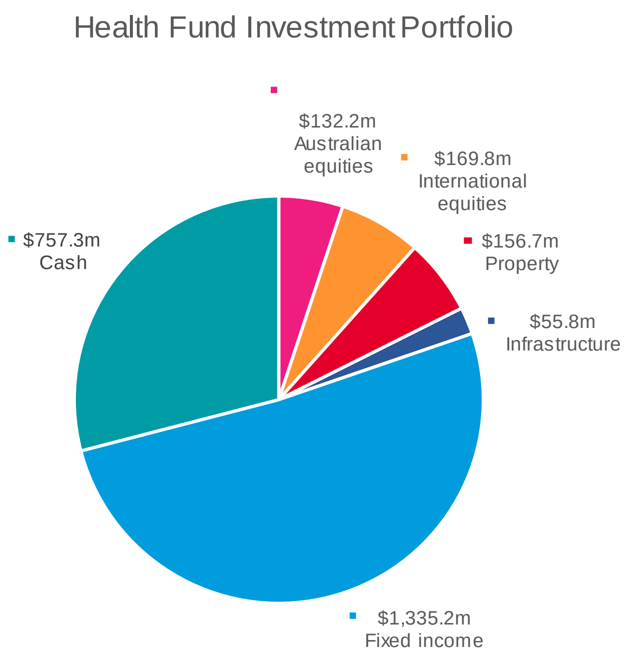
Portfolio composition 30 June 2018 ($m)

		Health Fund Investment Portfolio	Non-Health Fund Investment Portfolio	Total
Cash portfolio				
Cash and cash equivalents (as reported in the statement of financial position)	(i)	404.2	1.0	**405.2**
Cash investments with longer maturities		347.4	130.9	**478.3**
Fixed income portfolio				
Fixed income (as reported in the statement of financial position)		1,625.4	130.9	**1,756.3**
Less cash investments with longer maturities		(347.4)	(130.9)	**(478.3)**
Growth portfolio				
Equities and investment trusts		520.2	-	**520.2**
Total investment portfolio		**2,549.8**	**131.9**	**2,681.7**

(i) Cash and cash equivalents as reported in the statement of financial position also include operational cash of $91.9 million (2018: $64.9 million).

The Health Fund Investment Portfolio comprises the following:

	Portfolio composition 30 June 2019	Portfolio composition 30 June 2018	Target asset allocation
Growth			
Australian equities	5.1%	5.6%	5.0%
International equities	6.5%	6.6%	6.0%
Property	6.0%	6.2%	7.0%
Infrastructure	2.1%	2.0%	2.0%
	19.7%	**20.4%**	**20.0%**
Defensive			
Fixed income	51.3%	50.1%	52.0%
Cash	29.0%	29.5%	28.0%
	80.3%	**79.6%**	**80.0%**
	100.0%	**100.0%**	**100.0%**



SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

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. 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.

(a) Net investment income

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

	Note	2019 $m	2018 $m
Interest	(i)	47.3	45.9
Trust distributions		42.2	39.2
Investment management fees		(4.6)	(4.4)
Net gain/(loss) on fair value movements on financial assets		5.2	15.3
Net gain/(loss) on disposal of financial assets		12.7	(0.4)
Net investment income		**102.8**	**95.6**

(i) Includes interest income of $1.7 million (2018: $2.2 million) relating to financial assets at fair value through other comprehensive income (non-health fund investments).

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

(a) Net investment income (continued)

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 (unobservable inputs).

The following tables present the Group's financial assets measured and recognised at fair value on a recurring basis.

30 June 2019		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	132.2	-	**132.2**
International equities	(i)	-	169.8	-	**169.8**
Property	(i)	0.6	156.1	-	**156.7**
Infrastructure	(i)	-	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	(ii)	-	61.7	-	**61.7**
Balance at 30 June 2019		**95.7**	**2,035.0**	**-**	**2,130.7**

30 June 2018		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	143.2	-	**143.2**
International equities	(i)	-	168.8	-	**168.8**
Property	(i)	2.2	156.2	-	**158.4**
Infrastructure	(i)	-	49.8	-	**49.8**
Fixed income		85.9	1,539.5	-	**1,625.4**
Fixed income - Non-health fund investments	(ii)	-	130.9	-	**130.9**
Balance at 30 June 2018		**88.1**	**2,188.4**	**-**	**2,276.5**

(i) Australian equities, international equities, property and infrastructure are categorised within level 2 of the fair value measurement hierarchy as they are indirectly held through unit trusts.

(ii) From 1 July 2018, non-health fund investments are accounted for at fair value through other comprehensive income under AASB 9 *Financial Instruments*. These investments were classified as fixed income investments and were accounted for at fair value through profit or loss at 30 June 2018. Refer to Note 20(a)(i) for further details around the impact of the adoption of AASB 9.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

(b) Fair value hierarchy (continued)

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 2019.

The Group recognises transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer.

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 (2019: $656.5 million, 2018: $470.1 million) and fixed income investments (2019: $1,616.2 million, 2018: $1,756.3 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 0.8 years (2018: 0.1 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 $3.4 million increase/decrease to profit after tax and equity (2018: $6.3 million). The sensitivity analysis has been conducted using assumptions from published economic data.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(a) Market risk (continued)

(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 2019, $83.9 million (2018: $84.4 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 $6.5 million decrease/increase to profit after tax and equity (2018: $6.6 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	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.

	2019 $m		2018 $m	
	+10.0%	**-10.0%**	**+10.0%**	**-10.0%**
Australian equities	9.6	(9.6)	9.4	(9.4)
International equities	11.9	(11.9)	11.1	(11.1)
Property	11.0	(11.0)	10.5	(10.5)
Infrastructure	3.7	(3.7)	3.5	(3.5)

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 $6.2 million decrease/increase to profit after tax and equity (2018: $5.8 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(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% (2018: 25%) of the cash portfolio can be invested in any one counterparty bank and no more than 10% (2018: 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% (2018: 50%) and 15% (2018: 15%) of the portfolio respectively. As at 30 June 2019 and 2018, 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 are also used to obtain settlement.
Exposure	There are no significant concentrations of premium credit risk within the Group.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(b) Credit risk (continued)

(iii) Counterparty credit risk ratings
The following tables outline the Group's credit risk exposure at 30 June 2019 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.

Short-term **Long-term** **2019**	**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	-	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**
Financial assets at fair value through other comprehensive income	-	61.7	-	-	-	-	**61.7**
Total	**67.7**	**1,018.0**	**540.3**	**288.3**	**22.0**	**1,134.8**	**3,071.1**

Short-term **Long-term** **2018**	**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	-	231.5	153.5	85.1	-	-	**470.1**
Premiums in arrears	-	-	-	-	-	10.6	**10.6**
Trade and other receivables	-	-	-	-	-	281.6	**281.6**
Financial assets							
Australian equities	-	-	-	-	-	143.2	**143.2**
International equities	-	-	-	-	-	168.8	**168.8**
Property	-	-	-	-	-	158.4	**158.4**
Infrastructure	-	-	-	-	-	49.8	**49.8**
Fixed income	96.1	622.6	396.8	170.5	26.7	312.7	**1,625.4**
Fixed income - Non-health fund investments	-	130.9	-	-	-	-	**130.9**
Total	**96.1**	**985.0**	**550.3**	**255.6**	**26.7**	**1,125.1**	**3,038.8**

Within the not rated fixed income portfolio, $297.4 million (2018: $280.0 million) is invested in unrated unit trusts, of which the majority of the underlying securities held are investment grade assets and Senior Loans.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital

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

(a) Capital management

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

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

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

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

(b) Trade and other receivables

	Note	2019 $m	2018 $m
Premiums in arrears		13.9	14.9
Allowance for impairment loss		(4.0)	(4.3)
	(i)	**9.9**	**10.6**
Trade receivables		99.5	99.9
Allowance for impairment loss		(3.2)	(1.5)
	(ii)	**96.3**	**98.4**
Government rebate scheme		125.0	122.5
Risk Equalisation Special Account		12.1	21.6
Accrued revenue		39.4	38.3
Other receivables		1.2	0.8
		177.7	**183.2**
Total trade and other receivables		**283.9**	**292.2**

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 2019 for the Group are $9.9 million (2018: $10.6 million).

(ii) Trade receivables past due but not impaired at 30 June 2019 for the Group are $9.9 million (2018: $8.2 million). Each business unit of the Group has reviewed their individual debtors and is satisfied that payment will be received in full.

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

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(b) Trade and other receivables (continued)

Trade and Other Receivables Accounting Policy

Trade and other receivables are:
- 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	2019 $m	2018 $m
Current			
Trade creditors	(i)	275.6	259.8
Other creditors and accrued expenses	(ii)	70.4	75.5
Lease incentives	(iii)	4.0	3.3
Other payables	(iv)	20.0	12.0
Total current		**370.0**	**350.6**
Non-current			
Lease incentives	(iii)	26.2	30.3
Other payables	(iv)	7.7	10.7
Total non-current		**33.9**	**41.0**

Terms and conditions relating to the above financial instruments:
(i) Trade creditors are non-interest bearing and are normally settled up to 30 days.
(ii) Other creditors and accrued expenses are non-interest bearing.
(iii) Lease incentives are non-interest bearing and are settled over the term of the lease. The current liability represents 12 months or less of the term of the lease.
(iv) Other payables includes a contract liability in relation to the loyalty program. Refer to Note 20(c) for the accounting policy for further details.

Trade and Other Payables Accounting Policy

Trade and other payables 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.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

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

	2019 $m	2018 $m
Profit for the year	**458.7**	**445.1**
Depreciation	13.2	12.7
Amortisation of intangibles assets	51.1	42.9
Amortisation of deferred acquisition costs	40.0	39.7
Net loss/(gain) on disposal of assets	0.1	(4.7)
Impairment of trade receivables	-	0.2
Net realised loss/(gain) on financial assets	(12.7)	0.4
Net unrealised loss/(gain) on financial assets	(5.2)	(15.3)
Interest income	(47.3)	(45.9)
Trust distribution reinvested	(42.2)	(39.2)
Investment expenses	4.6	4.4
Non-cash share-based payments expense	5.8	3.5
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	13.7	28.4
Decrease/(increase) in deferred acquisition costs	(34.7)	(37.1)
Decrease/(increase) in other assets	(7.5)	(0.5)
(Decrease)/increase in net deferred tax liabilities	(4.1)	(9.9)
(Decrease)/increase in trade and other payables	14.4	24.1
(Decrease)/increase in unearned premium liability	(3.3)	14.0
(Decrease)/increase in claims liabilities	(2.1)	(24.7)
(Decrease)/increase in income tax liability	(26.1)	(37.9)
(Decrease)/increase in provisions and employee entitlements	(0.3)	8.1
Net cash inflow from operating activities	**416.1**	**408.3**

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 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 as described above, net of outstanding bank overdrafts.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(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 Group's target asset allocation is to hold 28% (2018: 28%) of its total investment assets in cash, maturing in 365 days or less.

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 2019, 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 2019.

	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
Trade and other payables						
2019 (i)	358.7	7.3	5.1	2.6	**373.7**	**373.7**
2018 (i)	340.3	7.0	7.4	3.3	**358.0**	**358.0**
Claims liabilities						
2019	342.3	22.3	8.2	5.3	**378.1**	**377.6**
2018	344.3	22.1	8.3	6.0	**380.7**	**379.8**

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

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.

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.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 10: Contributed equity and reserves (continued)

(b) Reserves

Reserve	2019 $m	2018 $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	6.6	3.7	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 details.
Total	**24.4**	**21.5**	

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

	Land and buildings $m	Plant and equipment $m	Leasehold improvements $m	Assets under construction $m	Total $m
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)**
2018					
Gross carrying amount					
Balance at 1 July 2017	27.2	25.4	81.3	3.3	**137.2**
Additions	-	0.1	2.9	3.2	**6.2**
Transfers in/(out)	-	-	2.9	(2.9)	**-**
Disposals	(27.2)	(12.3)	(1.9)	-	**(41.4)**
Balance at 30 June 2018	**-**	**13.2**	**85.2**	**3.6**	**102.0**
Accumulated depreciation and impairment					
Balance at 1 July 2017	-	(11.8)	(38.1)	-	**(49.9)**
Depreciation expense	-	(3.3)	(9.4)	-	**(12.7)**
Disposals	-	12.3	1.9	-	**14.2**
Balance at 30 June 2018	**-**	**(2.8)**	**(45.6)**	**-**	**(48.4)**
Closing net book amount					
As at 30 June 2019	-	8.8	38.2	2.3	**49.3**
As at 30 June 2018	**-**	10.4	39.6	3.6	**53.6**

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 11: Property, plant and equipment (continued)

(a) Property, plant and equipment capital expenditure commitments

	2019 $m	2018 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	0.9	2.4

Property, Plant and Equipment Accounting Policy

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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets

	Goodwill $m	Customer contracts and relationships $m	Software $m	Assets under construction $m	Total $m
2019					
Gross carrying amount					
Balance at 1 July 2018	218.6	82.8	415.8	12.1	**729.3**
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	**281.9**	**89.7**	**426.4**	**38.2**	**836.2**
Accumulated amortisation and impairment					
Balance at 1 July 2018	(77.4)	(63.7)	(238.1)	-	**(379.2)**
Amortisation expense	-	(8.7)	(42.4)	-	**(51.1)**
Disposals	-	-	-	-	**-**
Balance at 30 June 2019	**(77.4)**	**(72.4)**	**(280.5)**	**-**	**(430.3)**
2018					
Gross carrying amount					
Balance at 1 July 2017	188.8	79.8	361.8	37.1	**667.5**
Additions	33.9	3.1	23.9	11.8	**72.7**
Transfers in/(out)	-	-	36.8	(36.8)	**-**
Disposals	(4.1)	(0.1)	(6.7)	-	**(10.9)**
Balance at 30 June 2018	**218.6**	**82.8**	**415.8**	**12.1**	**729.3**
Accumulated amortisation and impairment					
Balance at 1 July 2017	(81.5)	(56.2)	(208.7)	-	**(346.4)**
Amortisation expense	-	(7.6)	(35.3)	-	**(42.9)**
Disposals	4.1	0.1	5.9	-	**10.1**
Balance at 30 June 2018	**(77.4)**	**(63.7)**	**(238.1)**	**-**	**(379.2)**
Closing net book amount					
As at 30 June 2019	204.5	17.3	145.9	38.2	**405.9**
As at 30 June 2018	141.2	19.1	177.7	12.1	**350.1**

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(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.

On 29 August 2018, MH Investment Holdings Pty Ltd acquired a 100% interest in the in-home care business Home Support Services Pty Ltd (HSS) for $70.1 million (refer to Note 15(a) for further details). The difference between the consideration paid and the identifiable assets (including customer contracts and relationships) and liabilities of HSS of $63.3 million, has been recorded as goodwill. This goodwill comprises revenue growth opportunities, expertise across a larger geographic segment and profitability of the acquired businesses and is non-deductible for tax purposes. The Group has finalised the acquisition accounting within the measurement period allowed under AASB 3 *Business Combinations* and goodwill attributable to the acquisition of HSS has been allocated to a group of CGUs which is comprised of HealthStrong, HSS and the internally developed business of CareComplete and Medibank at Home. This is referred to as the Home Care Group of CGUs ("the Home Care"). The Home Care operating segment is the lowest level management monitors the goodwill.

(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.

	2019			2018		
	Goodwill allocation $m	Growth rate %	Pre-tax discount rate %	Goodwill allocation $m	Growth rate %	Pre-tax discount rate %
Health Insurance	96.2	2.5	13.9	96.2	2.5	14.4
Medibank Health Telehealth	11.1	2.5	16.2	11.1	2.5	16.7
Medibank Health Home Care	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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(b) Key assumptions and judgements (continued)

<table>
<tr><td>Health Insurance CGU</td><td>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.</td></tr>
<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>
</table>

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(b) Key assumptions and judgements (continued)

Medibank Health Home Care group of CGUs	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: o Single go-to-market approach. o Integration of the chronic diseases management and rehab at home programs. o 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.

There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge 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

	2019 $m	2018 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	1.1	0.2

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

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 details of 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 (1.5 to 7 years) and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income.	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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements

	2019 $m	2018 $m
Employee entitlements		
Current	45.6	43.3
Non-current	20.8	18.3
Total employee entitlements	**66.4**	**61.6**

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:

	2019 $m	2018 $m
Superannuation expense	28.3	26.9
Other long-term benefits expense	4.5	3.8
Termination benefits expense	2.6	0.9
Share-based payment expense	5.7	3.5

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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(a) Employee entitlements (continued)

Employee Entitlements Accounting Policy	
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 2018	**9.6**	**0.5**	**3.4**	**15.1**	**17.9**	**46.5**
Additional provision	7.1	2.4	0.4	6.3	7.1	**23.3**
Amounts utilised during the year	(7.1)	(0.4)	(0.9)	(14.9)	(3.0)	**(26.3)**
Reversal of unused provision	-	-	-	-	(1.1)	**(1.1)**
Balance at 30 June 2019	**9.6**	**2.5**	**2.9**	**6.5**	**20.9**	**42.4**
Balance comprised of:						
Current	8.2	2.5	1.5	6.5	14.9	33.6
Non-current	1.4	-	1.4	-	6.0	8.8

(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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(b) Provisions (continued)

(iv) Medical services provision
This provision relates to the estimated cost of sub-contracted medical services incurred but not settled or processed at balance date.

The estimated cost was calculated utilising a number of inputs including:
- The number of invoices on hand.
- An estimate of the invoices not yet received.
- The average past invoice value or contractual price.
- The mix of medical service providers.

(v) Other provision
The other provision includes:
- An onerous lease provision recognised on one of the Group's properties which did not arise as a result of a restructuring program.
- Other provisions that have arisen in course of business.

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 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 are 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

	2019 $m	2018 $m
Continuing operations		
Current tax	184.2	185.0
Deferred tax	(2.9)	(7.1)
Adjustment for tax of prior period	(2.7)	(3.7)
Income tax expense reported in the statement of comprehensive income	**178.6**	**174.2**

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

	2019 $m	2018 $m
Profit for the year from continuing operations before income tax expense	**616.3**	**598.4**
Tax at the Australian tax rate of 30%	184.9	179.5
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non assesable gains on disposal	(0.1)	(0.1)
Tax offset for franked dividends	(1.5)	(2.0)
Other items	(2.0)	0.5
	181.3	**177.9**
Adjustment for tax of prior period	(2.7)	(3.7)
Income tax expense reported in the statement of comprehensive income	**178.6**	**174.2**

SECTION 5: OTHER

Note 14: Income tax (continued)

(c) Deferred tax assets and liabilities

	2019 $m	2018 $m
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	2.2	1.9
Financial assets at fair value through profit or loss	(27.6)	(26.6)
Deferred acquisition costs	(23.9)	(25.5)
Property, plant and equipment	2.9	4.2
Intangible assets	(17.2)	(20.3)
Employee entitlements	22.2	20.0
Provisions	16.6	18.9
Business capital costs	0.6	0.7
Other (liabilities)/assets	10.5	10.3
Recognised in the income statement	**(13.7)**	**(16.4)**
Recognised directly in other comprehensive income		
Revaluation of land and buildings	-	-
Share based payment reserve	-	-
Actuarial loss on retirement benefit obligation	0.5	0.5
Recognised directly in other comprehensive income	**0.5**	**0.5**
Net deferred tax (liabilities)/assets	**(13.2)**	**(15.9)**

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.

SECTION 5: OTHER

Note 14: Income tax (continued)

Income Tax Accounting Policy (continued)

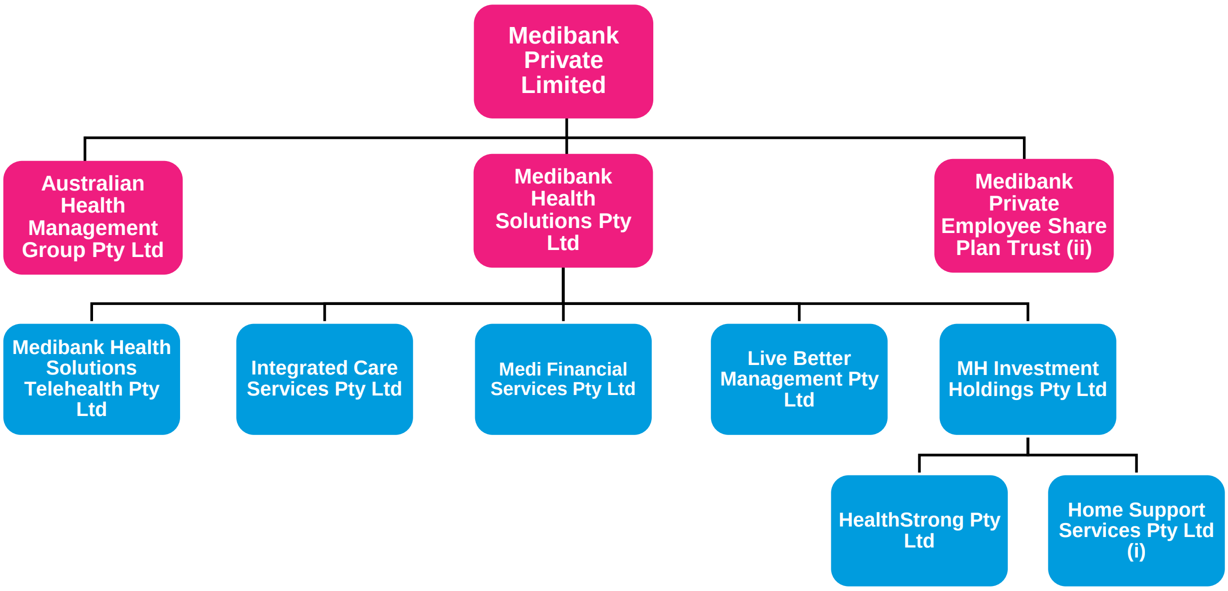
Offsetting balances

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.

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 Class Order 98/1418. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report.

(i) On 29 August 2018, MH Investment Holdings Pty Ltd acquired a 100% interest in the home care business Home Support Services Pty Ltd (HSS) for $70.1 million.

(ii) During the previous financial year, an Employee Share Plan Trust was established to manage Medibank's share-based payment arrangements. Refer to Note 16(a) for further details.

SECTION 5: OTHER

Note 15: Group structure (continued)

(a) Subsidiaries (continued)

Consolidation Accounting Policy

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

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

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

(b) Parent entity financial information

(i) Summary financial information

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

	2019 $m	2018 $m
Statement of financial position		
Current assets	2,903.8	2,891.3
Total assets	3,479.1	3,418.5
Current liabilities	1,420.3	1,449.4
Total liabilities	1,625.0	1,649.8
Shareholders' equity		
Issued capital	85.0	85.0
Reserves		
Equity reserve	6.3	6.3
Share-based payment reserve	6.6	3.7
Retained earnings	1,756.2	1,673.7
	1,854.1	**1,768.7**
Profit for the year	**437.8**	**426.1**
Total comprehensive income	**437.8**	**426.1**

(ii) Guarantees entered into by parent entity

The parent entity has 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 immaterial.

SECTION 5: OTHER

Note 15: Group structure (continued)

(b) Parent entity financial information (continued)

(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 2019, the parent entity had $0.9 million in contractual commitments for the acquisition of property, plant and equipment (2018: $2.4 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 has not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract. Services under the current contract ceased on 30 June 2019. The Garrison Health Services contract has been classified as a discontinued operation at 30 June 2019 in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

	2019 $m	2018 $m
Results of discontinued operations		
Revenue	453.9	437.6
Expenses	(423.7)	(407.7)
Profit for the year before income tax	**30.2**	29.9
Income tax expense	(9.2)	(9.0)
Profit after tax attributable to ordinary equity holders of the Company	**21.0**	20.9
Cash flows of discontinued operations		
Net cash inflow from operating activities	34.8	26.2
Net cash inflow from investing activities	-	-
Net cash outflow from financing activities	-	-
Net cash flows for the year from discontinued operations	**34.8**	**26.2**
Basic and diluted earnings per share for discontinued operations (cents)	0.8	0.8

(d) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2019 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.

SECTION 5: OTHER

Note 16: Share-based payment

(a) Share-based payment 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 payment arrangements. Shares allocated by the trust to the employees are acquired on-market prior to allocation. Shares held by the trust and not yet allocated to employees at the end of the reporting period are shown as treasury shares in the financial statements. The Trust held nil shares at 30 June 2019.

(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:

- 50% of the performance rights will be subject to a vesting condition based on Medibank's absolute EPS CAGR (earnings per share compound annual growth rate) over the performance period.
- 50% of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period against a comparator group of companies.

Both performance hurdles under the LTI Plan have threshold levels which need 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 2019 grants were determined based on the monetary value of the LTI award, divided by the volume-weighted average share price over the 10 trading days leading up to the start of the performance period.

(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.

SECTION 5: OTHER

Note 16: Share-based payment (continued)

(a) Share-based payment arrangements (continued)

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 granted

Below is a summary of performance rights granted and forfeited under the LTI Plan during the current and previous financial years.

	Note	Number of equity instruments	
		2019	**2018**
Outstanding at 1 July		**5,494,565**	**3,476,397**
Granted	(i)	3,252,120	3,276,564
Forfeited	(ii)	(305,066)	(29,336)
Exercised		(666,671)	(1,155,319)
Lapsed	(iii)	(23,496)	(73,741)
Outstanding at 30 June		**7,751,452**	**5,494,565**
Exercisable at 30 June		**-**	-

(i) EPS and TSR performance rights granted to the SEG during 2019: 774,432 respectively (2018: 765,686).
(ii) Forfeited relates to instruments that lapsed on cessation of employment.
(iii) Lapsed relates to instruments that lapsed on failure to meet the performance hurdle.

SECTION 5: OTHER

Note 16: Share-based payment (continued)

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2018 and 2019 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	
	2019	**2018 grant A**	**2018 grant B**
Grant date	1 July 2018	1 July 2017	25 September 2017
Date of commencement of service period	1 July 2018	1 July 2017	1 July 2017
Expected expiry date	30 June 2021	30 June 2020	30 June 2020
Fair value at grant date	$1.37	$1.38	$1.82
Share price at grant date	$2.92	$2.80	$2.97
Dividend yield (per annum effective)	4.5%	3.7%	3.7%
Risk free discount rate (per annum)	2.1%	2.0%	2.1%
Valuation method	Monte Carlo simulation model	Monte Carlo simulation model	Monte Carlo simulation model
Volatility assumptions (per annum)			
Medibank	20%	22%	22%
Comparator group average	22%	24%	24%
Correlation between comparator companies' TSR	25%	25%	25%

		EPS performance rights	
	2019	**2018 grant A**	**2018 grant B**
Grant date	1 July 2018	1 July 2017	25 September 2017
Date of commencement of service period	1 July 2018	1 July 2017	1 July 2017
Expected expiry date	30 June 2021	30 June 2020	30 June 2020
Fair value at grant date	$2.44	$2.42	$2.60
Share price at grant date	$2.92	$2.80	$2.97
Dividend yield (per annum effective)	4.5%	3.7%	3.7%
Risk free discount rate (per annum)	n/a	n/a	n/a
Valuation method	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
Volatility assumptions (per annum)			
Medibank	n/a	n/a	n/a
Comparator group average	n/a	n/a	n/a
Correlation between comparator companies' TSR	n/a	n/a	n/a

SECTION 5: OTHER

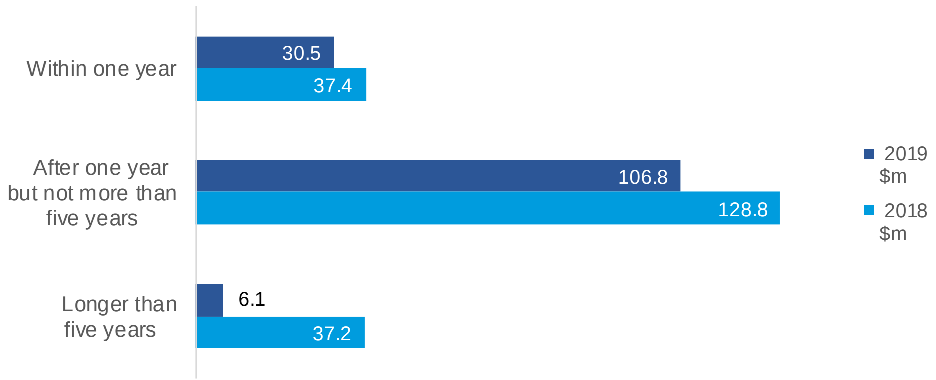
Note 17: Key management personnel remuneration

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. Except where indicated, all of these persons were also directors and specified executives during the year ended 30 June 2018. Detailed remuneration disclosures are provided in the remuneration report.

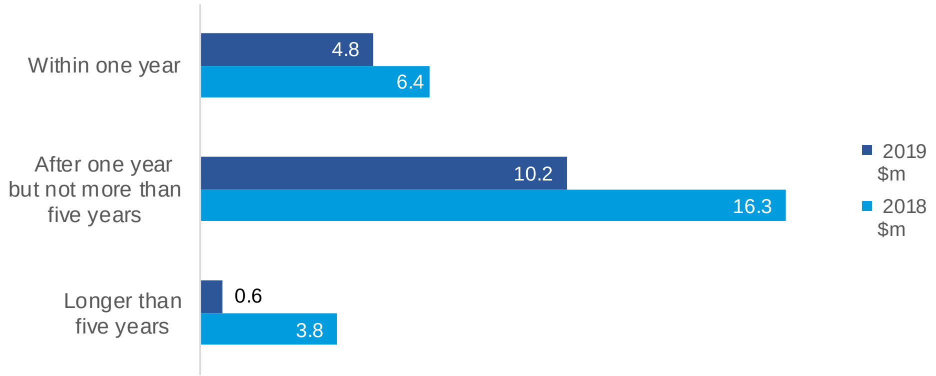
	2019	2018
Short-term benefits	9,279,333	9,180,768
Post-employment benefits	312,099	304,838
Long-term benefits	186,193	181,724
Share-based payments	4,255,725	3,381,677
Total key management personnel	**14,033,350**	**13,049,007**

Note 18: Commitments

Operating lease commitments - lessee



Operating lease payments receivable - lessor



Operating 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 operating leases. The leases have varying terms, escalation clauses and renewal rights.

SECTION 5: OTHER

Note 18: Commitments (continued)

Leases Accounting Policy

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:

		2019	2018
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		1,529,841	1,587,053
Other assurance services in relation to the Company and any other entity within the Group:			
- Audit of regulatory compliance returns		178,430	142,090
Other services in relation to the Company and any other entity within the Group:			
- Other non-audit services	(i)	204,676	-
Total remuneration of PwC		**1,912,947**	**1,729,143**

(i) Other services include advisory services in relation to tax and business integration.

Note 20: Other

(a) New and amended standards adopted

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on the Group’s financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods. The Group has applied the modified retrospective method of adoption on 1 July 2018, which does not require restatement of comparative information.

(i) AASB 9 Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The adoption of AASB 9 resulted in changes in accounting policies.

Accounting policies
Under AASB 9, the Group classifies its financial assets in the following measurement categories, depending on the Group’s business model for managing the financial assets and the contractual terms of the cash flows:

- Those to be measured subsequently at fair value through profit or loss (FVTPL).
- Those to be measured subsequently at fair value through other comprehensive income (FVOCI).
- Those to be measured at amortised cost.

SECTION 5: OTHER

Note 20: Other (continued)

(a) New and amended standards adopted (continued)

(i) AASB 9 Financial Instruments (continued)

Financial asset category	Reference to new accounting policy under AASB 9	Accounting policy applicable for the comparative period
Financial Assets and Financial Liabilities	Note 20(c)	The Group classifies its financial assets in the following categories: cash and cash equivalents, financial assets at fair value through profit or loss, and trade and other receivables. Management determines the classification of its financial assets at initial recognition and depends on the purpose for which the financial assets were acquired. 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 and the Group has transferred substantially all the risks and rewards of ownership. The Group's financial liabilities comprise trade and other payables. Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expired.
Financial assets at fair value	Note 7	Investments in listed and unlisted securities held by Medibank's health insurance fund are classified as financial assets that back insurance liabilities and are therefore designated at fair value on initial recognition. Other investments in listed and unlisted securities are classified as held for trading as they are acquired principally for the purpose of selling in the short term and are therefore measured at fair value on initial recognition. 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 fair value through profit or loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.
Net investment income	Note 7(a)	Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" 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 fair value though profit or loss 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.

SECTION 5: OTHER

Note 20: Other (continued)

(a) New and amended standards adopted (continued)
(i) AASB 9 Financial Instruments (continued)

Impact of adoption of AASB 9

Classification and measurement
On 1 July 2018, the Group assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate AASB 9 categories. The non-health fund investments measured at FVTPL were reclassified from financial assets at FVTPL to financial assets at 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.

The adoption of AASB 9 resulted in a reclassification of non-health fund investments of $130.9 million measured at fair value through profit or loss at 30 June 2018 to the opening balance of financial assets at fair value through other comprehensive income. There was no impact to profit or loss or retained earnings.

Impairment
From 1 July 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. This did not result in the recognition of any additional loss allowance by the Group.

For financial assets classified at fair value through other comprehensive income, the Group applies the general approach, 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. The Group evaluated the financial assets classified at fair value through other comprehensive income for significant changes in credit risk. This did not result in any change to the loss allowance recognised by the Group

(ii) AASB 15 Revenue from contracts with customers
The Group's health insurance premium revenue is outside the scope of the standard, as this is accounted for under AASB 1023 *General Insurance Contracts*. The standard applies to Medibank Health revenue and other revenue from customers.

Accounting policies

Accounting policy	Reference to new accounting policy under AASB 15	Accounting policy applicable for the comparative period
Medibank Health Revenue Recognition	Note 2	Medibank Health revenue is recognised in the period in which the service is provided, having regard to the proportion of completion of the service at the end of each reporting period. The Group recognises as a liability any amounts received for which it has not provided the service at reporting date.

SECTION 5: OTHER

Note 20: Other (continued)

(a) New and amended standards adopted (continued)
(ii) AASB 15 Revenue from contracts with customers

Impact of adoption of AASB 15
The application of AASB 15 has not resulted in any significant changes in revenue recognition, as the majority of contracts with customers have separate pricing for distinct performance obligations and settlement in the short term.

(iii) Other

The following standards became effective for the annual reporting period commencing on 1 July 2018 but did not have a material impact on the Group's accounting policies or on the consolidated interim financial report.

- AASB 2016-5 *Classification and Measurement of Share-based Payment Transactions*
- AASB 2017-1 *Transfers of investment property and annual improvements*

(b) New accounting standards and interpretations not yet adopted

Certain new accounting standards have been published that are not mandatory for 30 June 2019 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 16: Leases

This standard is effective for reporting periods beginning on or after 1 January 2019. The Group will apply AASB 16 for the annual period beginning 1 July 2019.

Impact of the new definition of a lease
The Group will make use of the practical expedient available on transition to AASB 16 and will not reassess whether a contract is or contains a lease.

Impact on lessee accounting
As at 30 June 2019, the Group has non-cancellable operating lease commitments of $143.4 million relating to corporate offices and retail sites. Our assessment indicates that on 1 July 2019 the Group will recognise a right-of-use asset of approximately $98 million and a corresponding lease liability of approximately $133 million in respect of all these leases. The difference will be recognised in retained earnings.

The provision for onerous lease contracts which was required under AASB 117 of $3.9 million will be derecognised against the right-of use asset. Lease payables and incentives previously recognised in respect of the operating leases of approximately $30 million will be derecognised against retained earnings as these amounts are already factored into the measurement of the right-to-use assets and lease liabilities. The net adjustment to retained earnings is expected to be approximately $5 million.

Impact on lessor accounting
Our assessment confirmed that two of the Group's four subleases will be 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 will account for the head lease and the sublease as two separate contracts.

Our assessment indicates that on transition, as a lessor the Group will derecognise approximately $7 million of the right-of-use asset and recognise a net investment in sublease of approximately $10 million. The difference of approximately $3 million will be recorded in other income within the consolidated statement of comprehensive income.

SECTION 5: OTHER

Note 20: Other (continued)

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

(i) AASB 16: Leases (continued)

Transition approach

The Group will apply the modified transition approach. As a lessee, the Group will recognise a lease liability for existing operating leases using the incremental borrowing rate at date of initial application. The measurement of the corresponding right-of-use asset will be determined 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.

As an intermediate lessor, the Group will account for the finance subleases as new finance leases entered into at the date of initial application.

(ii) AASB 17: Insurance Contracts

This standard is effective for reporting periods beginning on or after 1 January 2021 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 2021. The IASB has proposed to defer the effective date of the standard by one year to 1 January 2022.

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 proposed amendments for public consultation. These proposed amendments 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.

(iii) 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.

(iv) 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.

SECTION 5: OTHER

Note 20: Other (continued)

(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 2019.

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

(a) the financial statements and notes set out on pages 50 to 106 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 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 2019.

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

22 August 2019
Melbourne

Independent auditor's report

To the members of Medibank Private Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 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 2019
- 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* (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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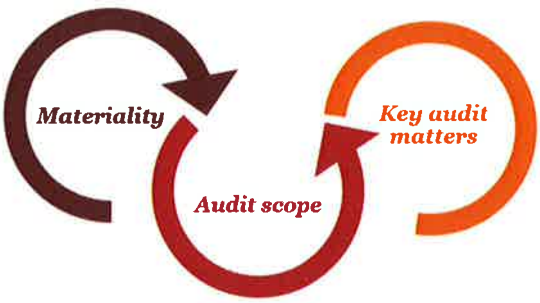
Our audit approach

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	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $31.3 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.	• 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 most financially significant segment of the Group, being the private health insurance segment. – Specific risk focused audit procedures over the Medibank Health segment.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: – Estimation of 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.

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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*
Estimation of outstanding claims liability $377.6m (2018: $379.8m) *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. A risk margin is, therefore, 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%. Primarily, judgement is required by the Group in order to estimate the: • type and amount of claims incurred during the last two months of the 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. We considered this a key audit matter because of the significant judgement required by the Group in estimating claims liabilities and because a small change in assumptions can result in a material change in the	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 (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: ▪ Evaluated whether the Group's actuarial methodologies were consistent with actuarial practices, and those used in the industry and in prior periods. ▪ 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 (including expected member claiming patterns and estimated payment patterns). This included comparing the key actuarial assumptions to the Group's historical experience, current trends and our industry knowledge. In particular, we considered whether the assumptions used in the estimation process reflected observable market trends and claims processing speed. ▪ Considered the sensitivity of the estimate

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Key audit matter	*How our audit addressed the key audit matter*
estimated liability and corresponding charge to profit for the year.	to reasonably plausible alternative for service levels by reference to payment history and recent claims trends. • **Claims received after the year-end** We compared the central estimate to actual claiming activity after the year-end, to determine whether the claims received indicate a material misstatement in the estimated outstanding claims 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: • Assessed the design and operating effectiveness of a sample of key IT controls that are relevant to the financial reporting process and our audit. • 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.

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Key audit matter	*How our audit addressed the key audit matter*
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 $97.2m as a result of the acquisition of HealthStrong (HT) in July 2017 and Home Support Services (HSS) in August 2018. For the purposes of impairment testing, this goodwill has been allocated to a group of CGUs which is comprised of HT, HSS and two internally developed businesses of Care Complete and Medibank at Home. This group of CGUs is referred to as the Home Care Group of CGUs ("Home Care"). We considered this to be a key audit matter due to the: ▪ significant judgement required by the Group in determining the level at which goodwill is tested for impairment. The Group performed impairment testing at the Home Care level as it considers that there are operational, efficiency, productivity and financial synergies that will be derived through the integration of the businesses. The Group also monitors performance of these businesses at the Home Care level; ▪ financial significance of the goodwill allocated to Home Care which accounts for more than 47% ($97.2m) of the Group's goodwill balance ▪ 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.	We performed the following procedures, amongst others: • Developed an understanding of the Home Care strategy including how the acquired businesses of HT, HSS and the internally developed businesses of Care Complete and Medibank at Home are managed and monitored by the Group. • Developed an understanding of the process by which the projected future cash flows of Home Care that include expected operational, productivity and financial synergies were developed. • 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 test 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 and industry data. • Tested the mathematical accuracy of the value-in-use model and re-performed the Group's sensitivity analysis, considering reasonably possible changes in key assumptions. • Together with PwC valuation experts, compared the discount rate assumptions to market data, comparable data and industry research.

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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 2019, 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: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 17 to 47 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2019 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
Partner

Britt Hawkins
Partner

Melbourne
22 August 2019