Annual Report

2019

Australian Unity

Group facts and statistics

700,000+
Customers

Around **270,000**
Members

3.8m
Hours of home and disability care

13.9%
Increase in funds under management for education solutions

18 years
Delivered lowest average health insurance premium increase in 18 years

54,000+
Home care customers

24,400
Banking customers

186,000
Private health insurance policyholders

20
Retirement communities

7,000+
Employees

2,469
Independent living retirement units

786
Aged care beds

96%
Retirement community occupancy rate

184
Financial advisers

58,455
Dental visits

$160,000
Australian Unity Foundation community grants

50/50
Gender balance of non-executive directors

24.5%
Return by Australian Unity Office Fund

390,000+
Remedy Healthcare episodes of care across 14 treatment programs

300,000
Hours of care to Aboriginal Home Care clients

3,700
Home & Disability Services care workers

$1.8m
spent with Aboriginal and Torres Strait Islander suppliers

$20.71b
in assets and funds under management and advice

70%
management representatives female

Contents

Definitions:
Australian Unity Group – the Group
Australian Unity Limited – the Company

Refer to our website for Australian Unity's reporting suite – australianunity.com.au/companyperformance

About Australian Unity

Established in 1840, Australian Unity is one of Australia's first member-owned wellbeing companies. From our early days, we've been here to help people thrive and been strong advocates in the community for positive change and the wellbeing of Australians. Today, while we've grown to a company of more than 7,000 employees with hundreds of thousands of members and customers, we remain true to our roots. Our broad range of products and services are focused on enhancing the wellbeing of Australians.

Our purpose

We're here to help people thrive

Strategy

To build a commercial, sustainable portfolio of businesses that foster individual and community wellbeing

Our strategic pillars

Create a great place to work

If we take care of our people they will take care of our customers.

Put our customers front and centre

Customers and members have choices and we want them to choose us.

Deliver sustainable performance

We've been here for 175+ years and we want to be here for many more.

Make a difference in our community

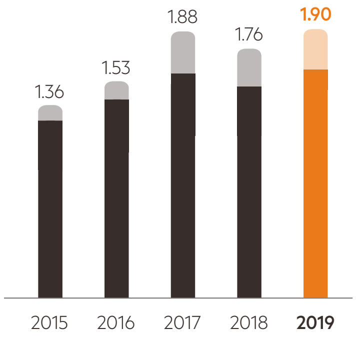
Community is at the heart of what we do.

Areas of operation

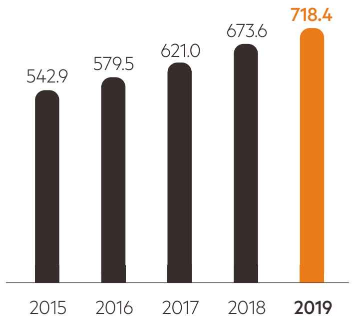
Health, Wealth and Living

2019 at a glance

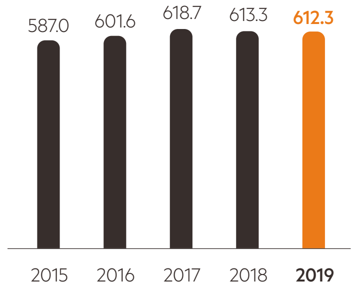
Revenues ($b)†Σ
$1.90 billion



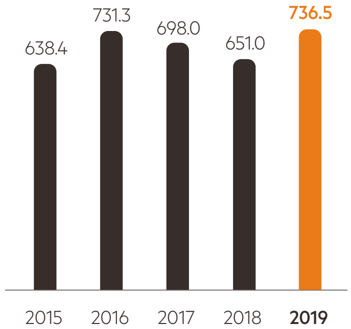
Members' funds ($m)‡
$718.4 million



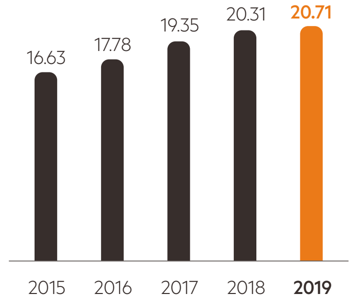
Private health insurance gross claims paid ($m)
$612.3 million



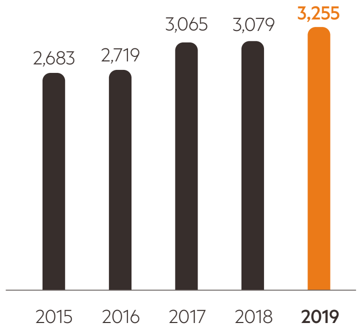
Australian Unity Bank loan book ($m)
$736.5 million



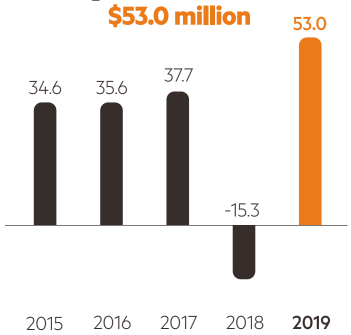
Assets & funds under management and advice ($b)*
$20.71 billion



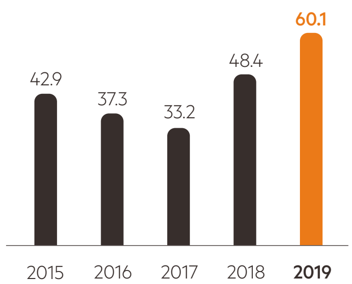
Retirement units and aged care beds
3,255



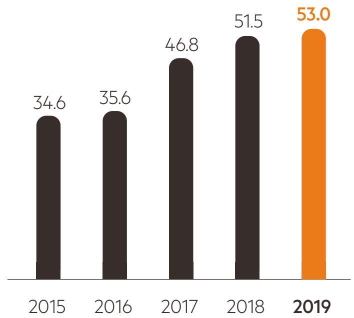
Profit from continuing operations ($m)¶
$53.0 million



Profit before income tax ($m)^
$60.1 million



Profit after income tax ($m)
$53.0 million



Σ The FY2018 year includes the sale of the Group's corporate health insurance business, Grand United Corporate Health Limited (GUCH), affecting the comparative results for FY2017.

† Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the Consolidated statement of comprehensive income in the Annual Report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

‡ Members' funds: net assets of the Group attributable to members.

* Assets & funds under management and advice: including developments and associated debt facilities.

¶ The FY2018 year excludes the sale of GUCH, affecting the comparative results for FY2017.

^ Profit before income tax: attributable to members of Australian Unity Limited. Includes the before-tax profit from discontinued operations.

Chair's report

Despite prevailing headwinds within the public policy environment, in the year under review the Group continued to progress its strategic agenda as an organisation providing products and services to meet the wellbeing needs of its members and customers, and delivering social infrastructure outcomes that benefit the broader community.

The external operating environment also continued to undergo significant scrutiny and change, including Royal Commissions and other inquiries arising from conduct and quality problems within the financial services, aged care and disability sectors—areas in which the Group has increasing exposure. Further, political and policy instability brought increased pressure on our private health insurance business.

Pleasingly, our organisation's commitment to its members and customers assisted us in navigating these challenges and provided us with a solid platform from which to advocate on their behalf.

Mutual Reforms

Perhaps the most significant public policy occurrence for the Group in the year under review was the passage through the Australian Parliament of legislative reform for co-operatives and mutual organisations—reform that opens up future strategic opportunities while safeguarding mutuality.

The Treasury Laws Amendment (Mutual Reforms) Act 2019 formally recognises mutual organisations, such as Australian Unity, while allowing them to raise funds through the issue of a specific financial instrument called a Mutual Capital Instrument (MCI). In the past, mutual organisations could generally only raise funds by increasing debt, which has restricted growth. MCIs will allow mutual organisations to raise permanent capital without relying solely on debt or compromising their member-owned status.

Financial Performance

An important and necessary part of our strategic journey has been the diversification of the business into our three revenue platforms—Independent & Assisted Living, Retail and Wealth & Capital Markets. As a Group we are well-progressed with our portfolio strategy of reducing our overall reliance on our health insurance business, while expanding our exposure to the rapid growth in demand for person-centred human services and social infrastructure.

Important to realising the strategic ambitions of a recrafted organisation with a better balance of risk is the need to maintain a strong balance sheet position, while actively deploying capital in support of our growth aspirations. During the year, we strengthened the foundations of the Group's balance sheet through a number of initiatives. Further, a focus on embedding sustained efficiencies and structural benefits from the prior year's transformation program underpinned a $45.0 million decrease in overall operating expenses.

Against this backdrop, the Group's financial performance has been positive; net profit after tax for the period under review was $53.0 million and revenue was $1.61 billion, reflecting solid performance across our three operating platforms.

Delivering Value

While the Group operates with a strong commercial approach, as a mutual organisation we are afforded the opportunity to create value that extends beyond financial results—for our members, our customers and the broader community. Our structure allows us to consider longer-term opportunities without the short-term pressure of delivering immediate returns to shareholders. This was critical, for example, in our ability to create Remedy Healthcare and to invest significantly in building a Home Care business.

A major focus of the year under review saw the Group laying the foundations for renewed recognition and shared value to Australian Unity Limited members. The board eagerly anticipates the realisation of this work.

Further progress was also made on our community value strategy. We believe that a sound community value framework and practices translate to a stronger business that delivers for all stakeholders. We strengthened our partnerships with like-minded community partners by practically supporting education and assistance programs designed to empower the individual and grow community impact. Our ambitions in the area of social infrastructure were also progressed with major milestones reached in the development of Brisbane's Herston Quarter health precinct on behalf of the Queensland Government—one of the leading pieces of hard social infrastructure currently under construction in Australia. When successfully delivered, this project could provide further opportunities in the social infrastructure development space.

Risk

The challenges and disruptions in the external operating environment present risk across our businesses in terms of their potential to precipitate deteriorating market sentiment, changes in government policy—or both.

The presence of inherent risk in the delivery of human services was anticipated when the Group embarked on its strategy of diversifying its business portfolio. As discussed earlier, these risks were highlighted in the year under review through the evidence and subsequent findings of Royal Commissions and other inquiries within the financial services, aged care and disability sectors.

The board continues to work closely with management on ensuring that the Group understands such risks, their impact, and the options for responding should the risk be realised.

Finally, on behalf of the board I would like to thank Group Managing Director Rohan Mead, his executive team and Australian Unity's employees for their hard work during the year.

Peter Promnitz
Chair

Group Managing Director's report

The year under review was one of sound financial performance and continued advancement of our strategic plan—to create contemporary business models within a portfolio spanning the areas that matter most to people's wellbeing while also addressing the social infrastructure challenge for our community.

After some years of investment, the growth seen across the Group during the past year reflects our strategic choices. We are now well-placed to continue developing our portfolio of valued health, wealth and living services for members and customers —services with demonstrated broader social impact.

Operating in an external environment of heightened uncertainty and volatility, the Group sought to balance the need to perform now, while also building our capabilities for the future. During the year, the outworkings of this approach were clear in the significant progression of key initiatives within our human services and private health insurance businesses; ongoing development of our social infrastructure projects; realisation of cost efficiencies from our Group transformation program; and maintenance of a strong and flexible balance sheet. These initiatives were progressed in parallel with positively developing the financial performance of the Group. The Group's net profit after tax was $53.0 million, a 2.8 percent increase on the prior year. Given the significant transaction in the prior year involving the sale of the Grand United Corporate Health Limited (GUCH) insurance business, it is important to look to the year-on-year result of the continuing operations. On the basis of continuing operations, the year saw an overall $68.3 million increase in profit after tax.

Valued human services

Our strategic ambition to become a leading provider of valued human services was further progressed in the year under review with the continued transformation of the Home & Disability Services (HDS) business. An adjusted EBITDA of $14.5 million effectively represented a two-year, $50.6 million improvement for our HDS business—a result underpinned by ongoing investments in new operating models and capabilities.

Building a sustainable business in human services can require difficult decisions. Following a review of the National Disability Insurance Scheme (NDIS)-funded component of the HDS business, we began reducing our geographical footprint through the progressive and careful transition of NDIS-funded customers to other providers within those areas where we will no longer deliver these services. This decision will strengthen our capacity to provide aged care services, which are by far the larger segment of our HDS business. An 87.7 percent increase in Home Care Packages revenue was a significant driver of 13.3 percent growth in HDS total revenue for the year under review. Australian Unity is one of the top five providers in what remains a highly fragmented market.

Private Health Insurance

The past year was challenging for private health insurers, who faced significant political uncertainty, government-mandated product reform, and continued affordability pressures. Against this backdrop, our reinvigorated private health insurance business delivered an adjusted EBITDA of $67.9 million—a 10.9 percent increase on the prior corresponding period—while managing the lowest Australian Unity Health Limited premium increase in 18 years. These results reflect our continued efforts to reduce operating costs and advocate for sector-wide reforms, particularly against low value care, along with active management of hospital contract negotiation outcomes and cost containment.

Social Infrastructure

The development of Brisbane's Herston Quarter health precinct with the Queensland Government progressed significantly during the year. Construction within the precinct of the $390 million Surgical, Treatment and Rehabilitation Service by the Healthcare Property Trust commenced in May 2018, with completion of this hospital planned for the second quarter of the 2021 financial year.

Strategic and financial performance of the three operating platforms

Key to the Group's strong performance this year was the ongoing 'settling in' and resultant cost efficiencies from our new Group structure—implemented two years ago and formed around three operating platforms that design and deliver valued services to members and customers in the areas of health, wealth and living.

Independent & Assisted Living (IAL) ended the year under review with an adjusted EBITDA of $48.2 million—an increase of $51.5 million on the prior year that reflected the continued focus on improving the sustainability of the HDS business as discussed above. IAL's development pipeline of aged care and retirement communities met key milestones, with four development projects completed across NSW and Victoria during the period. The portfolio now consists of 3,255 independent living units and aged care beds—an increase of 176 on the prior year.

Remedy Healthcare continued to focus on integrating its health services into the IAL business and developing a continuum of care approach across the platform. During the year, Remedy delivered more than 390,000 episodes of care across 14 treatment programs.

These episodes were in addition to the more than 3.8 million episodes of care delivered during the year by the HDS business.

Retail delivered a sound result despite complex trading, policy and environmental circumstances for healthcare, health insurance and banking. Retail's adjusted EBITDA rose by $9.8 million or 15.2 percent. This result was driven principally by a favourable underwriting experience in the health insurance business, strong growth in net interest income in the banking business and sound containment of operating expenses. Australian Unity Bank maintained strong lending momentum throughout the year, with $173.3 million in new loans written. In combination with improved retention rates, this has lifted the loan book by a net $85.5 million.

Wealth & Capital Markets (W&CM) had a successful year of business growth in the property, investments and trustees segments, and favourable outcomes in specific initiatives in social infrastructure related developments. It recorded an adjusted EBITDA of $50.5 million for the year under review, which represented a 36.7 percent increase on the prior corresponding year. In the year under review, Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased assets under management to $1.63 billion and recorded a return of 9.3 percent.

The ASX-listed Australian Unity Office Fund (ASX: AOF) achieved a return of 24.5 percent, outperforming the S&P/ASX 300 A-REIT Accumulation Index by 5.2 percentage points. Returns across more than 75 percent of funds managed recorded returns above benchmark.

In conclusion, the year under review has seen further unfolding of the Group's strategic shape and a solid financial performance across our three operating platforms and their respective business units. We believe that during the year, the organisation strengthened its capacity to provide and to extend valuable services for the community, related to important aspects of wellbeing. I thank all of my colleagues at Australian Unity for their committed work to the ongoing development of the organisation.

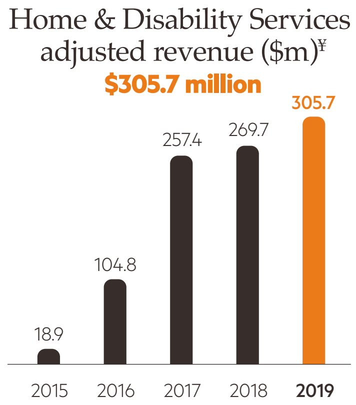
Rohan Mead
Group Managing Director & CEO

Business performance

Independent & Assisted Living

$469.4m
in total segment revenue
(2018: $422.7m)

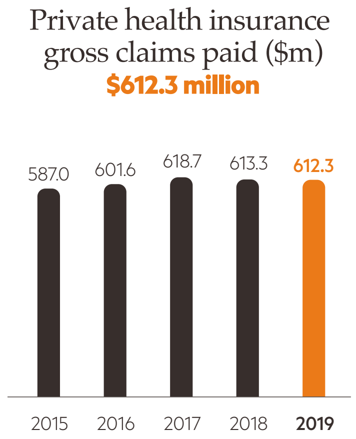
$48.2m
in adjusted EBITDA^
(2018: -$3.3m)



Retail

$722.1m
in total segment revenue
(2018: $726.1m)

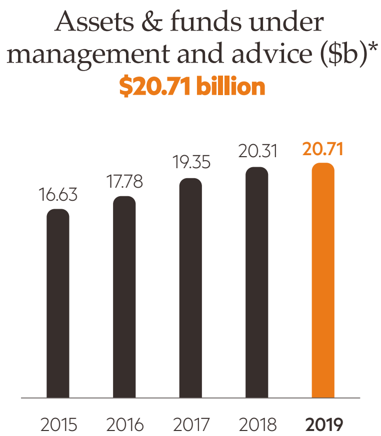
$74.4m
in adjusted EBITDA^
(2018: $64.6m)



Wealth & Capital Markets

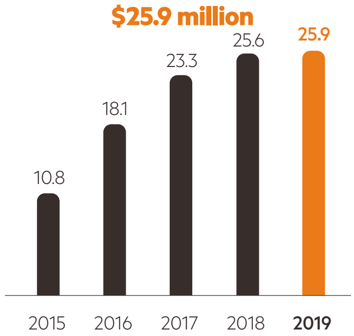
$180.9m
in total segment revenue
(2018: $170.4m)

$50.5m
in adjusted EBITDA^
(2018: $36.9m)



Remedy Healthcare revenue ($m)

$25.9 million



Independent & Assisted Living development pipeline ($m)

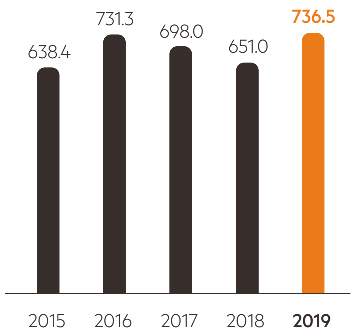
Total $601.7 million

Drummond Place	Retirement Village stage 2	$85.9m
Albert Rd	Aged Care	$134.6m
Lane Cove	Lane Cove development	$167.4m
Herston Quarter	Wellbeing Precinct	$168.4m
Walmsley	Aged Care	$45.4m

Through the Social Infrastructure Development Group (SIDG), the Wealth & Capital Markets Property business works closely with Independent & Assisted Living on this pipeline.

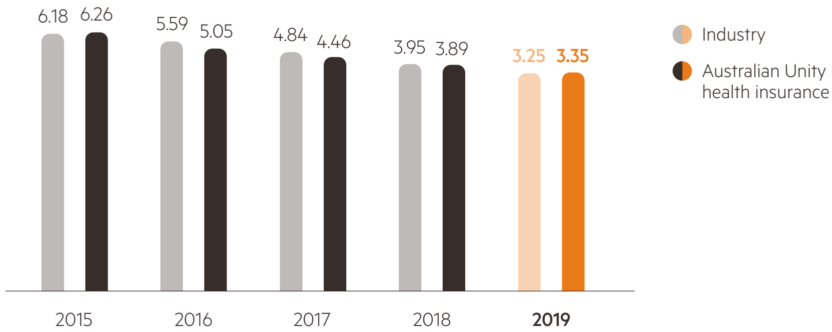
Australian Unity Bank loan book ($m)

$736.5 million



Average private health insurance premium rate increase (%)

Total 3.35%



Assets & funds under management, advice and developments (and associated debt facilities) ($b)

Total $20.71 billion

Investments under management	$6.00b
Property under management	$2.99b
Property under development	$1.26b
Debt facilities under management	$1.59b
Funds under advice	$6.20b
Funds under trusteeship	$0.33b
Life & Super funds under management	$2.34b

¥ Includes significant growth in the 2016 financial year from the transition of the NSW State Government's home care operations, Home Care NSW, to Australian Unity.

^ Adjusted EBITDA: adjusted earnings before interest, tax, depreciation and amortisation.

* Assets & funds under management and advice: including developments and associated debt facilities.

Community value

Australian Unity's purpose—to help people thrive—underpins our approach to building community value, whether through the products and services we deliver to our members and customers, or through our broader contribution to the communities in which we live and work.

We believe that a sound community value strategy, culture and practices translate to a strong business that delivers for all of its members, customers, employees and the community.

Philanthropy

Now in its 13th year, the Australian Unity Foundation is an important part of the Group's community strategy. Since it was established in 2006, more than $1.7 million has been distributed to deserving organisations that support community wellbeing. This year, grants totalling $160,000 were awarded to Jigsaw, First Nations Foundation, Women's Information and Referral Exchange (WIRE), Purple House, Red Cross and Black Dog Institute. Our employees contributed more than 300 volunteer hours (valued at over $20,000) and donated almost $17,000 to various community groups.

Partners and Sponsorships

In partnership with Deakin University, we have been measuring the wellbeing of Australians since 2000. Known as the Australian Unity Wellbeing Index, it's one of the most enduring and credible studies of wellbeing in Australia. The Index tracks how satisfied people across Australia are with their lives, using seven key areas of wellbeing, such as standard of living and future security.

We continued our community partnership with The Resilience Project, supporting its program of evidence-based, practical strategies to build resilience and promote gratitude, empathy and mindfulness in schools and businesses. The partnership has given us exposure to a large new audience that aligns with our organisation's values.

Our sponsorship of the Australian Brandenburg Orchestra also continued, highlighted by performances at four of our retirement communities throughout the year.

Australian Unity is an active member of the FIAP (Financial Inclusion Action Plan) Community of Practice, attending regular forums and sharing opportunities and ideas. We continued to partner with Good Shepherd Micro-finance to increase awareness of financial hardship and resilience in the community. Our partnership with First Nations Foundation has enabled the digitisation of the My Moola Program, targeting financial literacy for Indigenous Australians. Some of our employees and customers participated in 'My Moola' financial literacy workshops.

As part of our ambition to practically support Indigenous communities' economic empowerment, we continued to develop accessible products and services that better meet the needs of Indigenous peoples and support their communities in the areas of Home & Disability Services, Trusts & Estates, Banking and Healthcare. Our banking and health insurance businesses developed referral pathways and tailored support solutions for customers experiencing financial hardship.

Reconciliation

Australian Unity's Reconciliation Action Plan (RAP) outlines our commitment to building strong and respectful relationships with Aboriginal and Torres Strait Islander peoples, communities and businesses. In the 2019 financial year, we increased our spending with Aboriginal and Torres Strait Islander suppliers by 300 percent to more than $1.8 million, in turn enabling business owners to further develop their business and operational capabilities to continue to grow their community impact.

Australian Unity supports the work of Reconciliation Australia, Supply Nation and the Business Council of Australia in shaping the Reconciliation agenda of Australia through meaningful consultation and advocacy.

The Aboriginal Home Care (AHC) service, which was defined as a new and important business unit within home and disability services in July 2018, provides services for more than 2,000 Aboriginal clients and employs over 300 people, most of whom identify as being of Aboriginal and/or Torres Strait Islander descent. AHC remains one of the largest employers of Aboriginal women in NSW and is also a significant employer of women in rural and regional areas, with at least 60 percent of female employees located outside of major metropolitan areas.

Australian Unity offers leadership pathways for Aboriginal and Torres Strait Islander employees. Many of our employees have undertaken cultural awareness training, and we have supported key events such as NAIDOC Week and National Reconciliation Week.

Australian Unity hosted four Indigenous CareerTrackers interns across finance, people and culture and procurement during the summer and winter university holidays. Indigenous CareerTrackers provides opportunities for Indigenous university students to gain internships with some of Australia's largest corporations in the field of their studies.

Our people

We work to build a culture and environment where our employees are valued, engaged and safe. Our values of being bold, warm and honest and our core purpose, to help people thrive, drive us in these efforts.

$1.8m

spent with Aboriginal and Torres Strait Islander suppliers

$160,000

given in Australian Unity Foundation grants

70%

of management representatives are female

Due to the nature of our workforce and working environments, we have a diverse risk profile. Our employees work in environments ranging from offices and clinics to residential aged care facilities and clients' homes. With close to 60 percent of our employees working remotely, the health and safety challenges of our workforce are a key priority. For the 12 months to 30 June 2019 the total incidents reported across the Group decreased by 14 percent.

Our first Listen to Grow – Values in Action survey was conducted with a group of almost 400 Australian Unity leaders in the year under review. This was the first step in a three-stage Culture Development initiative that will continue through the calendar year.

More than 120 people attended the Australian Unity Business School in 2019, which included 64 participants in our new Foundations of Adaptive Leadership program. A rejuvenated suite of leadership and management development programs are scheduled for release in the 2020 financial year.

Across the Group more than 7,000 employees engaged in learning events, such as face-to-face training, induction sessions, systems training workshops, compliance modules, e-learning modules and online webinars, up from 2,852 the previous year. More than 86,100 learning events were delivered, of which 27 percent were face-to-face and 73 percent were online. The attainment rate was 91 percent.

Close to 70 percent of the learning events were undertaken by employees within the IAL platform.

We celebrated the first anniversary of the launch of our Pride Network, which was established to support employees and customers who identify as Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, or Intersex (LGBTQI). We also once again completed the voluntary Australian Workplace Equality Index (AWEI), a national benchmark on LGBTQI workplace inclusion, with an improved score on the prior year. We continued to support our charity partner StartOut.

The annual review of workplace gender equality indicates all management cohorts at Australian Unity have achieved a gender balance above the target range, and, in addition, at the board level, Australian Unity has maintained a 50 percent gender balance—an increase from 40 percent in recent years. We have also seen an increase in female management representatives within the Group to 70 percent, up from 50 percent in the prior reporting period. Encouragingly, more than 25 percent of women within management or senior management positions at Australian Unity are under 40 years of age, suggesting a strong pipeline of leadership potential for ongoing investment and development. Pay parity at each level of management continues to be lower than the Workplace Gender Equality Agency (WGEA) 2017/2018 full-time base salary gender pay gap of 16.2 percent. An actuarial analysis of FY2019 performance and remuneration outcomes suggests gender is not a significant factor in the assessment of performance or pay related decisions.

Governance

Australian Unity Board of Directors

Left to right

Greg Willcock
BCom, FCPA, FAICD, MAIM, FFin
Director

Su McCluskey
BCom, FCPA, MAICD
Director

Lisa Chung
LLB, FIML, FAICD
Director

Peter Promnitz
BSc (Hons), AIAA, FAICD
Chair

Rohan Mead
Group Managing Director & CEO

Melinda Cilento
BA, BEc (Hons), MEc, GAICD
Director

Paul Kirk
BEcon, ACA, RITA, MAICD
Director

Australian Unity Group Executives

Left to right

David Bryant
FAICD, FFin, FAIM
Chief Executive Officer, Wealth & Capital Markets & Chief Investment Officer

Alex Madsen
BA-LLB, MStratAff, LLM
Chief of Staff to Rohan Mead, Group Managing Director

Amanda Hagan
BSc (BIT), SIA, GAICD
Group Executive, Customer, Digital & Technology

Darren Mann
BCom, CA
Deputy Head of Finance and Chief Financial Officer

Matt Walsh
BAppSc, MBA
Chief Executive Officer, Retail

Rohan Mead
Group Managing Director & CEO

Esther Kerr-Smith
BEcon, BAsianStudies, GAICD
Group Executive, Finance & Strategy

Melinda Honig
BEcon, LLB, GAICD
General Counsel, Company Secretary, Chief Risk Officer and Group Executive, Governance

Prue Bowden
BA, MEmpLabRelLaw
Group Executive, People & Culture

Kevin McCoy
BCom, HDip Acc, CA, PMP, GAICD
Chief Executive Officer, Independent & Assisted Living

Governance statement

Australian Unity Limited is a mutual public company with a number of wholly-owned subsidiaries carrying out the major operational activities of the Australian Unity Group.

Good corporate governance and sound risk management practices are a fundamental part of the culture and business of the Group, of which Australian Unity Limited (the Company) is the parent. The key aspects of the Group's corporate governance framework and risk management practices are set out below.

Regulatory and Legislative Developments

During the year under review, the Group has been very conscious of the broad changes to community expectations, the regulatory environment and how our members and customers expect us to respond. The outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission) and APRA's Prudential Review into the Commonwealth Bank of Australia (APRA CBA Review) set a clear precedent that the governance and risk management practices of financial services institutions need to be reviewed and uplifted. In order to meet this objective, the Group has:

- created a work group to analyse the key outcomes of the Financial Services Royal Commission and how such outcomes may impact on the Group's operations;
- conducted a self-assessment against the recommendations provided by APRA in the APRA CBA Review and sought to identify and remediate notable 'gaps' identified in this assessment; and
- continued to pursue programs of work that seek to further develop risk management practices and enhance customer engagement and experience.

Australian Unity has paid, and continues to pay, close attention to the Financial Services Royal Commission and the APRA CBA Review and is committed to further enhancing and developing its governance and risk management processes and procedures to materially address the matters raised in both forums.

Australian Unity welcomes, and continues to pay very close attention to, the Royal Commission into Aged Care Quality and Safety (Aged Care Royal Commission). Australian Unity has cooperated with the Aged Care Royal Commission and looks forward to reviewing the outcomes of this commission.

Australian Unity also welcomes the *Treasury Laws Amendment (Mutual Reforms) Act* 2019 that recognises the mutual form at law and creates a mechanism where mutuals can raise equity in the form of Mutual Capital Instruments (MCI) without having to demutualise. The ability to issue MCIs gives mutuals greater opportunity to raise capital and fund their operations and growth. Australian Unity needs to seek member approval to amend its constitution in order to issue MCIs. Australian Unity will be seeking its members' approval to amend its constitution to allow it to issue MCIs at the 2019 AGM. Australian Unity is very enthused by this legislative development.

Regulatory Framework

ASX Listing Rules

The Company is committed to maintaining high standards of corporate governance and actively applies a governance framework that reflects the majority of the ASX Corporate Governance Principles and Recommendations and meets the ASX requirements relevant to its current debt listings.

Regulators

The Group's business operations are extensively regulated including by APRA, ASIC, the ACCC and the ASX. The Company is registered as a non-operating holding company under subsection 28A(3) of the *Life Insurance Act 1995* (Cth) and regulated by APRA under that designation. The Group is also subject to oversight by various State and Commonwealth regulators across its operations and workforce including the Department of Health, the Australian Taxation Office, the Fair Work Ombudsman, the Workplace Gender Equality Agency, the Australian Transaction Reports and Analysis Centre (AUSTRAC), the Office of the Australian Information Commissioner (OAIC) and other work health and safety regulators.

Board of Directors

The board of directors of the Company is responsible for the governance of the Group and ensuring that the Group establishes and implements risk management frameworks and processes with the ultimate objective of creating a sound risk culture within the Group.

Board composition and expertise

As at 30 June 2019, there were seven directors on the board, each with specific expertise and experience relevant to the Group's activities. The board comprises a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members. The average tenure of non-executive directors at the end of the year in review is 4.7 years.

The personal qualities required of Australian Unity's directors are:

- honesty and integrity
- strategic insight
- capacity to relevantly question, probe and challenge
- ability to inspire and inform
- extensive connectivity within the business world
- an understanding of contemporary leadership and management approaches
- a commitment to both the values of the Group and the highest standards of corporate governance and risk management.

As well as these qualities, directors must also possess particular skills or experience relevant to the business operations of the Group and be 'fit and proper' within the meaning of Australian legislation and regulatory regimes applicable to the Group's business operations.

The board, led by the Chair, regularly considers the skills represented by the directors to ensure that the mix of skills remains appropriate to achieve the Group's objectives. The board consists of directors with a broad range of experience, expertise and diversity in background and gender. The board ensures that it continuously identifies opportunities to improve its own performance.

The board's current skills-matrix is shown below:

Specific Skills
✓ Healthcare
✓ Retirement communities
✓ Assisted living services
✓ Home and disability services
✓ Financial services
✓ Investment management
✓ Insurance
✓ Property development

General Skills
✓ People and culture
✓ Finances and accounting
✓ Law
✓ Governance
✓ Risk and compliance
✓ Regulatory and public policy
✓ Marketing and communications

Board role and responsibilities

The role of the board is to promote and protect the interests of the Company and its members. It does so by taking informed risks, soundly governing the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

The role and responsibilities of the board are formalised in the board charter. Some of the key matters the board has reserved for itself include:

- appointment and terms of appointment of the Group Managing Director
- approval of Group and business unit strategies, operating plans (including budgets) and financial expenditures and allocations, and changes to the Group's capital structure above delegated limits
- approval of new subsidiaries and subsidiary board members
- setting and monitoring the Group risk management framework, control and accountability policies and systems.

Role of Chair

The Chair, an independent non-executive director, is responsible for the efficient conduct of the board's meetings, setting the agenda, facilitating the work of the board at its meetings and ensuring that the procedures and standards of the board are observed.

Meetings of the board

The board met on 11 occasions during the year under review, including a meeting to approve the strategic plan and its application to the year ahead. Each meeting usually took place over two days.

Avoidance of conflicts of interest

In addition to their standing notices, directors must declare any specific conflicts of interest arising from the business of a particular meeting.

Retirement and re-election of directors

Directors (other than the Group Managing Director) serve for a term of not more than three years from the conclusion of the annual general meeting at which they are elected. No director (other than the Group Managing Director) shall retain office past the third annual general meeting following the director's appointment, although they may offer themselves for re-election at that time.

Committees

The board has established committees that are necessary to assist it in monitoring and, where relevant, advising the management of the Group on matters specific to the committee's terms of reference. Each committee comprises individual directors determined by the board to be best suited to fulfil the committee's terms of reference. Membership of all committees and the number of meetings held by each committee in this reporting period are detailed in the Directors' report.

The Chair of the Company is a member of each committee. Each committee is chaired by a non-executive director appointed by the board. Each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting. The current ongoing committees established by the board to assist it in the performance of its duties are as follows.

On 1 January 2019, non-executive oversight of compliance transferred from the existing Audit & Compliance Committee to the Risk Committee. After this date, the Audit & Compliance Committee became the Audit Committee (Audit Committee) and the Risk Committee became the Risk & Compliance Committee (R&C Committee). Additionally, the mandate of the Human Resources, Remuneration and Nominations Committee (HR Committee) was also further enhanced. From 1 January 2019, the HR Committee changed its name to the People, Culture & Remuneration Committee (PC&R Committee) and was given the additional responsibility of providing non-executive oversight of Australian Unity's culture and how such culture impacts on organisational performance and compliance with regulatory obligations.

Audit Committee

The Audit Committee approves the annual internal audit plan and monitors the Group Audit department's performance against this plan. The main objective of the Audit Committee is to oversee the credibility and objectivity of financial reporting and ensure the independence of both the Group's internal and external audit functions. The Audit Committee assists the board in fulfilling its fiduciary responsibilities relating to the corporate accounting and reporting practices of the Group.

Risk & Compliance Committee

The R&C Committee oversees the risk management framework for identifying, assessing, mitigating and monitoring material risks arising from the activities of the Group, and promotes a greater awareness of risk management practices and risk culture within the Group. The R&C Committee is also involved in shaping the Group's risk appetite and guiding the Group's strategy in line with its determined risk profile. The R&C Committee also has non-executive oversight of key compliance matters such as compliance policy and procedures, reviewing key correspondence from regulatory bodies and reviewing periodical reports from risk and compliance managers across the Group.

Investment Committee

The Investment Committee reviews and monitors the performance of the Group's investment policies and activities for internal and external customers. It approves the investment policies, strategies and other guidelines for the Group's own investable assets. The Investment Committee plays a critical role in overseeing investment management processes and assessing and reviewing the Group's investment approach and outlook to support compliance with relevant covenants and mandates.

People, Culture & Remuneration Committee

The PC&R Committee is responsible for assisting the board and Chair in relation to key appointments, remuneration, nomination and organisational culture.

The PC&R Committee also recommends the performance measures, evaluation and remuneration of the Group Managing Director to the full board, and approves the remuneration for Group Executives and financial control and reporting personnel as defined by the APRA standards.

The PC&R Committee oversees the frameworks that enable the appropriate culture, workforce engagement, workplace diversity and representation of values, talent management and succession across the Group, and reviews the outputs of these frameworks at the appropriate time throughout the year.

The PC&R Committee works to ensure that the Group has remuneration policies and practices that comply with legislation, promote sound risk management and workplace culture, and fairly, responsibly and appropriately reward executives and staff. Further detail, including engagement of independent remuneration consultants, can be found in the Remuneration report (contained in the Directors' report).

Remuneration

Australian Unity's remuneration policy, which was developed by the board on the advice of the PC&R Committee, sets the framework for rewarding all directors, officers and employees of the Group.

The Remuneration report (contained in the Directors' report) sets out the key objectives and principles of the remuneration policy. The report also outlines the executive remuneration structure, which comprises fixed and variable remuneration components, in addition to details about non-executive directors' remuneration and other information specifically required under the Corporations Act.

Audit

External auditor

PwC Australia (PwC) has been appointed to conduct an audit of the financial report and to report to members in accordance with the requirements set out in the Corporations Act for the year under review. The audit report is provided at the end of the financial report.

A representative from PwC attended the October 2018 annual general meeting to answer any questions from members on the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted in the preparation of the financial statements, and PwC's independence in relation to the conduct of the audit of the Group's financial statements. A representative from PwC will attend the October 2019 annual general meeting of the Company to fulfil a similar role.

Internal audit

The Group's audit department provides independent, objective assurance and consulting services to the Group's operations. The Group's audit department assesses whether the Group's network of risk management, control and governance processes are adequate and functioning in a manner that supports various aims including: the appropriate identification, reporting and management of risks; the accuracy, reliability and relevance of financial, managerial and operating information; and that employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.

Risk management

The Company is committed to the identification, management and, where relevant, quantification of risk throughout its business units and controlled entities. Risk culture, and the implementation and adherence to sound risk management frameworks and practices, is a core area of focus for the Company's board and management.

The board, informed by the work of its R&C Committee, has established a comprehensive enterprise risk management policy and framework covering significant business risks and strategic considerations, and adopted a risk appetite statement. The underpinning processes are consistent with the principles of the relevant Standard (AS/NZS ISO 31000).

As part of the risk management framework, all business units regularly identify, evaluate and develop action plans to manage their business risks and maintain risk registers, which are regularly reviewed and updated. Higher-rated risks are regularly reviewed by the R&C Committee in addition to annual risk reviews, which address existing and emerging risks, associated mitigation strategies and status of implementation.

Business-related proposals to be considered by the board require proposing officers to be individually accountable for the identification, measurement and mitigation of all risk involved, and risk registers form part of the project management framework. There are also programs in place to manage risk in specific areas, such as capital management, business continuity, information security and emerging regulation.

The potentially adverse financial impacts associated with catastrophic risk exposures with regard to certain aspects of the Company's activities are also attenuated by the purchase of appropriate insurance cover.

The Group's risk management framework is periodically revised to facilitate a continued proactive and consistent approach to risk management across all areas of activity.

Tax transparency

The Company (as the head company of the Australian Unity tax consolidated group) is a signatory to the Board of Taxation's Registry in respect of the Voluntary Tax Transparency Code (the Tax Transparency Code). The Tax Transparency Code supports greater tax disclosure in Australia and reflects the Company's commitment to compliance and governance. Each financial year end the Company publishes details of the taxes paid or payable by the "Australian Unity tax consolidated group", and the Australian Unity Tax Transparency Report is released annually through the Company's website at australianunity.com.au/companyperformance.

Compliance

The Company has a well developed and implemented compliance framework. Compliance managers are in place in specific business units where appropriate.

The focus of this function is to ensure ongoing compliance with all laws and regulatory requirements, with particular attention to industry specific requirements.

Financial overview

In writing this report, my intention is to provide members with an overview of some of the key items that have influenced the year's financial performance. As always, behind the headline financial results are a significant number of moving parts that arise from a complex amalgam, brought about by a diverse portfolio of operating businesses.

In the year under review, the Group was impacted by and responsive to multiple environmental factors, including political challenges, increased regulatory focus across many parts of the business, and both domestic and international economic conditions.

In the 2019 financial year the Group continued to progress its strategic objectives and realise benefits from investments made over recent years. In the previous financial year, we re-shaped the business to enhance risk management, control and digital capabilities in support of the diverse portfolio operations, and further enhance our customer-centred businesses. During the year, the Group focused on advancing its social infrastructure and human services agenda. To support current growth and service quality, there was also a focus on embedding business insights and efficient operating models across each of our business platforms, and enabling functions, underpinned by enhanced balance sheet resilience.

The financial statements contained in this report were prepared in accordance with the *Corporations Act 2001* (Cth) and relevant accounting standards, and provide numerical insight into how the Group performed financially over the year.

For readers of the financial statements, any reference in the prior year's financial comparative data referring to discontinued operations relates to the sold Grand United Corporate Health Limited (GUCH) business.

I encourage members to read the financial statements in detail to gain further insight into how the Group has performed, and to understand how we are executing our strategy.

Strong year-on-year growth across each of our business platforms

Across the three business platforms, the Group made notable progress on its strategic objectives and saw double digit year-on-year growth. Pleasingly for the largest of our newer businesses, Home & Disability Services (HDS), ongoing investment in technology and business insights and an enhanced operating model resulted in a material improvement in its financial position, finishing the period on track for sustainable customer growth.

For our Retail platform, performance was driven by a lower net claims experience and a continued focus on proactive strategies to lower commissions and operating expenses. Within the Banking business, we saw significant growth in the loan book as new customers were attracted to the Australian Unity Bank proposition, with solid interest margins driven by higher asset yields and an improved cost of funding.

For our Wealth & Capital Markets (W&CM) platform, we continued to make significant progress with the Herston Quarter project in Queensland. This platform also benefitted from a financial settlement within its Lifeplan business following the unanimous decision by the High Court against Ancient Order of Foresters in Victoria Friendly Society.

The Independent & Assisted Living (IAL) platform made a material improvement on the prior year's result, predominantly attributable to the HDS business—which delivered on its priority growth and efficiency initiatives, achieving a $39.8 million adjusted EBITDA improvement in comparison to the prior year. There was much movement across our asset base, with the Walmsley Aged Care facility closed for redevelopment, while development was completed at the Sienna Grange and Racecourse Grange Aged Care facilities and The Grace Albert Park Lake retirement village.

Further information is provided in the operating and financial review and the financial statements.

Financial results

The overall profit after income tax for the year was $53.0 million, which reflected year-on-year growth of $1.5 million, or 2.8 percent. Given the sale of the GUCH business in the prior year, which was largely offset by accelerated depreciation and amortisation charges, it is important to understand the movement in profit for continuing operations.

The profit after tax from continuing operations was $53.0 million, which was a $68.3 million improvement on the prior corresponding period.

Total revenue and other income from continuing operations increased to $1.61 billion (2018: $1.49 billion). The Explanatory Notes (note 25) highlight that $1.37 billion of this revenue was attributable to members and $0.24 billion was attributable to benefit fund policyholders—with revenue attributable to members up $55.5 million, or 4.2 percent from the prior year. This result was mainly driven by higher services revenue within the IAL platform and improved investment earnings (see note 2).

Expenses from continuing operations of $1.49 billion were only $9.5 million (0.6 percent) higher than the prior year. Gross claims paid by our retail health insurance business of $612.3 million were in line with the prior corresponding period.

As detailed in note 3, depreciation and amortisation costs of $29.8 million were $31.2 million, or 51.1 percent lower than the prior year. This was due to a number of assets that were subject to accelerated amortisation and depreciation in the prior year.

Finance costs of $17.7 million were also less than the prior year by $2.8 million (13.6 percent) due to lower interest rates and a reduction in corporate debt.

A strong balance sheet

The Consolidated balance sheet details the Group's assets and liabilities, along with equity. The 2019 financial year closed with Members' funds up 6.7 percent to $718.4 million.

At 30 June 2019, the Group gearing ratio was 21.9 percent (see note 9(a)), compared with 21.3 percent at 30 June 2018. This remains positive for the Group as it provides greater balance sheet capacity for future strategic initiatives. It also reflects significant headroom from the covenant gearing ratio of 50 percent on our issued debt (Series B Australian Unity Bonds – Tranche 1 – ASX: AYUHB) of $250.0 million.

Corporate interest bearing debt at 30 June 2019 totalled $296.4 million, compared to $332.3 million in the prior year, which mainly reflected the repayment of $30.0 million of subordinated capital notes by a subsidiary in July 2018 (see note 9). Interest cover, or the proportion of earnings before interest, tax, depreciation and amortisation needed to make interest payments, was 6.58 times, compared to 6.77 times the previous year.

Intangible assets (see note 14), reduced in the current year to $323.8 million, from $329.0 million.

The Group continues to maintain strong liquidity and ended the year with $0.94 billion in cash and cash equivalents.

I hope this report provides you with a greater understanding of the key financial activities the Group undertook for the year. While the year ahead will remain challenging as a result of continuing regulatory and market pressures, I believe the Group is well placed to continue to advance its strategic objectives and capitalise on future opportunities.

Darren Mann
Deputy Head of Finance
and Chief Financial Officer

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as Australian Unity or the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of Australian Unity Limited during the whole of the financial year and up to the date of this report (unless otherwise stated):

Peter Promnitz, Chair

Rohan Mead, Group Managing Director & CEO

Lisa Chung, Non-executive Director

Melinda Cilento, Non-executive Director

Paul Kirk, Non-executive Director

Su McCluskey, Non-executive Director

Greg Willcock, Non-executive Director

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2019.

Principal activities

The principal continuing activities of the Group during the year were the provision of a range of products and services to serve members and customers with their savings, financial security, healthcare, retirement living needs, home care and disability services. These products and services included health and life insurance, investments and loan facilities, financial and estate planning, allied health and dental services, care services, and aged care and retirement living facilities.

Dividends

Australian Unity Limited is a mutual company governed by, and for the benefit of, its members. It does not pay dividends but reinvests profits for future growth initiatives for the benefit of members.

Operating and financial review

In the year to 30 June 2019, Australian Unity continued to progress its strategy of developing a commercially sustainable portfolio of businesses that provide member, customer and community value and that are supportive of personal and community wellbeing.

Australian Unity made strong progress on its key strategic goals and achieved growth across the Group's main business segments. Notwithstanding heightened external uncertainty and volatility, the Group continued to advance its longstanding strategy of achieving a diversified portfolio, with extended participation in the higher-growth human services and social infrastructure sectors. To this end, the focus in the year under review remained on developing and delivering contemporary, evidence-based and person-centred services to market segments where our strategy identifies there is most scope to contribute to wellbeing and community value.

The Group achieved significant improvements in its Home & Disability Services (HDS) business, while successfully navigating an uncertain regulatory period for the health insurance business. Further, the Group's longstanding work in patient and outcome-focused healthcare services, such as those delivered through Remedy Healthcare, remained important in developing improved operating models to address the long term challenges confronting the sector.

Another priority for the Group was the maintenance of a strong balance sheet position and agility. During the 2019 financial year, Group returns were impacted by a deliberate trade-off to prioritise financial flexibility and resilience, with enhanced liquidity and capital buffers in key businesses. This included a focused increase in our cash reserves, the establishment of a new Liquidity Management Strategy for our aged care business and repayment of $30 million in subordinated debt held within Australian Unity Health Limited.

In the area of social infrastructure, the Herston Quarter project in Brisbane, Queensland was significantly progressed. During the year, Australian Unity also established an internal Social Infrastructure Development Group to review and guide decisions relating to the existing social infrastructure development portfolio and pipeline.

The Group delivered a net profit of $53.0 million for the year under review, compared to $51.5 million in the prior year. Last year's result included a $66.9 million profit from discontinued operations arising from the sale of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited.

Excluding this impact, Australian Unity's net profit after tax from continuing operations for the year to 30 June 2019 of $53.0 million was a $68.3 million increase on the prior year. Each of the business platforms contributed to this result, with year-on-year growth achieved across the operating business units, and within the more transactional property and social infrastructure portfolio. Two major factors in delivering this result were the realisation of benefits arising from the extensive business transformation program commenced in the prior year, and the above mentioned improvement in the HDS business.

Total revenue and other income from continuing operations increased to $1,608.7 million (2018: $1,486.7 million). Overall revenue growth generated by the Group's operating businesses, up $35.6 million on the prior corresponding period, and solid investment returns, up $19.9 million, were bolstered by a $66.5 million increase in benefit fund revenue. Within the benefit funds, growth in premiums and other revenue of $14.3 million was supported by $52.2 million in higher investment returns.

Total expenses, excluding financing costs, from continuing operations increased marginally to $1,493.6 million (2018: $1,484.1 million). A $45.0 million decrease in overall operating expenses, reflecting both current year beneficial impacts from the business transformation program and prior year costs of the program, was offset by $54.5 million higher expenses in benefit funds compared to the prior corresponding period.

The overall outcome represents a significant improvement in the aggregate trading position, with operating earnings from continuing operations for the year of $61.8 million, an increase of $80.3 million over the prior year.

At 30 June 2019, the Group is in a sound position to realise the opportunities and respond to challenges expected to arise from an external environment that presents considerable uncertainty and market disruption. It expects to see continuing, sustainable returns from its investments in its thematically linked but diversified portfolio and focus on its member, customer and employee value propositions together with community value.

The Group's operations are conducted through three business platforms: Independent & Assisted Living; Retail; and Wealth & Capital Markets. Key aspects of the operating, financial and strategic performance of each platform during the year to 30 June 2019 are set out below.

Operating and financial review *continued*

In assessing the performance of its operating business segments, the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of tax, depreciation and amortisation, interest on external borrowings and investment income. It also excludes other material non-recurring expenditure. A reconciliation between adjusted EBITDA and profit before income tax from continuing operations is set out in note 1 to the consolidated financial statements.

Independent & Assisted Living

The Independent & Assisted Living (IAL) platform operates retirement communities and provides aged care, allied health and disability services. The platform offers preventative health and chronic disease management services through a wholly-owned subsidiary Remedy Healthcare, and direct healthcare services through dental clinics. These businesses are interconnected, seeking to deliver a continuum of care and service that addresses the daily needs of its customers.

Financial performance – Independent & Assisted Living

	Full year to 30 June 2019 $million	Full year to 30 June 2018 $million	Variance
Total segment revenue	**$469.4**	$422.7	11.0%
Operating expenses	**$421.2**	$426.0	1.1%
Adjusted EBITDA	**$48.2**	($3.3)	n/a

The IAL platform recorded total segment revenue of $469.4 million for the full year representing an increase of 11.0 percent compared to the prior corresponding period (2018: $422.7 million).

Home & Disability Services (HDS) achieved a 13.3 percent increase in revenue to $305.7 million, Health Services was in line with the prior year at $37.2 million, Residential Communities decreased 8.9 percent to $100.4 million while Developments increased 359.4 percent to $26.2 million.

IAL's adjusted EBITDA of $48.2 million represented an increase of $51.5 million on the prior year. This increase reflected the continued focus on improving the sustainability of the HDS business.

Home & Disability Services

The HDS business grew revenue by 13.3 percent in the year under review, driven predominantly by 87.7 percent increase in home care packages revenue and a $5.4 million or 6.3 percent growth in Commonwealth Home Support Program (CHSP) revenue, including growth funding tendered for and won during the year. Approximately 3,700 care workers served more than 54,000 customers across NSW, Victoria and Queensland. In total, the HDS business delivered 3.8 million hours of care across 31 HDS branches, five Aboriginal Home Care (AHC) branches and 85 office locations.

The HDS business made considerable progress in its financial performance in the year under review, achieving a $39.8 million adjusted EBITDA improvement in comparison to the prior year. This was achieved through a variety of growth and operational efficiency initiatives undertaken throughout the year that built on foundations set in the 2018 financial year.

The business also continued to grow its aged care home care packages, increasing market share to approximately four percent (4,161 packages) from around three percent in the prior year (3,002 packages). Australian Unity continues as one of the top five providers in what is a highly fragmented market.

The HDS business also embarked on a debtor management initiative that was successful in both significantly lowering the working capital requirements of the operations (and consequently also the provision for doubtful debts to an overall adjusted EBITDA benefit of $4.1 million) and improving customer comprehension of, and feedback about, their account management experiences.

Indigenous Services was defined as a new and important business unit within HDS in the year under review. Its initial focus is on providing culturally appropriate care, developing improved and sustainable funding models and improved services to Indigenous communities. Through AHC, Indigenous Services will be expanded to include other culturally appropriate products and services as community needs arise. AHC delivered 300,000 hours of care to 3,461 clients by 262 predominantly Indigenous careworkers.

Remedy Healthcare

During the year, Remedy Healthcare (Remedy) delivered more than 390,000 episodes of care across 14 treatment programs.

Remedy continued its growth trajectory, increasing revenue by 1.2 percent to $25.9 million, driven predominantly by Allied Health Services (2018: $25.6 million).

Remedy embarked on a year of transition as it exited its major external aged care contracts to focus on integrating Health Services into IAL business units and further develop its continuum of care approach across the platform. Pressure on the private health insurance (PHI) industry resulted in a significant decline in Health Coaching services delivered and therefore materially changed the weighting of Remedy's services towards Allied Health services. The changed PHI market conditions led to a redesign of coaching services offered to this sector, with the 'Healthier Me' program launched in June 2019 to address declining volume and provide a more holistic approach to assessing and delivering individual healthcare needs.

Remedy delivered the Get Healthy Service on behalf of government health departments in New South Wales, Queensland and South Australia for the first full year. The service is available to assist residents of these states to achieve their weight loss and health-related goals. During the year, the service received more than 21,500 referrals and delivered more than 33,000 episodes of care.

Remedy Healthcare's joint replacement home rehabilitation program continued to build on the success of previous years, growing a further 19.5 percent to more than 3,000 programs delivered in the year under review.

Dental

Australian Unity continued to operate six dental clinics. During the year, the South Melbourne clinic was relocated to 271 Spring Street, Melbourne in conjunction with the overall Australian Unity corporate office move from South Melbourne. Clinics are now located at two Melbourne CBD locations, Hughesdale, Moonee Ponds, Rowville and Box Hill. Largely attributable to the disruption of the relocation, patient visits declined from 58,455 in the 2018 financial year to 54,887.

Residential Communities

IAL owns and operates 20 retirement communities across Victoria and NSW. In May 2019, 22 apartments were opened as part of the final stage development at Peninsula Grange, Mornington, Victoria, and in June, The Grace on Albert Park, South Melbourne, Victoria, was opened, comprising 79 independent living apartments. The portfolio now consists of 2,469 independent living units (2018: 2,368). Occupancy levels remained high, in excess of 96.0 percent in the 12 months to June 2019.

IAL also owns and operates seven aged care facilities in Victoria and NSW. The business decommissioned the aged care facility at Walmsley in Kilsyth, Victoria, in October 2018 to build a new aged care facility that will better meet customer needs. In March 2019, it opened a 68-bed aged care facility, Sienna Grange, in Port Macquarie, NSW. In May 2019, a seventh aged care facility, Racecourse Grange, with 127 beds was opened in Mornington, Victoria. In total, the number of operational aged care beds increased to 786 (2018: 711). Occupancy levels remained high at 98.0 percent.

Developments

As the internal operating partner in the Social Infrastructure and Development Group (SIDG), IAL continued to focus on the development pipeline of aged care and retirement communities over the 12-month period to June 2019.

During the year under review, construction was commenced, progressed or completed and occupancy progressed in the following communities:

Peninsula Grange, Mornington, Victoria
Completed construction of the final 22 apartments.

Racecourse Grange, Mornington, Victoria
Completed construction of a 127 aged care bed development.

The Grace Albert Park Lake, South Melbourne, Victoria
Completed construction of 79 independent living apartments.

Sienna Grange Aged Care, Port Macquarie, NSW
Completed construction of a 68 aged care bed development.

Drummond Place, Carlton, Victoria
As at 30 June 2019, 55 independent living apartments were occupied, with 35 remaining.

Lane Cove, NSW
The Agreement for Lease was signed by Lane Cove Council in August 2017 for a 99 year leasehold. As at 30 June 2019, the development application for the development of 70 aged care beds, 74 apartments, affordable units and retail premises remained under consideration.

Walmsley, Kilsyth, Victoria
Undertook the decommissioning and demolition and commenced the rebuild of a 38 year old residential aged care facility (anticipated for reopening early 2021).

Albert Road, South Melbourne, Victoria
Commenced the repurposing of the former corporate offices of Australian Unity at 114 Albert Road, South Melbourne, as an assisted living and residential aged care facility (anticipated opening late 2021).

Outlook

IAL continues to orientate the platform around the needs of its customers and key stakeholders in their health and wellbeing, including families, primary carers, communities and government agencies.

A significant priority for the 2020 financial year is the development of a customer-centred continuum of care across the home care, assisted living, residential care and Remedy Healthcare businesses. IAL will continue to focus on balancing its portfolio by growing evidence-based clinical outcome services and directing further resources to domestic assistance and personal care, including the provision of nursing services across the network of community and residential care.

The further extension by the Department of Health of the CHSP funding program until 30 June 2022 announced during the 2019 Federal Budget will likely support a more gradual transition of clients from block-funded services to consumer-directed home care packages in the immediate future.

HDS will embark on a year of transition as it scales down its provision of National Disability Insurance Scheme (NDIS)-funded disability services, to focus and invest more in the Aged Care sector. As the residential and homecare markets continue to grow, an ongoing challenge will be attracting the workforce required to deliver aged care services safely and at the high quality required. IAL's priorities remain in progressively implementing a comprehensive workforce strategy, supported by an effective learning and development framework. Residential Communities, in conjunction with the SIDG and the ongoing support of investment partners, will continue to build Australian Unity's pipeline of new and integrated communities. These communities are designed and operated according to IAL's Better Together® domestic household model of care, which seeks to partner with residents and their loved ones in striving to achieve a balance of dignity and choice, and assurance of high quality care.

Retail

The Retail platform brings together Australian Unity's private health insurance, banking, broking and general insurance businesses. With a combined focus on the needs of members and broader community value, the Retail platform provides packages and solutions that contribute to solving affordability challenges and meet the contemporary needs of Australians.

Financial performance – Retail

	Full year to 30 June 2019 $million	Full year to 30 June 2018 $million	Variance
Total segment revenue	**$722.1**	$726.1	(0.6%)
Operating expenses	**$647.7**	$661.5	2.1%
Adjusted EBITDA	**$74.4**	$64.6	15.2%

The Retail business delivered a solid result despite challenging conditions, with adjusted EBITDA up by $9.8 million or 15.2 percent to $74.4 million compared to the previous year. This result was driven principally by a favourable underwriting experience in the health insurance business, strong growth in net interest income in the banking business and sound containment of operating expenses.

Total operating expenses were $647.7 million, which was $13.8 million or 2.1 percent lower than the previous year. This decrease reflects a $6.4 million decrease in health insurance claims net of risk equalisation, and an $7.4 million decrease in operating expenses across the Retail platform.

Australian Unity Health Limited (retail health insurance)

During the year under review, Australian Unity Health Limited successfully executed a significant change agenda in response to the private health insurance reforms, the largest regulatory change to the sector in a decade. Responding to these reforms included the launch of new products, significant rationalisation and simplification of the product portfolio and re-classification of products in line with the new gold-silver-bronze-basic product tiers.

Retail health fund policyholders (including overseas visitor cover policyholders) decreased by 4.0 percent to 185,936 at 30 June 2019 (2018: 193,771). Policyholder numbers declined across the industry and in the case of Australian Unity were also impacted by a considered strategy to review and curtail unsustainable products and uncommercial arrangements and means of distribution.

Operating and financial review *continued*

Retail *continued*

Australian Unity Health Limited (retail health insurance) *continued*

During the year, the retail health insurance business managed an average premium increase of 3.35 percent, approximately in line with the sector average of 3.25 percent. Importantly, it was the lowest Australian Unity Health Limited increase in 18 years and a reflection of continued efforts to reduce operating costs and contribute to sector-wide advocacy for reforms, particularly in an environment of weak real income growth and spiralling healthcare costs.

The Group continued its role in providing guidance and advice to policy and decision-makers in understanding the root cause of healthcare cost pressures and diminished patient outcomes. Australian Unity's commitment to this is demonstrated through the long-term investment in businesses such as Remedy Healthcare, a business that creates patient-centred and evidence-based healthcare solutions.

Australian Unity Bank

As at 30 June 2019, Australian Unity Bank had approximately 24,400 customers and its total assets grew by $108.6 million to $886.0 million (2018: $777.4 million).

Despite challenging conditions within the retail banking sector, Australian Unity Bank maintained strong lending momentum throughout the year, with $173.3 million in new loans written. In combination with improved retention rates, this has lifted the loan book by a net $85.5 million.

Following the successful rebranding of Big Sky Building Society Limited to Australian Unity Bank Limited in the first half of the financial year, Australian Unity Bank launched in April the 'banking that's good for you' customer value proposition. This is a program of work that identifies the benefits to the customer beyond the product itself. It will be progressively extended through all areas of the banking business including product, marketing, sales and servicing over the next three years.

During the year, Australian Unity consolidated its retail general insurance offering with a single provider. Australian Unity Bank customers can now access a broad range of insurance products and services through this one provider.

Standard & Poor's (S&P) Ratings upgraded Australian Unity Bank's issuer credit rating on 29 July 2019 to 'BBB+' from 'BBB'.

Outlook

Affordability pressures and trust will remain key concerns within the community in the consideration of private health insurance and banking needs. The period ahead will continue to provide opportunities for the Retail platform to offer customers value arising from health insurance and banking adjacencies.

Australian Unity anticipates increased oversight and a growing cost of compliance as prudential regulators bring the private health insurance industry in line with financial services, and policymakers and regulators respond to the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. For these and general governance reasons, the areas of financial strength, risk management, conduct, controls and compliance will be a significant focus across the Retail platform over the coming year.

As a niche provider within the health insurance and banking sectors, Australian Unity needs to accurately target its brand and value proposition, as well as acquisition and distribution strategy in its markets. In addition to its customer value propositions, Australian Unity will seek sustainable growth through balanced, multi-channel distribution. For the health insurance business, this means enhancing its partnership and digital models. In banking, Australian Unity will continue to build selective relationships in the third party (mortgage broking) channel and concurrently target chosen segments via direct channels.

Wealth & Capital Markets

The Wealth & Capital Markets (W&CM) platform comprises the following business units: Advice, Investments, Life & Super, Property, and Trustee Services.

The strategic purpose of the W&CM platform is to link Australian Unity's valuable efforts in helping Australians secure their financial wellbeing with the capital and social infrastructure needs of communities.

Financial performance – Wealth & Capital Markets

	Full year to 30 June 2019 $million	Full year to 30 June 2018 $million	Variance
Total segment revenue	**$180.9**	$170.4	6.2%
Operating expenses	**$130.4**	$133.5	2.3%
Adjusted EBITDA	**$50.5**	$36.9	36.7%

The W&CM platform recorded a 6.2 percent increase in total segment revenue to $180.9 million (2018: $170.4 million). This result reflects positive underlying revenue growth across all business units in the platform.

Adjusted EBITDA increased to $50.5 million representing a 36.7 percent increase for the year ended 30 June 2019 (2018: $36.9 million). This strong result in adjusted EBITDA was achieved through underlying business growth in the Property, Investments and Trustees Services business units, and favourable outcomes in specific initiatives in social infrastructure related developments. It also included a legal settlement received in the Life & Superannuation business. In addition, the result benefitted from ongoing work within the platform, designed to streamline operations and optimise capital usage.

The W&CM platform manages investments, property assets and developments (and associated debt facilities), and provides advice and trustee services, totalling $20.71 billion (2018: $20.31 billion).

Property

The Property business continued to extend its capabilities during the year, with assets under management increasing (including from completed investments) to $2.99 billion (2018: $2.76 billion). As of 30 June 2019, its multi-year development pipeline stands at $1.26 billion (2018: $1.25 billion), and lending and debt facilities on behalf of investors (through property funds and its commercial property lending activities) of $1.59 billion (2018: $1.71 billion). The decrease in lending facilities is due to the close out of facilities no longer required to support current funding needs.

Key examples of the Group's involvement in social infrastructure are the Herston Quarter development and the Healthcare Property Trust. Construction of the $390.0 million Surgical, Treatment and Rehabilitation Service (STARS) by the Healthcare Property Trust commenced in May 2018, with practical completion planned for the second quarter of the 2021 financial year. On 9 August 2019, development approval for the restoration and re-use of the heritage buildings within the Herston precinct, including the redevelopment of the public realm, was received from Economic Development Queensland. Further stages, including the restoration of the heritage buildings, are expected to commence in coming months.

Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased assets under management to $1.63 billion (2018: $1.51 billion) and achieved a return of 9.3 percent for the year. In addition to the development of STARS noted above, the Trust also made a number of property acquisitions and developed other sites including Tuggerah Lake Private Hospital in New South Wales, which opened in May 2019, and the expansion of the Peninsula Private Hospital in Victoria, which is expected to be completed in December 2019.

The ASX-listed Australian Unity Office Fund (ASX: AOF) achieved a return of 24.5 percent, outperforming the S&P/ASX 300 A-REIT Accumulation Index by 5.2 percentage points. During the year to 30 June 2019, AOF has successfully progressed council and other planning milestones for the development of a property at 2 Valentine Avenue, Parramatta, in NSW. On 4 June 2019 AOF announced that a cash offer to acquire all units in AOF not already owned had been received from a consortium formed by the Charter Hall and Abacus Groups. The offer price has subsequently been increased to $3.04 per unit.

The other funds in the property business recorded a successful year of investment performance, outperforming against their benchmarks, with Australian Unity's Diversified Property Fund achieving a return of 11.2 percent and its Retail Property Fund achieving a 10.2 percent return. During the year the Retail Property Fund agreed contracts to dispose of its fifty percent interest in the Waurn Ponds shopping centre. The Retail Property Fund was also awarded direct and hybrid property fund of the year at the 2019 Money Management Lonsec Fund Manager awards. The Property Income Fund also experienced strong inflows and provided a one-year return to 30 June 2019 of 13.5 percent.

Support for the Australian Unity Select Mortgage Income Fund continued to grow with annual inflows of $74.3 million, with the value of the lending portfolio reaching $212.7 million at 30 June 2019 (2018: $132.9 million).

Through the SIDG, the property business worked closely during the year with the Independent and Assisted Living (IAL) platform on the review of the Retirement Living and Aged Care portfolio. Refer to the Developments section under IAL for information on properties in that portfolio.

Life & Super

Australian Unity's Life & Super business continued as Australia's market leader in investment and funeral bonds, and a leading provider of education investment funds, with $2.34 billion in assets under management and administration (2018: $2.23 billion). During the year, sales across Life & Superannuation's products reached $221.5 million (2018: $216.2 million).

Support for Life & Super's products increased particularly from the independent financial adviser network, and the business continued to work with industry superannuation funds to make its products available through this large and growing network.

Based on information from Strategic Insight Data as at 31 March 2019, the Life & Super business remained number one in the investment bond sector in terms of assets under management, with 27.3 percent of funds under management and was second in terms of sector inflows for the year to 31 March 2019 with 27.2 percent of inflows.

Funds under management for education solutions increased by 13.9 percent to $229.2 million (2018: $201.3 million). Australian Unity also occupied a leading position in the pre-paid funeral market via its specialised business Funeral Plan Management, with funeral funds under management growing to $699.5 million (2018: $639.0 million) with more than 90,000 clients. During the year, the categories able to be claimed as funeral service expenses were expanded to allow a more diverse range of cultural and ceremonial activities to be claimed under its funeral bonds.

In October 2018, following a seven-year legal dispute, the High Court of Australia handed down its decision in Ancient Order of Foresters in Victoria Friendly Society Limited (Foresters) v Lifeplan Australia Friendly Society Limited (Lifeplan), a wholly-owned subsidiary of Australian Unity Limited, with the court finding in favour of Lifeplan. The judgement amount determined by the court was on an "Account of Profits" basis and resulted in a favourable outcome to the Australian Unity Group.

Investments

The Investments business unit, including its joint venture partners, managed funds under management (FUM) as at 30 June 2019 of $6.00 billion (2018: $5.58 billion). During the year, the business experienced positive net flows from retail, middle and institutional markets. In particular, its joint venture partner, Platypus, was awarded a significant institutional mandate. Client interest grew more generally in sustainable investment capabilities attracting positive flows into the Altius Sustainable Bond Fund. In addition, the A-REIT investment management capability was fully established internally and investments in this area are now managed directly.

The Investments business continued to refine its focus on its core areas of cash, fixed interest, Australian equities and property securities, together with further developing its socially responsible investment platform. During the year under review, Investments' joint venture partner Acorn Capital Limited launched the Acorn Capital Expansion platform, which will invest in emerging Australian companies, with $52.0 million provided by investors in its initial capital raising. To date three investments have been made with further opportunities being negotiated.

The W&CM Investments team also managed the investment portfolios of the Group amounting to approximately $680.0 million, including its capital stable and highly liquid insurance reserves, achieving a weighted aggregate return of 3.4 percent for the year (2018: 2.8 percent). This result was well above its strategic benchmark of 2.2 percent and compares favourably to the return available on risk-free cash (measured by the Bloomberg AusBond Bank Bill Index) of 1.97 percent.

Returns across many funds and asset classes were above benchmark with over 75 percent of funds managed recording returns above benchmark over the year and more than 85 percent of funds achieving returns above their benchmark over the three years to 30 June 2019.

Advice

The Advice business is focused on helping clients to improve their financial wellbeing and ultimately achieve their long-term lifestyle goals.

The continued change in the regulatory regime for advice services, and resulting increased complexity, continued to reinforce the growing need in the community for valued providers of quality advice services. The Advice business seeks growth in this context as a differentiated provider, within a mutual organisation.

Operating and financial review *continued*

Wealth & Capital Markets *continued*

Advice *continued*

During the year, a new leadership team was established with a focus on positioning the business for sustainable growth and operational scale, supported by enhanced supervision, investment and technical functions.

Throughout the year, the number of advisers (including limited authorised representatives) decreased to 184 (2018: 194), with FUM decreasing slightly over the year to $6.20 billion (2018: $6.42 billion). The net decrease in advisers and FUM was largely due to the departure of some non-aligned self-employed practices; with new self-employed practices also being recruited.

Despite the decrease in FUM, Advice revenue increased 6.3 percent to $58.3 million (2018: $54.8 million). In addition, self-managed investment accounts constructed by the Advice business grew in FUM by $36.8 million to $201.0 million.

Trustees

During the year, the Trustees business completed significant work to update its arrangements with existing clients and to provide a strong foundation from which to continue to grow the business. This included the implementation of a new computer operating system to support and strengthen its service and operations capabilities, and the establishment of three common investment funds for the benefit of its clients. These common funds now have $124.1 million of clients' funds invested in them.

The completion of a program to reduce the legacy book resulted in a reduction in active FUM and trusteeship to $325.2 million (2018: $360.7 million) due to the closure of legacy estates and the appointment of more suitable administrators for some protected clients. This work has better positioned the Trustees' business for future growth.

Significant work continued to further extend the range of trustee services and solutions nationally with new tribunal and court appointments across various states.

Estate planning, legal and taxation services revenues continued to grow during the year as the demand for these services, through the network of advisers, accountants and other centres of influence, continued to increase. As a result, the size of the national will bank and the number of executor and trustee appointments also continued to grow.

The Trustees business expanded its business-to-business capabilities with a focus on the development of national legal partnerships and philanthropic opportunities.

Outlook

With economic growth continuing, albeit somewhat low by historical standards, a broad yet focused range of businesses, and a material and growing presence in the funding, development and management of Australia's social infrastructure, the period ahead should continue to provide opportunities for the platform to offer customers valuable investment and financial opportunities, and to deliver important benefits to many areas of the community.

The Herston Quarter project will continue to be a key focus of the platform as it unfolds this unique example of a response to Australia's social infrastructure challenge. Other areas of social infrastructure need are also being explored. The platform's ability to identify assets and partnerships, and access debt and equity from a more diverse range of sources, will be important as it looks to launch further initiatives in social infrastructure and impact investing.

The W&CM platform is well positioned to benefit from the collective impact of rising and better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the changing regulatory landscape and community expectations.

Significant changes in the state of affairs

Total members' funds increased to $718,393,000 at 30 June 2019 (2018: $673,557,000), an increase of $44,836,000. This movement reflects profit for the year and movements in reserves.

Matters subsequent to the end of the financial year

The board is not aware of any matter or circumstance arising since 30 June 2019 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

The board is not aware of any developments which may affect the Group's operations and expected results of operations which can be disclosed without prejudicing unreasonably their likelihood of success or violating commercial confidences.

Many of the businesses in the Group operate in areas which are subject to substantial government regulation and/or participation. Australian Unity competes at times in areas where free market forces are not always the sole determinant of outcomes.

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 20 contains an explanation of the Group's approach to market risk management.

Environmental regulation

No significant environmental regulations apply to the Parent entity. The property operations within both the Independent & Assisted Living services business and investment syndicates and trusts for which a controlled entity acts as Responsible Entity or Manager are, however, subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Key business risks

Australian Unity recognises that sound management of the Group's risks within an effective risk management framework and an established risk culture underpins the success of the business.

The directors of the Company are responsible for setting and monitoring the Group's risk management framework, which represents the totality of systems, structures, policies, processes and people that identify, assess, mitigate and monitor internal and external sources of risk that could have a material impact on the Group's operations. The directors are also responsible for setting the risk appetite within which management and the Group are expected to operate and for determining the Group's risk management strategy, which defines Australian Unity's key risk areas and how they are managed.

In order to discharge the above obligations, the directors receive support from the Risk and Compliance Committee (R&CC), a committee of the Company's board of directors. The R&CC supports the board to fulfil their responsibilities relating to risk management and compliance by advising on the Group's overall risk appetite and risk management strategy in line with its determined risk profile.

In addition, Australian Unity also cultivates a culture of risk management by regularly reviewing its risk registers, creating clear accountabilities for control improvements, encouraging open reporting on incidents from all staff and implementing a three-lines of defence model throughout the Group.

The Group's key material risks and how they are managed are summarised below. These risks are not addressed in any particular order.

(i) Strategic risks

The risk that strategic planning, strategic decision making or execution impacts meeting strategic objectives.

Risk	Risk Description	Managing the Risk
Over reliance on certain businesses or funding sources	A significant portion of our revenue and cashflow is from private health insurance or businesses supported by government funding such as aged care or in home care services. Adverse changes to the business conditions in the private health insurance industry or aged care or in home care services including changes to government policy, laws, regulations, regulatory expectations, economic activity and the demand for our products and services could impact the Group's financial performance.	We manage this risk by seeking opportunities to grow businesses within our portfolio that diversify our revenue and cashflow. We participate in private health sector advocacy for policies that sustain the sector. We actively manage costs against revenue expectations.
Investment in property and social infrastructure	A part of the Group's strategy is to invest in the development of social infrastructure. Property developments have a number of inherent risks including planning and development approvals, increases in development costs, non-performance of contractors or sub-contractors, project and construction delays, occupational health & safety issues and any change in the market conditions.	We manage these risks by conducting a detailed site analysis for prospective development sites; conducting due diligence for property developments which includes a competitor and amenity analysis; conducting a competitive process when appointing contractors; working with specialist teams to engage contractors and managing projects and engaging regularly with contractors to ensure that projects are being delivered in accordance with the required specifications and timetables in a manner that minimises health and safety issues.

(ii) Operational risks

Risk of loss from inadequate or failed internal controls, sub-standard processes, the poor performance of people, service providers who do not perform in line with contracts/service standards or business continuity threats.

Risk	Risk Description	Managing the Risk
Inability to respond to change	We operate in industries where customer product demands are rapidly changing and preferences have been shifting to digital channels. If we are not successful in adapting our products and services to meet changing customer preferences we may lose customers to our competition which would adversely impact our financial performance.	We manage this risk by regularly assessing the external environment and allocating business investment to understand our customers' preferences and develop our digital capability.
Increased competition and poor and inconsistent member or customer experience	We operate in a competitive environment and it is becoming easier for customers to move to our competitors. If we are unable to compete effectively in our various businesses and markets we may lose market share to our competitors.	We manage this risk by maintaining and enhancing our customer and member value proposition and experience, including activating new channels and incorporating effective feedback loops.
Member or customer harm	We provide high trust services such as aged care and operate in highly regulated industries. An event such as customer harm could result in sanctions from relevant regulators, reduced government funding, reputational damage and remediation costs.	We manage this risk by having effective frameworks, policies, education and training, and procedures in place to prevent, monitor and manage the risk of harm.
Occupancy levels in residential aged care	There is no assurance that occupancy levels at aged care facilities will follow historical occupancy trends at the Group's aged care facilities. In addition, a downturn in the residential property market may affect the ability of potential incoming residents to sell their home at the cost required to pay the 'Refundable Accommodation Deposit' required to enter a facility.	We manage this risk by a strong customer-orientated focus through our Better Together® model, and continue to invest in our care services and physical infrastructure. We also offer a continuum of care whereby our aged care facilities are co-located with retirement communities whose residents provide a level of demand for our aged care facilities.
Private Health Insurance risks such as rising medical costs, rejection of application for change in premium rates and mispricing premiums	There are inherent risks associated with operating a private health insurance business such as rising medical costs, having an application for a change in premium rates rejected and mispricing premiums.	We manage these risks by constructively lobbying for policies and reforms regarding the rise of medical costs, investing in our business Remedy Healthcare that seeks to provide various health services outside of a hospital environment and closely monitoring product design and distribution prices to ensure that product prices remain sustainable.
Failure of strategic and/or business decisions or external events	We consider and implement a range of initiatives to meet our strategic ambitions. Failure of strategic and/or business decisions or the impact of external events may have an adverse impact on the operating and financial performance of the Group.	We manage this risk by actively considering the risks and rewards associated with implementing an initiative before it is implemented. We also regularly monitor external events, such as legislative and regulatory amendments, that may have an impact on our strategic and/or business decisions.

Key business risks *continued*

(iii) Conduct risks

Risk of loss from poor, unethical or illegal behaviour/conduct or the failure to report or take action, as appropriate, when such behaviour is detected.

Risk	Risk Description	Managing the Risk
Inappropriate or illegal behaviour	Conduct risk could arise from the sale of our products or provision of services that do not meet the needs of our customers through poor sales practices or failing to provide the product or service as agreed.	We manage this risk by having a Code of Conduct that applies to and guides all employees, monitoring customer complaints, having a Whistleblower Policy to support employees to raise concerns and an ongoing compliance monitoring program.

(iv) Information & system risks

Risk that technology does not enable appropriately or confidential/sensitive information (including member / customer information) is lost/stolen.

Risk	Risk Description	Managing the Risk
Inappropriate detection and prevention of cyber security threats	All of our business units are reliant on traditional and emerging technologies to deliver our products and services. Cyber security risk is on the rise due to increasing dependence on technology and the growing frequency, sophistication and severity of attacks. If the systems we have to detect and prevent cyber attacks fail we could experience unauthorised access or loss of confidential information or business disruption as a result of system unavailability.	We manage this risk by monitoring the external environment for cyber threats and having frameworks, policies, procedures and technology solutions in place to reduce, monitor, detect and respond to cyber threats.
Systems are not fit for purpose	The useability and reliability of our systems is an important element of how our workforce perform their day to day activities and the level of service provided to our members and customers. If our systems fail to operate reliably and as needed there is a risk that this may adversely affect our members or customers resulting in potential reputational damage.	We manage this risk by considering our current and future technology needs and maintaining and testing our systems for service continuity and recoverability.

(v) Financial risks

Risk that capital and liquidity is inappropriately managed, debt covenants are breached, regulatory capital and liquidity requirements are breached, financial performance and cashflow is inadequate or poorly managed or that financial results are not appropriately accounted for or disclosed.

Risk	Risk Description	Managing the Risk
Lack of capital or liquidity	We rely on external debt markets for a portion of our funding. A change in the economic environment could result in reduced access to capital or increased costs of funding. This could negatively affect our capital and liquidity position and our ability to fund business initiatives.	We manage this risk by monitoring the external debt markets and having policies and plans in place to monitor and review our capital and liquidity position.

(vi) Credit risks

Risk of loss from inappropriate lending or failure of counterparties.

Risk	Risk Description	Managing the Risk
Credit defaults	We provide lending to counterparties in our retail bank, primarily in relation to residential home loans. If Australian economic conditions were to worsen, a proportion of our customers could experience financial stress resulting in higher levels of default across the lending portfolio.	We manage this risk by having lending policies and procedures, approval delegations, reporting and monitoring in place. We also maintain provisions and capital reserves.

(vii) People risks

Risk of changes to key personnel, inability to attract and retain quality employees, inadequate succession planning, poor employee engagement and workplace injuries.

Risk	Risk Description	Managing the Risk
Workplace injuries or conditions	We have a large workforce within our Independent & Assisted Living platform who perform their work at aged care facilities, retirement communities or at a variety of other locations for home care and disability services, including residential homes. Given the variability of locations, conditions and types of care delivered, our workforce may be subject to muscular or skeletal injuries, slips, trips, falls, driving accidents, mental stress or occupational violence.	We manage this risk by having frameworks, policies, procedures and tools to support health and safety including training and awareness and incident management, including proactive support for successful return to work outcomes.
Inability to maintain skilled and experienced workforce	We are reliant on our employees and the skills and experience they possess to effectively service our members and customers. If we don't recruit and retain appropriately skilled people, monitor employee satisfaction, reward performance and provide a suitable corporate culture we may experience a high turnover of staff or loss of key persons that adversely impacts our business and financial performance.	We manage this risk by seeking employee feedback and having policies and procedures in place covering recruitment, incentive programs, performance management, job design, learning and development, discrimination and harassment, grievances and remuneration.

(viii) Regulatory & legal risks

Risk of loss from legal, regulatory or contractual breaches/issues.

Risk	Risk Description	Managing the Risk
Increased regulatory complexity and scrutiny	We operate a wide range of business activities which are subject to different laws and regulatory requirements. As regulatory standards and expectations are constantly changing, increased regulation and supervision from regulators could adversely effect our business activities, requiring changes to our business model, products or services and incurring significant costs if the regulatory changes are not managed appropriately.	We manage this risk by monitoring changes to laws, regulations and regulatory guidance, participating in industry forums and bodies and considering the impact of potential regulatory change on our business operations.

Information on directors

PETER PROMNITZ, BSc (Hons), AIAA, FAICD
Mr Promnitz was appointed Chair of the board of Australian Unity Limited on 30 March 2016. He has been a director since 1 January 2013 and was appointed Deputy Chair on 28 July 2015. He is Chair of NULIS Nominees (Australia) Limited, Warakirri Asset Management Pty Ltd and Warakirri Holdings Pty Ltd. Mr Promnitz was previously Chair of ASX-listed company SFG Australia Limited and a director of Warakirri Dairies Pty Ltd. Mr Promnitz is a qualified actuary. He was formerly Region Head for Mercer in Asia Pacific, a member of the global Mercer Executive Committee and Chair of Marsh & McLennan Companies Inc. in Australia, roles he retired from in December 2012. Prior to these senior executive roles his business experience includes a diverse career in financial services in Australia and New Zealand. He has led investment, superannuation, actuarial and human resource consulting businesses in both executive and non-executive capacities with a personal focus on clients, diversity and governance. He has not held any directorships of listed entities in addition to those set out above during the last three years.

ROHAN MEAD, Group Managing Director & CEO
Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is chairman of the Business Council of Australia's Healthy Australia task force and a member of its Indigenous Engagement task force. He is also a director of the Business Council of Co-Operatives and Mutuals Limited (BCCM) and the Centre for Independent Studies. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996-2003) in a range of senior roles.

LISA CHUNG, LLB, FIML, FAICD
Ms Chung was appointed to the board of Australian Unity Limited on 30 June 2017. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the People, Culture and Remuneration Committee and a member of the Audit Committee, the Investment Committee and the Risk and Compliance Committee. Ms Chung is currently Chair of Urbis Pty Limited and The Front Project, a director of Artspace/Visual Arts Centre Limited and Deputy President of Trustees of the Museum of Applied Arts and Sciences (Powerhouse Museum). Prior to this, Ms Chung was a partner specialising in commercial property and infrastructure at Maddocks Lawyers and at Blake Dawson (now Ashurst) where she also held various senior management roles and was an elected member of the firm's board. Ms Chung completed the Advanced Management Program at INSEAD in France in 2004. Ms Chung was previously Chair of The Benevolent Society and a non-executive director of APN Outdoor Limited. Ms Chung has not held any directorships of listed entities in addition to those set out above during the last three years.

MELINDA CILENTO, BA, BEc (Hons), MEc, GAICD
Ms Cilento was appointed to the board of Australian Unity Limited on 1 May 2014. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Investment Committee and a member of the People, Culture and Remuneration Committee and the Risk and Compliance Committee. She is also Co-Chair of Reconciliation Australia, and until 1 May 2019 was a director of Woodside Petroleum. In addition to her directorships, Ms Cilento is the Chief Executive Officer of the Committee for Economic Development of Australia and a member of Chief Executive Women. Ms Cilento has previously been a Commissioner with the Productivity Commission, and worked for eight years with Australia's leading CEOs at the Business Council of

Information on directors *continued*

Australia, including four years as Deputy Chief Executive. Prior to joining the Business Council she was Head of Economics at Invesco Australia. Ms Cilento has also worked with the Federal Treasury and International Monetary Fund in Washington DC. Ms Cilento was a director of Wesfarmers General Insurance until June 2014. Ms Cilento has not held any directorships of listed entities in addition to those set out above during the last three years.

PAUL KIRK, BEc, ACA, RITA, MAICD
Mr Kirk was appointed to the board of Australian Unity Limited on 1 February 2016. He is director of a number of Australian Unity Limited subsidiaries, Chair of the Audit Committee and a member of the People, Culture and Remuneration Committee. Mr Kirk is currently Managing Director and Founder of Collins Pitt Associates and is a director of the St Kilda Football Club. He is a member of the Audit & Risk & Investment Advisory Committee of Monash University. He was previously a director of the Melbourne Festival, Worksafe Victoria, Transport Accident Commission and the Victorian Registration & Qualifications Authority. Prior to this, Mr Kirk held a number of senior positions both overseas and in Australia with the major accountancy firm, PricewaterhouseCoopers, specialising in the area of corporate advice, turnaround & restructuring, profit improvement, M&A, strategic advice, risk and governance, forensic accounting and insolvency management. Following this, Mr Kirk worked for two years as a Special Advisor for Lazard Australia. Mr Kirk has not held any directorships of listed entities in addition to those set out above during the last three years.

SU McCLUSKEY, BCom, FCPA, MAICD
Ms McCluskey was appointed to the board of Australian Unity Limited on 1 September 2015. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Risk & Compliance Committee and a member of the Audit Committee, the Investment Committee and the People, Culture and Remuneration Committee. Ms McCluskey is also a director of The Foundation for Young Australians, Australasian Pork Research Institute, Energy Renaissance, a Commissioner for International Agricultural Research, and a member of the Ministerial Advisory Council on Skilled Migration. She was a member of the Charities Review, the Harper Review of Competition Policy and the Regional Telecommunications Review. Ms McCluskey was previously the CEO of the Regional Australia Institute and the Executive Director of the Office of Best Practice Regulation. Ms McCluskey has held senior positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is also a beef cattle farmer. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

GREG WILLCOCK, BCom, FCPA, FAICD, MAIM, FFin
Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Risk and Compliance Committee and the Audit Committee. Mr Willcock is also a director of Australian Unity Investments Real Estate Limited which is the responsible entity for the listed Australian Unity Office Fund. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Bank of Australia in the areas of risk management, strategy and change management. Mr Willcock was previously a director of the Customer Owned Banking Association (COBA). Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

MELINDA HONIG, BEc, LLB, GAICD, Group Executive, Governance
Ms Honig joined Australian Unity in February 2016. In her role as Group Executive - Governance, Ms Honig is responsible for managing the Group's Legal, Compliance, Risk, and Secretariat function. She is also secretary for all Group subsidiary boards. Prior to joining Australian Unity, Ms Honig worked for GE for 15 years, five of those years with GE Capital in the role of General Counsel, overseeing the provision of legal services to GE Capital's commercial finance, consumer finance and insurance businesses in Australia and New Zealand. Ms Honig brings to Australian Unity her executive experience in legal, compliance and company secretary functions and has worked abroad as Counsel for GE Indonesia, in operations which included transportation, energy and GE Capital. Prior to joining GE, Ms Honig was at KPMG for five years and undertook her legal training in Tax at KPMG.

CATHERINE VISENTIN, G/A(Cert), Assistant Company Secretary
Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 20 years of involvement with the Australian Unity Limited Company Secretarial function.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2019, and the numbers of meetings attended by each director were:

	Board		Audit Committee		Risk and Compliance Committee		Investment Committee		People, Culture and Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
Peter Promnitz	11	11	5	5	5	5	6	6	6	6
Rohan Mead	11	11	5	5	5	5	6	6	6	6
Lisa Chung	11	11	4	5	5	5	6	6	4	4
Melinda Cilento	10	11	-	-	5	5	6	6	6	6
Paul Kirk	11	11	5	5	-	-	-	-	6	6
Su McCluskey	11	11	5	5	4	4	6	6	6	6
Greg Willcock	11	11	5	5	5	5	-	-	-	-

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year.
Leave of absence had been granted in all cases where the directors were unable to attend meetings.

Remuneration report

Details of the Group's remuneration policy in respect of the Directors and other key management personnel are included in the Remuneration report on pages 31 to 36. Details of the remuneration paid to Directors and other key management personnel are also detailed in the Remuneration report. The Remuneration report is incorporated in and forms part of this Directors' report.

Directors' interests and benefits

Since the end of the previous financial year and to the date of signing this report, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors or related party transactions shown in the Group's financial statements) by reason of a contract made by the Company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial interest, except as specified in the Key management personnel disclosures in note 31.

Insurance and indemnification of directors and officers

During the financial year, the Group paid a premium for a contract insuring the directors, company secretaries and executive officers of the Group to the extent permitted by the *Corporations Act 2001*. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liabilities covered and the amount of the premium.

In accordance with the constitution of the Company and under a separate deed, the directors and officers are indemnified to the extent permitted by law against any liability incurred by them in connection with the proper discharge of their duties, other than for conduct involving a lack of good faith.

Parent entity

Australian Unity Limited is a company limited by shares and guarantee, however no shares have been issued. The liability under the guarantee of the members in a winding up is limited to $1 per member while being a current member and within one year afterwards.

Provision of non-audit services by the auditor

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the Audit & Compliance Committee, is satisfied that the provision of the non-audit services is compatible with, and did not compromise, the general standard of auditor independence imposed by the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit & Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the Parent entity, its related practices and non-related audit firms:

	2019 $	2018 $
PricewaterhouseCoopers Australia		
Audit of regulatory returns	**294,652**	288,130
Tax compliance services	**167,712**	212,651
Tax consulting services	**52,500**	130,184
Other services	**30,400**	221,457
Total remuneration for non-audit services	**545,264**	852,422

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 30.

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission. Unless otherwise stated, amounts in the Directors' report and Financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
28 August 2019

Auditor's independence declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity 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 Australian Unity Limited and the entities it controlled during the period.

Peter van Dongen
Partner
PricewaterhouseCoopers

Melbourne
28 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Remuneration report

This Remuneration report relates to the Company's performance for the year ending 30 June 2019 including all incentives payable in respect of that performance. The report is structured as follows:

- Key Management Personnel (KMP)
- Remuneration policy
- Senior Executive remuneration
- The remuneration framework and link to performance
- Non-executive director remuneration
- Remuneration tables
- Use of remuneration consultants

This Remuneration report sets out the remuneration information for Australian Unity Limited and the entities it controls (Australian Unity or Group) for the year ending 30 June 2019. It has been prepared and audited as required by the *Corporations Act 2001* (the Act). The report covers all Key Management Personnel of the Group.

Dear Member

On behalf of the board, I am pleased to present Australian Unity's Remuneration report for the year ended 30 June 2019, my first as Chair of the People, Culture and Remuneration Committee.

Australian Unity is a large and diverse company operating across different sectors, including health, aged and disability care; wealth, banking and investments; and individual and assisted living. Each of these business areas is heavily regulated and facing significant change, challenges and competition. Having high quality people working in, operating and managing each of these businesses is critical to the ongoing viability and success of Australian Unity and its ability to deliver high quality products and services.

Australian Unity's remuneration arrangements play an important role in the Group's ability to attract and retain the very best people and, as such, underpin the performance of the Group for the benefit of members and customers.

Last year we informed members of changes to remuneration arrangements that sought to simplify and better align reward with the longer term performance of the Group. In line with this, in FY19, executive performance was assessed in terms of performance against budget Net Profit After Tax (NPAT), with consideration also given to capital account management and cash flow generation. The Board also took account of non-financial metrics, such as the effectiveness of risk management across the Group and progress against key strategic priorities and reflected on the likely expectations of members and the wider community regarding the Group's financial and non-financial performance.

To ensure that performance in any one year is not achieved at the expense of likely future performance, the variable pay of executives is capped and a significant proportion of variable reward is deferred to future years.

Looking to FY20 and beyond

The Board endorsed further consideration and review of the Group's remuneration arrangements for FY20 and beyond, to take account of changing regulatory and community expectations. Further design changes have been agreed to ensure that the Group's executive remuneration arrangements:

- align with and drive performance in the interests of Australian Unity members and customers;
- support the Group's ability to attract and keep the best people as one element of a broader employee value proposition;
- are easily understood by executives and other employees; and
- are flexible enough to accommodate and reflect changing external circumstances, including through the capacity for the Board to exercise considerable discretion.

Key amendments include:

1. Group performance will be assessed equally against financial and non-financial performance indicators aligned to Board approved strategic and operating plans.
2. Individual performance will be assessed against a balanced set of goals aligned to strategy, behaviours consistent with our values and leadership in risk and conduct requirements.
3. Variable compensation will be awarded at the judgement of the Board, with consideration to the long term financial soundness and appropriate risk management of Australian Unity.
4. Changes to deferral arrangements to support long term sustainable performance, Group value creation and in accordance with regulatory requirements.

Over the next 12 months, the Board will continue to monitor the implementation of the program and assess the effectiveness of its remuneration arrangements to ensure they are consistent with the long-term interests of the Group.

Yours faithfully

Lisa Chung
Chair - People, Culture
and Remuneration Committee

Key Management Personnel (KMP)

This Remuneration report outlines the remuneration arrangements in place and outcomes achieved for Australian Unity's KMP during 2019.

Australian Unity's KMP are those people who have responsibility for planning, directing and controlling the activities of Australian Unity Limited and the Group, either collectively (in the case of the Board) or as individuals acting under delegated authorities (in the case of the Group Managing Director and certain Group Executives).

The names and positions of the individuals who were KMP during 2019 are set out in Table 1.

References to 'senior executive' in this report means the Group Managing Director and all executives who report to the Group Managing Director. All KMP, other than non-executive directors, are also senior executives.

Table 1 - Key management personnel

Non-executive director	Position
Peter Promnitz	Chair
Lisa Chung	Non-executive Director
Melinda Cilento	Non-executive Director
Paul Kirk	Non-executive Director
Su McCluskey	Non-executive Director
Greg Willcock	Non-executive Director
Key Management Personnel	
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Wealth & Capital Markets
Kevin McCoy	CEO Independent & Assisted Living
Matthew Walsh	CEO Retail
Esther Kerr-Smith	Group Executive, Finance & Strategy
Amanda Hagan	Group Executive, Customer, Digital & Technology

Remuneration Policy

The purpose of Australian Unity's remuneration policy is to:

- Provide market competitive compensation as a key component of our broader employee value proposition to attract, motivate and retain talent across diverse employment segments.
- Focus performance on the achievement of a balance of financial and non-financial outcomes including long term financial performance and appropriate risk management in the interests of members and customers.
- Foster the desired culture and employee behaviours and, where appropriate, provide mechanisms to adjust variable compensation outcomes.
- Establish goals and apply measures of performance that align with the Group's ambition and strategic direction.

The remuneration policy applies to all directors, officers and employees within Australian Unity and is approved by the Board.

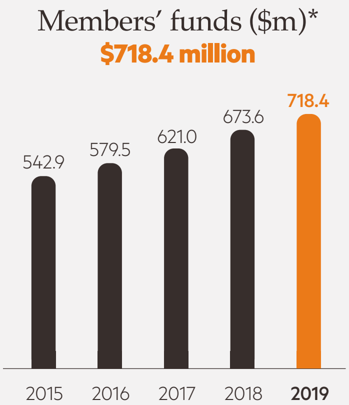
Senior Executive Remuneration

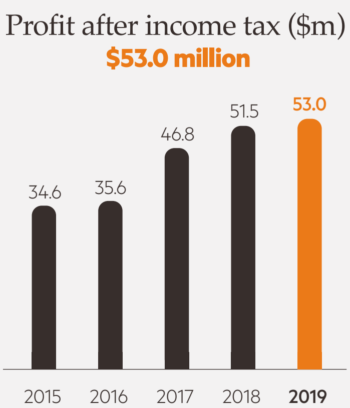
Remuneration for all senior executives at Australian Unity comprises a mix of fixed and variable compensation, which is determined by the scope of their role, their level of performance, knowledge, skills and experience.

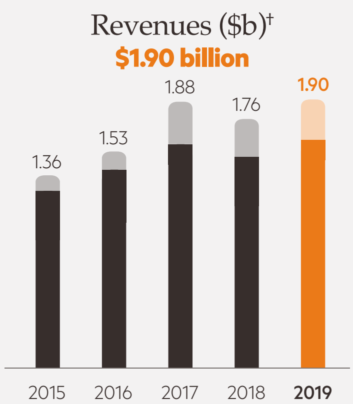
The **fixed component** of a senior executive's remuneration comprises base salary and benefits, including the superannuation guarantee.

The **variable component** is structured to align and reward performance against longer-term goals, including people leadership, overall value creation, leadership of Australian Unity's risk management framework and long-term financial soundness.
The variable compensation scheme for senior executives (referred to as True North), aligns with longer-term sustainability by deferring a significant portion (a minimum of 30 per cent) of each senior executive's variable compensation over a period of time. Senior executive variable compensation is capped in any one year at one times fixed remuneration. If a senior executive is awarded higher variable compensation in a particular year, the amount eligible for payment is

Table 2 – Five year Performance
The table below outlines Australian Unity's performance over the last five years against key metrics.







* Members' funds: net assets of the Group attributable to members.
† Revenues comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the statement of comprehensive income in the Annual report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income. The 2018 year includes the sale of the Group's corporate health insurance business, Grand United Corporate Health.

capped at the level of their fixed remuneration, with any surplus deferred to future years (these arrangements may vary in the case of retirement or cessation of employment by a senior executive). The Board may determine that some or all of any variable compensation deferred may be forfeited.

Both the fixed and variable components of senior executive remuneration are regularly benchmarked to ensure the Group can continue to attract and retain the talent required for sustainable business performance and growth.

All remuneration, both fixed and variable, is cash based. As a mutual, Australian Unity has no shares on issue, and no director or executive has shares in Australian Unity.

Australian Unity also makes available certain other non-monetary benefits through salary packaging and wellbeing and community related benefits. All benefits are structured in accordance with the appropriate legislation, including taxation legislation. Details of any such benefits to KMP during the year under review are set out in Table 4.

The Remuneration Framework & Link to Performance

To deliver high quality products and services in a sustainable manner, the Group must be commercially successful and develop its business operations, while effectively managing risk. Australian Unity generates profits to provide the capital necessary to sustain and extend services over the long term. As a result, Australian Unity's strategic objectives and performance measures for senior executives are set by reference to both financial and non-financial objectives.

In assessing financial performance, the Board considers overall Group performance, having regard to financial performance compared to budget (NPAT) with judgement applied regarding operating cash flow and capital management. A quality overlay is also applied taking into consideration risks, member and community expectations and performance against non-financial objectives.

In reviewing the non-financial performance of each senior executive, progress against the following is considered: senior executive behaviours and values in action; strategic and commercial priority delivery at a Group level; strategic and commercial priority delivery at a platform/function or role level; and personal contribution to community, diversity and inclusion.

The performance of each senior executive is reviewed by the Group Managing Director in consultation with the Board at the end of each year.

Non-executive director remuneration

Australian Unity's constitution and Board charter require that directors meet a variety of standards in order to be eligible to remain directors of the Board. These include meeting stringent 'fit and proper' standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees (remuneration) for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting.

Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 1 November 2017. At that meeting members approved the sum of up to $1.485 million in aggregate fees per financial year. This increase in the sum approved took effect from 1 January 2018 and the total spend on directors' fees during the 2019 year was $1.186 million.

On 25 September 2018, the board approved an increase of 25% to Mr Kirk's director fees in recognition of the establishment of the new Subsidiaries' Accounts Audit Committee and the associated additional workload in chairing that Committee in addition to his role as chair of the Audit Committee.

Non-executive director fees are reviewed annually by the Board taking into account the duties, responsibilities and demands on directors, organisation performance, trends, industry standards and fees paid by comparable organisations. No variable compensation or options are payable to non-executive directors.

Details of individual non-executive director allowances, payments and entitlements are set out in Tables 4 and 5.

Table 3 – Overview of True North Variable Compensation Scheme

Individual non-financial performance multiplied by	Each senior executive is assessed against individual target performance, and given a rating of either not delivering; delivering; exceeding or inspiring. Individual assessment considers: • Behaviours and values in action • Strategic and commercial priority at a Group level • Strategic and commercial priority delivery at a platform/function or role level • Personal contribution to community, diversity and inclusion
Financial Performance multiplied by	Overall financial performance compared to budget (NPAT) with judgement applied regarding operating cash flow and capital management. Quality overlay applied taking into consideration risks, member and community expectations and performance against non-financial objectives.
True North Opportunity equals	In the year under review, True North Opportunity (TNO) is a percentage from 40.0 - 75.0% of the senior executive's fixed remuneration consistent with individual contracts of employment.
Variable compensation declared	Individual performance and variable compensation outcomes are approved by the Board for each senior executive.
Variable compensation payment	In the year under review, all senior executives are subject to a minimum of 30% mandatory deferral. A higher amount may be deferred in situations where performance targets have been exceeded. Variable compensation payable in any one year cannot exceed 1x a senior executive's fixed remuneration. Any amount in excess of this limit is deferred and can be paid in future years. Deferrals are generally paid over two years - twelve months and twenty four months from the original award. Deferred amounts are subject to ongoing performance conditions.

Remuneration tables

Remuneration for the year ended 30 June 2019

Table 4 - The following table provides the remuneration details required by section 300A (1) (c) and (e) of the *Corporations Act 2001*.

		Fixed			Variable				
Name	**Year**	**Cash salary and fees[1] $**	**Non-monetary benefits[1,4] $**	**Super-annuation contributions[2] $**	**Cash payable (Current year variable remuneration)[1] $**	**Cash payable (Deferred variable remuneration)[3] $**	**Total remuneration $**	**Variable proportion of the current year's total remuneration**	**Increase in long service leave provision[3] $**
NON-EXECUTIVE DIRECTORS									
Peter Promnitz, Chair	**2019**	**309,469**	**1,000**	**20,531**	**-**	**-**	**331,000**	**-**	**-**
	2018	304,759	871	20,049	-	-	325,679	-	-
Lisa Chung	**2019**	**150,685**	**-**	**14,315**	**-**	**-**	**165,000**	**-**	**-**
	2018	146,066	-	13,876	-	-	159,942		-
Melinda Cilento	**2019**	**150,685**	**-**	**14,315**	**-**	**-**	**165,000**	**-**	**-**
	2018	148,314	-	14,090	-	-	162,404	-	-
Paul Kirk	**2019**	**176,545**	**-**	**16,772**	**-**	**-**	**193,317**	**-**	**-**
	2018	148,314	-	14,090	-	-	162,404	-	-
Su McCluskey	**2019**	**152,941**	**-**	**12,059**	**-**	**-**	**165,000**	**-**	**-**
	2018	140,524	-	21,880	-	-	162,404	-	-
Greg Willcock	**2019**	**150,685**	**1,000**	**14,315**	**-**	**-**	**166,000**	**-**	**-**
	2018	148,314	608	14,090	-	-	163,012	-	-
Non-executive directors whose appointment ceased during 2018 Stephen Maitland (retired 1 November 2017)	2018	60,133	356	5,713	-	-	66,202	-	-
Sub-total Non-executive directors[5]	**2019**	**1,091,010**	**2,000**	**92,307**	**-**	**-**	**1,185,317**		**-**
	2018	1,096,424	1,835	103,788	-	-	1,202,047		-
EXECUTIVES									
Rohan Mead, Group Managing Director	**2019**	**1,142,410**	**1,000**	**24,911**	**641,054**	**73,553**	**1,882,928**	**38%**	**41,209**
	2018	1,119,994	942	25,000	343,249	-	1,489,185	23%	18,427
David Bryant	**2019**	**794,819**	**1,000**	**20,531**	**395,368**	**422,683**	**1,634,401**	**50%**	**(133,131)**
	2018	785,107	942	20,049	259,444	367,088	1,432,630	44%	12,936
Amanda Hagan	**2019**	**725,684**	**1,000**	**20,531**	**362,981**	**61,718**	**1,171,914**	**36%**	**18,312**
	2018	718,762	942	20,049	288,016	-	1,027,769	28%	8,944
Esther Kerr-Smith (appointed Group Executive – Finance & Strategy 25 September 2017)	**2019**	**521,769**	**1,000**	**20,531**	**288,808**	**12,600**	**844,708**	**36%**	**2,285**
	2018	352,151	516	15,422	58,800	-	426,889	14%	1,442
Kevin McCoy	**2019**	**639,469**	**1,000**	**20,531**	**379,429**	**65,289**	**1,105,718**	**40%**	**24,092**
	2018	637,666	942	20,049	174,507	27,895	861,059	24%	14,972
Matthew Walsh (appointed CEO Retail 27 November 2017)	**2019**	**525,123**	**5,364**	**23,532**	**302,545**	**194,608**	**1,051,172**	**47%**	**(16,383)**
	2018	301,614	2,395	13,298	99,784	93,030	510,121	38%	28,727
Total	**2019**	**5,440,284**	**12,364**	**222,874**	**2,370,185**	**830,451**	**8,876,158**		**(63,616)**
	2018	5,011,718	8,514	217,655	1,223,800	488,013	6,949,700		85,448

1 Short-term benefits
2 Post-employment benefits
3 Long-term benefits
4 Non-monetary benefits refers to salary packaged benefits such as motor vehicles, and some health insurance and car parking deductions.
5 Non-executive directors fee increases effective for part year in 2018.

Table 5 - In addition to the amounts in Table 4, Mr Willcock received director fees from Australian Unity Investments Real Estate Limited (AUIREL), a related entity, during the relevant periods. Mr Willcock was specifically appointed a director of AUIREL by reference to his capacity to facilitate AUIREL's fulfilment of its duties as a responsible entity of a listed investment scheme. As such, the fees paid to Mr Willcock are for his skills and experience in his capacity as a director of AUIREL and are not referable to his role as a director of the Company.

		Fixed		
Name	**Year**	**Cash salary and fees[1] $**	**Superannuation contributions[2] $**	**Total remuneration $**
NON-EXECUTIVE DIRECTORS				
Greg Willcock	**2019**	**83,784**	**6,216**	**90,000**
	2018	82,192	5,978	88,170
Total Non-executive directors	**2019**	**83,784**	**6,216**	**90,000**
	2018	82,192	5,978	88,170

1 Short-term benefits
2 Post-employment benefits

From time to time Key Management Personnel or their close family members may purchase or subscribe to the various products or securities offered by the Group. These transactions are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

Details of remuneration – Annual and deferred variable compensation for relevant executives

Table 6 - The following table shows details of current variable compensation awarded, payable and deferred.

Name	**True North Opportunity amount $**	**True North amount awarded based on performance %**	**True North amount awarded based on performance $**	**True North variable amount payable $**	**Maximum 2019 True North deferred variable amount (payable subject to ongoing performance) $**
Rohan Mead	880,568	104%	915,791	641,054	274,737
David Bryant[1]	584,906	117%	684,341	395,368	288,973
Amanda Hagan	498,600	104%	518,544	362,981	155,563
Esther Kerr-Smith	382,375	108%	412,583	288,808	123,775
Kevin McCoy	438,900	124%	542,042	379,429	162,613
Matthew Walsh	369,408	117%	432,207	302,545	129,662

1 David Bryant's 2019 variable compensation exceeded the one times fixed remuneration cap. Variable compensation amounts greater have been deferred.

Remuneration tables *continued*

Details of remuneration – Long term performance related variable compensation for relevant executives

Table 7 - The table below shows details of deferred variable compensation that has been awarded but which has yet to vest, including their maximum possible value on vesting.

	Deferred Variable Remuneration				
Name	**Date when deferred incentive was awarded**	**Financial year for which the deferred variable remuneration will be fully payable**	**Maximum total value of deferred variable remuneration $**	**Proportion of deferred variable remuneration payable %**	**Proportion of deferred variable remuneration not earned %**
Rohan Mead	29 August 2019	2020	137,368	-	-
		2021	137,369	-	-
	30 August 2018	2019	73,553	100%	75,553
		2020	73,554	-	-
David Bryant	28 August 2019	2020	186,321	-	-
		2021	102,652	-	-
	29 August 2018	2019	55,595	100%	55,595
		2020	55,595	-	-
	30 August 2017	2019	367,088	100%	367,088
Amanda Hagan	28 August 2019	2020	77,781	-	-
		2021	77,782	-	-
	29 August 2018	2019	61,718	100%	61,718
		2020	61,717	-	-
Esther Kerr-Smith	28 August 2019	2020	61,887	-	-
		2021	61,888	-	-
	29 August 2018	2019	12,600	100%	12,600
		2020	12,600	-	-
Kevin McCoy	28 August 2019	2020	81,306	-	-
		2021	81,307	-	-
	29 August 2018	2019	37,394	100%	37,394
		2020	37,395	-	-
	30 August 2017	2019	27,895	100%	27,895
Matthew Walsh	28 August 2019	2020	64,831	-	-
		2021	64,831	-	-
	29 August 2018	2019	33,356	100%	33,356
		2020	33,357	-	-
	30 August 2017	2019	161,252	100%	161,252

Contract terms for relevant executives

Table 8 - The following table provides the prescribed details in relation to the relevant executives' contract terms.

Name	Employee initiated notice period[1]	Employer initiated notice period[2]	Termination benefit[3]
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant	6 months	6 months	none
Amanda Hagan	6 months	6 months	none
Esther Kerr-Smith	6 months	6 months	none
Kevin McCoy	6 months	6 months	none
Matthew Walsh	6 months	6 months	none

1 All relevant executives have contract durations with no set term.
2 Payment in lieu of notice may be made and the Group's redundancy policies may also apply.
3 Entitlement to variable remuneration is set out in the Senior Executive Remuneration section above.

Use of Remuneration Consultants

With the exception of a review supporting the letter attached to this report from KPMG confirming that remuneration paid to Key Management Personnel is appropriate, the board did not use remuneration consultants during 2019.

Independent remuneration adviser's report

KPMG

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Ms Lisa Chung
Chairman of the People, Culture and Remuneration Committee
Australian Unity Limited
271 Spring Street
Melbourne VIC 3000

Contact Ben Travers 03 9288 5279
Andrew Holland 03 9288 6612

27 August 2019

Dear Ms Chung

The Chairman of the People, Culture and Remuneration Committee of Australian Unity's Board of Directors engaged KPMG to provide the following:

- high-level review of Australian Unity's remuneration arrangements in respect of key management personnel ("KMP"), including Non-Executive Directors, having regard for any material changes that may have occurred during the year and movements in the market; and
- assessment of incentive plan structure against Australian Prudential Regulation Authority's guidelines.

Our view is that the FY19 remuneration for Australian Unity's KMP is reasonable and appropriate in comparison with Australian market practice.

The introduction of the additional deferral and payment capping arrangements is welcomed.

The advice provided by KPMG does not constitute a 'remuneration recommendation' as defined in Section 9B of the *Corporations Act 2001* as it relates to the provision of information and/or advice on the taxation, legal or accounting implications of specific elements of the remuneration framework.

We confirm that all advice was:

- provided directly to the Chairman of the People, Culture and Remuneration Committee; and
- provided free from undue influence of the member (or members) of the KMP that the advice related to.

Please contact me if you would like to discuss.

Yours sincerely

Ben Travers

Ben Travers
Partner

Financial statements

These financial statements are consolidated financial statements of the Group consisting of Australian Unity Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Australian Unity Limited is a company limited by shares and guarantee, however no shares have been issued. The Company is incorporated and domiciled in Australia and its registered office and principal place of business is:

Level 15, 271 Spring Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 19 to 29 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 28 August 2019.

Contents

Consolidated statement of comprehensive income

For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Continuing operations			
Revenue and other income	2	**1,608,670**	1,486,662
Expenses, excluding finance costs	3	**(1,493,658)**	(1,484,142)
Operating profit		**115,012**	2,520
Finance costs	3	**(17,739)**	(20,543)
Share of net loss of joint ventures		**(44)**	(121)
Profit/(loss) before income tax		**97,229**	(18,144)
Income tax benefit/(expense)	4	**(44,228)**	2,826
Profit/(loss) from continuing operations		**53,001**	(15,318)
Discontinued operations			
Profit from discontinued operation		**-**	66,860
Profit after income tax		**53,001**	51,542
Other comprehensive income			
Items that may be reclassified to profit or loss		**-**	-
Cash flow hedges	17(a)	**(4,202)**	841
Income tax relating to this item	17(a)	**1,522**	(252)
Items that will not be reclassified to profit or loss		**-**	-
Remeasurements of post-employment benefit obligations	17(a)	**202**	451
Other comprehensive income for the year, net of tax		**(2,478)**	1,040
Total comprehensive income for the year		**50,523**	52,582
Profit for the year is attributable to:			
Members of Australian Unity Limited		**53,001**	51,542
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**50,523**	52,582
Total comprehensive income for the year attributable to members of Australian Unity Limited arises from:			
Continuing operations		**50,523**	(14,278)
Discontinued operation		**-**	66,860
		50,523	52,582

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, specifically the allocation of the consolidated income statement between Members' Funds and Benefit Funds outlined in note 25.

Consolidated balance sheet

As at 30 June 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**944,767**	1,011,024
Trade and other receivables		**111,821**	136,489
Loans and advances	6	**14,977**	11,929
Financial assets at fair value through profit or loss	7	**1,982,707**	1,784,580
Other financial assets at amortised cost	8	**56,904**	61,744
Other current assets		**31,316**	23,898
Total current assets		**3,142,492**	3,029,664
Non-current assets			
Loans and advances	6	**725,820**	643,535
Financial assets at fair value through profit or loss	7	**21,446**	30,521
Investments in associates and joint ventures		**15,409**	27,431
Investment properties	12	**1,327,551**	1,169,437
Property, plant and equipment	13	**250,568**	217,280
Intangible assets	14	**323,764**	329,004
Other non-current assets		**9,566**	9,912
Total non-current assets		**2,674,124**	2,427,120
Total assets		**5,816,616**	5,456,784
LIABILITIES			
Current liabilities			
Trade and other payables		**190,409**	134,705
Borrowings	9	**815,568**	738,843
Current tax liabilities		**19,457**	31,786
Provisions	16	**119,929**	118,117
Other current liabilities	10	**1,275,843**	1,204,001
Benefit fund policy liabilities	33	**364,276**	320,395
Total current liabilities		**2,785,482**	2,547,847
Non-current liabilities			
Borrowings	9	**303,285**	300,021
Deferred tax liabilities	15	**86,048**	66,702
Provisions		**4,825**	4,524
Other non-current liabilities		**6,042**	2,164
Benefit fund policy liabilities	33	**1,912,541**	1,861,969
Total non-current liabilities		**2,312,741**	2,235,380
Total liabilities		**5,098,223**	4,783,227
Net assets		**718,393**	673,557
EQUITY			
Members' balances		**255,919**	255,919
Reserves	17(a)	**2,931**	5,409
Retained earnings	17(b)	**459,543**	412,229
Equity attributable to members of Australian Unity Limited		**718,393**	673,557
Total equity		**718,393**	673,557

The above Consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2017		255,919	4,369	360,687	620,975
Profit for the year		-	-	51,542	51,542
Other comprehensive income					
– Cash flow hedges	17(a)	-	589	-	589
– Post-employment benefits	17(a)	-	451	-	451
Total comprehensive income		-	1,040	51,542	52,582
Balance at 30 June 2018		255,919	5,409	412,229	673,557
Balance at 1 July 2018		**255,919**	**5,409**	**412,229**	**673,557**
Adjustment on adoption of AASB 15, net of tax	36	**-**	**-**	**(5,687)**	**(5,687)**
Profit for the year		**-**	**-**	**53,001**	**53,001**
Other comprehensive income					
- Cash flow hedges	17(a)	**-**	**(2,680)**	**-**	**(2,680)**
- Post-employment benefits	17(a)	**-**	**202**	**-**	**202**
Total comprehensive income		**-**	**(2,478)**	**47,314**	**44,836**
Balance at 30 June 2019		**255,919**	**2,931**	**459,543**	**718,393**

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,324,918**	1,372,336
Payments to suppliers and employees (inclusive of goods and services tax)		**(710,458)**	(727,431)
Health insurance claims and benefits paid		**(543,268)**	(599,742)
Life investment contracts - Contributions received		**343,957**	324,725
Life investment contracts - Withdrawals		**(363,348)**	(314,606)
Life insurance - Premiums received		**258**	270
Life insurance - Policy claims paid		**(1,061)**	(8,878)
Net receipts/(payments) of loans asset		**(85,989)**	43,368
Net receipts/(payments) of deposits liability		**99,611**	(49,832)
Interest received		**39,599**	37,545
Dividends and distributions received		**12,616**	8,285
Interest and finance charges paid		**(29,135)**	(30,996)
Income tax refunds/(payments)		**(26,453)**	21,683
Net cash inflow from operating activities	18	**61,247**	76,727
Cash flows from investing activities			
Payments for business combination, net of cash receipt		**(9,310)**	(4,858)
Payments for investments		**(934,433)**	(855,796)
Payments for investment properties		**(118,480)**	(90,371)
Payments for property, plant and equipment		**(29,157)**	(43,185)
Payments for intangible assets		**(17,179)**	(10,272)
Payments for investments in associates and joint ventures		**(2,850)**	(3,749)
Receipts from investments		**928,156**	850,163
Proceeds from sale of a subsidiary, net of cash held by the subsidiary		**-**	81,609
Receipts from joint venture's capital returns		**7,436**	-
Dividends received from joint ventures		**767**	530
Net cash outflow from investing activities		**(175,050)**	(75,929)
Cash flows from financing activities			
Receipts from borrowings		**11,058**	7,405
Payments of borrowings		**(32,022)**	(15,425)
Receipts from refundable lease deposits and resident liabilities		**68,510**	124,521
Net cash inflow from financing activities		**47,546**	116,501
Net increase/(decrease) in cash and cash equivalents		**(66,257)**	117,299
Cash and cash equivalents at the beginning of the year		**1,011,024**	893,725
Cash and cash equivalents at the end of the year	5	**944,767**	1,011,024
Cash flows from discontinued operation		**-**	82,938

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated financial statements

How numbers are calculated

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of Australian Unity Limited and the entities it controlled (the Group).

1 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Executive Committee that are used to make strategic decisions including the allocation of resources and to assess the performance of an operating segment. For management reporting purposes, the Group is organised into business platforms and the Group's corporate functions.

During the 2018 financial year, the Group implemented a number of organisational changes as part of a Group-wide transformation program aimed at reorientation of the front-line operations toward customer and member-facing service delivery alongside the mobilisation of central strategic capabilities (including but not limited to, digital, business insights, safety and risk management) to enable sustainable growth and innovation across the Group portfolio.

Specifically, from January 2018, the Group operated three customer-facing platforms which are Independent & Assisted Living, Retail and Wealth & Capital Markets. This was followed during the 2019 financial year with the transfer of a number of business support activities from individual business lines to, and continued investment in new strategic capabilities in, the Corporate functions segment where they can be better leveraged across the integrated portfolio. Consequently, the Corporate functions adjusted EBITDA from continuing operations includes the operating costs of the transferred business support activities.

The table below summarises the reportable operating segments.

Independent & Assisted Living	Provision of retirement communities, aged care facilities, home care and disability services and health services.
Retail	Provision of health insurance, operation of Approved Deposit-taking Institution, and finance and general insurance broking services.
Wealth & Capital Markets	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Provision of financial planning, estate planning and trustee services.
Corporate functions	Provision of shared services, fraternal activities, management of properties and other strategic investments and group liquidity.

How numbers are calculated *continued*

1 Segment information *continued*

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2019 is as follows:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2019					
Continuing operations					
Total segment revenue	469,363	722,074	180,868	(15,834)	1,356,471
Inter-segment revenue	(9,341)	-	-	9,341	-
Revenue from external customers	460,022	722,074	180,868	(6,493)	1,356,471
Adjusted EBITDA from continuing operations	48,186	74,383	50,467	(80,006)	93,030
Depreciation and amortisation					(31,267)
Interest expense					(17,753)
Investment income					16,107
Income tax benefit/(expense)					(7,116)
Profit/(loss) from continuing operations					53,001
Share of profit/(loss) after tax from joint ventures (included in adjusted EBITDA)					(44)
Total segment assets include:					
Income producing assets	56,398	1,221,357	60,327	148,729	1,486,811
Working capital assets	2,046	50,455	54,222	20,490	127,213
Non-interest bearing assets	614,076	11,180	149,955	101,019	876,230
Total segment assets	672,520	1,282,992	264,504	270,238	2,490,254
Total segment liabilities include:					
Borrowings and net inter-segment lending	148,291	811,161	13,851	131,267	1,104,570
Working capital liabilities	110,215	209,938	52,861	113,213	486,227
Non-interest bearing liabilities	118,916	14,846	26,432	20,870	181,064
Total segment liabilities	377,422	1,035,945	93,144	265,350	1,771,861

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2018 is as follows:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2018					
Continuing operations					
Total segment revenue	422,728	726,080	170,361	(22,120)	1,297,049
Inter-segment revenue	(11,904)	(1)	-	11,905	-
Revenue from external customers	410,824	726,079	170,361	(10,215)	1,297,049
Adjusted EBITDA from continuing operations	(3,326)	64,555	36,914	(58,653)	39,490
Depreciation and amortisation					(73,351)
Interest expense					(20,581)
Investment income					11,226
Income tax benefit/(expense)					27,898
Profit/(loss) from continuing operations					(15,318)
Share of profit/(loss) after tax from joint ventures (included in adjusted EBITDA)					(121)
Total segment assets include:					
Income producing assets	51,814	1,105,450	62,279	206,906	1,426,449
Working capital assets	28,710	53,911	32,413	10,375	125,409
Non-interest bearing assets	532,729	11,737	132,470	80,620	757,556
Total segment assets	613,253	1,171,098	227,162	297,901	2,309,414
Total segment liabilities include:					
Borrowings and net inter-segment lending	155,979	738,592	6,854	140,816	1,042,241
Working capital liabilities	87,410	208,474	47,191	88,068	431,143
Non-interest bearing liabilities	102,420	13,770	24,066	22,217	162,473
Total segment liabilities	345,809	960,836	78,111	251,101	1,635,857

(c) Other segment information

Management monthly reports exclude information relating to the benefit funds that are managed by the Group, as the revenues, expenses, assets and liabilities of benefit funds are not attributable to the members of the Group. In accordance with AASB 10 *Consolidated Financial Statements* the revenues, expenses, assets and liabilities of benefit funds managed by the Group are included in the consolidated financial statements.

Management monthly reports present investment property on a net basis with resident liabilities and refundable lease deposits of the retirement village residents. In accordance with AASB 101 *Presentation of Financial Statements,* these items are disclosed on a gross basis within the consolidated financial statements.

(i) Segment revenue

Revenue transactions between segments are carried out at arm's length and eliminated on consolidation. The revenue from external parties reported to management is measured in a manner consistent with that in the profit or loss, except for dividends and distributions and other net investment gains/(losses) which are presented below the adjusted EBITDA line. Included in the Retail segment revenue from external customers is the Australian Unity Bank's interest expense on external borrowings.

How numbers are calculated *continued*

1 Segment information *continued*

(c) Other segment information *continued*

Segment revenue reconciles to total revenue as follows:

	2019 $'000	2018 $'000
Total segment revenue from continuing operations	**1,356,471**	1,297,049
Dividends and distributions (note 2)	**13,202**	8,468
Fund manager and administration fees reclassification	**4,310**	5,541
Gain on investments in financial instruments (note 2)	**2,043**	3,611
Property development distributions included in adjusted EBITDA	**(6,354)**	-
Other interest income (note 2)	**7,199**	5,481
Other	**(2,742)**	(1,496)
Revenue and other income attributable to members of Australian Unity Limited (note 25)	**1,374,129**	1,318,654
Revenue from benefit funds (note 25)	**234,541**	168,008
Total revenue and other income from continuing operations	**1,608,670**	1,486,662

(ii) Adjusted EBITDA

Management assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes other non-recurring expenditure and shared services costs.

A reconciliation of adjusted EBITDA to operating profit before income tax from continuing operations is provided as follows:

	2019 $'000	2018 $'000
Adjusted EBITDA from continuing operations	**93,030**	39,490
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	**(29,786)**	(60,979)
Loss on disposal of assets	**(405)**	(12,015)
Merger and acquisition expenses	**(923)**	(191)
Other	**(153)**	(166)
	(31,267)	(73,351)
Interest expense		
Finance costs (note 3)	**(17,739)**	(20,543)
Other	**(14)**	(38)
	(17,753)	(20,581)
Investment income:		
Dividends and distributions (note 2)	**13,202**	8,468
Gain on investments in financial instruments (note 2)	**2,043**	3,611
Other interest income (note 2)	**7,199**	5,481
Property development distributions included in adjusted EBITDA	**(6,354)**	-
Impairment of assets (note 3)	**-**	(6,364)
Other	**17**	30
	16,107	11,226
Profit/(loss) before income tax attributable to members of Australian Unity Limited (note 25)	**60,117**	(43,216)
Profit before income tax of benefit funds (note 25)	**37,112**	25,072
Profit/(loss) before income tax from continuing operations	**97,229**	(18,144)

(iii) Segment assets

Segment assets are split into three categories: income producing, working capital and non-interest bearing assets. Income producing assets include cash and investments including those held in funds managed by related entities. Working capital assets include trade debtors, inventory, reinsurance receivables, and inter entity trading. Non-interest bearing assets include property, plant and equipment, investment property, intangible assets, investments in associates and joint ventures, intercompany investments and other non-current assets.

The total assets reported to management are measured in a manner consistent with the amounts in these financial statements, except for investment property which is presented on a net basis of investment property, resident liabilities and refundable lease deposits. All assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

	2019 $'000	2018 $'000
Segment assets	**2,490,254**	2,309,414
Resident liabilities and refundable lease deposits	**1,060,253**	996,196
Retirement Village Property Fund consolidation	**64,136**	59,682
Netting of eligible deferred tax balances	**(114,643)**	(90,912)
Other reclassifications between assets and liabilities	**29,438**	(7,994)
Total assets attributable to members of Australian Unity Limited	**3,529,438**	3,266,386
Benefit fund assets (note 34)	**2,313,108**	2,203,921
Netting of eligible deferred tax balances	**(25,930)**	(13,523)
Total assets	**5,816,616**	5,456,784

(iv) Segment liabilities

Segment liabilities are split into three categories: borrowings, working capital liabilities and non interest bearing liabilities. Borrowings include those held externally and also inter entity lending. Working capital liabilities include trade creditors, claims and other payables, current provisions and other liabilities and unearned income. Non-interest bearing liabilities include non-current provisions and resident ingoing fees.

The total liabilities reported to management are measured in a manner consistent with the amounts in these financial statements, except for resident liabilities and refundable lease deposits which are managed on a net basis with investment property and included in segment assets reported to management. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2019 $'000	2018 $'000
Segment liabilities	**1,771,861**	1,635,857
Resident liabilities and refundable lease deposits	**1,060,253**	996,196
Retirement Village Property Fund consolidation	**64,136**	59,682
Netting of eligible deferred tax balances	**(114,643)**	(90,912)
Other reclassifications between assets and liabilities	**29,438**	(7,994)
Total liabilities attributable to members of Australian Unity Limited	**2,811,045**	2,592,829
Benefit fund policy liabilities (note 33)	**2,276,817**	2,182,364
Benefit fund other liabilities (note 34)	**36,291**	21,557
Netting of eligible deferred tax balances	**(25,930)**	(13,523)
Total liabilities	**5,098,223**	4,783,227

How numbers are calculated *continued*

2 Revenue and other income

The Group operates in Australia and generates revenue through its business platforms that operate private health insurance, banking services, finance and general insurance broking services, retirement communities, aged care facilities, home care and disability services, health services, investment funds management, financial planning, estate planning and trustee services. As the Group operates diverse businesses, it applies a number of accounting standards for the revenue recognition as disclosed in note 35.

The Group has applied AASB 15 *Revenue from Contracts with Customers* (refer to note 35(b)) for the first time from 1 July 2018 for its recognition of revenue, except for revenue generated from insurance contracts, government grants and subsidies, financial instruments and lease contracts that are presided over under the other accounting standards. The Group's revenue which is accounted for under AASB 15 is presented under Revenue from services in the below table, except for the government grants and subsidies which is accounted for under AASB 120.

The following is revenue and other income from continuing operations:

	2019 $'000	2018 $'000
Health insurance net premium revenue	**683,456**	686,544
Revenue from services		
Government grants and subsidies funding aged care, home and disability services	**180,984**	198,197
Independent and assisted living services and other fees	**217,623**	163,165
Management and performance fees revenue	**84,411**	92,024
Brokerage and commission	**63,268**	61,898
Healthcare services revenue	**27,725**	28,405
	574,011	543,689
Interest income of bank	**32,296**	31,453
Investment earnings		
Other interest income	**7,199**	5,481
Dividends and distributions	**13,202**	8,468
Gain on investments in financial instruments	**2,043**	3,611
Fair value gains on investment property	**29,340**	14,315
	51,784	31,875
Benefit funds income	**234,541**	168,008
Other income	**32,582**	25,093
	1,608,670	1,486,662

Disaggregation of revenue from contracts with customers is prepared based on the customer type and contract type for each of the operating segments, as this is considered to depict how the nature, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. The majority of the Group's revenue is fee for service and is recognised over the time when the services are rendered. Certain types of revenue, such as performance fees, commission and success fees, are recognised at a point in time, but the amount is immaterial.

Disaggregation of revenue from services for each business segment for the year ended 30 June 2019 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
Health insurance net premium revenue	-	683,456	-	-	683,456
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	180,984	-	-	-	180,984
Independent & assisted living services and other fees	218,446	-	150	(973)	217,623
Management and performance fees revenue	-	-	90,284	(5,873)	84,411
Brokerage and commission	2,002	4,695	56,571	-	63,268
Healthcare services revenue	27,725	-	-	-	27,725
	429,157	4,695	147,005	(6,846)	574,011
Interest income of bank	-	32,296	-	-	32,296
Investment earnings					
Other interest income	1,923	1,245	345	3,686	7,199
Dividends and distributions	597	8,838	3,755	12	13,202
Gain/(loss) on investments in financial instruments	(1,759)	3,036	735	31	2,043
Fair value gains on investment property	21,340	-	8,000	-	29,340
	22,101	13,119	12,835	3,729	51,784
Benefit funds income	-	-	234,541	-	234,541
Other income	3,444	1,484	27,200	454	32,582
Revenue and other income	454,702	735,050	421,581	(2,663)	1,608,670
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividends and distributions	(597)	(8,838)	(3,755)	(12)	(13,202)
Fund manager and administration fees reclassification	-	-	(4,310)	-	(4,310)
Other investment income	(164)	(4,281)	(1,080)	(3,717)	(9,242)
Property development distributions included in adjusted EBITDA	6,354	-	-	-	6,354
Other	(273)	143	2,973	(101)	2,742
Revenue from benefit funds	-	-	(234,541)	-	(234,541)
	5,320	(12,976)	(240,713)	(3,830)	(252,199)
Revenue from external customers in segment reporting	460,022	722,074	180,868	(6,493)	1,356,471

How numbers are calculated *continued*

3 Expenses

Expenses, excluding finance costs, from continuing operations classified by nature are as follows:

	2019 $'000	2018 $'000
Bank charges	**4,235**	3,581
Commission expense	**56,536**	57,835
Communication costs	**8,488**	9,091
Computer and equipment costs	**29,892**	27,036
Depreciation and amortisation expense	**29,786**	60,979
Employee benefits expense	**488,824**	454,390
Expenses in relation to benefit funds (note 33)	**197,429**	142,936
Financial and insurance costs	**514**	13,420
Fund manager and administration fees	**20,743**	22,455
Health insurance claims expense	**605,621**	606,538
Health insurance claims recoveries - Net Risk Equalisation Special Account	**(63,937)**	(59,433)
Impairment of assets	**-**	6,364
Interest expense of bank	**12,711**	11,630
Legal and professional fees	**20,098**	29,836
Marketing expenses	**13,472**	16,907
Occupancy costs	**23,917**	27,098
Other direct expenses	**5,329**	7,416
Other expenses	**40,000**	46,063
	1,493,658	1,484,142
Depreciation and amortisation		
Depreciation of property, plant and equipment	**6,960**	12,667
Amortisation of intangible assets	**22,826**	48,312
	29,786	60,979
Finance costs		
Interest and finance charges	**17,767**	20,593
Amount capitalised	**(28)**	(50)
Finance costs expensed	**17,739**	20,543

4 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	2019 $'000	2018 $'000
Current tax	**1,554**	13,859
Current tax - benefit funds	**20,578**	21,926
Deferred tax	**12,119**	799
Deferred tax - benefit funds	**17,758**	4,404
Adjustments for current tax of prior periods	**(6,557)**	(17,794)
Adjustments for current tax of prior periods - benefit funds	**(1,224)**	(1,258)
Income tax expense	**44,228**	21,936
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**(2,630)**	825
Increase in deferred tax liabilities	**32,507**	4,378
	29,877	5,203
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**44,228**	(2,826)
Profit from discontinued operation	**-**	24,762
	44,228	21,936

(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable

	2019 $'000	2018 $'000
Profit/(loss) from continuing operations before income tax	**97,229**	(18,144)
Less: profit in benefit funds	**(37,112)**	(25,072)
	60,117	(43,216)
Profit from discontinued operation before income tax	**-**	91,622
Profit before income tax for the year	**60,117**	48,406
Tax at the Australian tax rate of 30% (2018: 30%)	**18,035**	14,522
Non-assessable income	**(5,695)**	(11,695)
Non-deductible expenditure	**1,660**	3,362
Other deductible expenditure	**(1,497)**	(1,133)
Other deferred tax adjustments	**(433)**	-
Over provision in prior years	**(4,006)**	(7,944)
Tax credits	**(948)**	(248)
Tax in benefit funds	**37,112**	25,072
Income tax expense	**44,228**	21,936

The income tax results for the financial year to 30 June 2019 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

Tax Transparency Code

In 2016 the Australian Taxation Office issued the Tax Transparency Code (TTC) which is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. Adoption of the TTC is voluntary and intended to complement Australia's existing tax transparency measures. The Group has implemented TTC and supports greater tax disclosure in Australia, reflecting the Group's commitment to compliance from a regulatory and financial perspective, and transparency with respect to the Group's strategy and corporate governance.

Financial assets and liabilities

5 Financial assets – Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank and on hand	**66**	80
Bank balances	**67,694**	39,000
Deposits at call	**877,007**	971,944
	944,767	1,011,024

As at 30 June 2019, cash and cash equivalents held by benefit funds amounted to $411,724,000 (2018: $466,411,000).

(a) Fair value and risk exposures

The carrying amount of cash and cash equivalents equals their fair value. Information about the Group's exposure to interest rate risk is provided in note 20.

6 Financial assets – Loans and advances

	2019 $'000	2018 $'000
Current		
Mortgage loans	**19,442**	16,198
Personal loans	**6,053**	5,979
Provision for impairment	**(10,518)**	(10,248)
Total current	**14,977**	11,929
Non-current		
Mortgage loans	**724,004**	641,097
Personal loans	**1,996**	2,949
Provision for impairment	**(4,180)**	(4,659)
Advances	**4,000**	4,148
Total non-current	**725,820**	643,535
Total loans and advances	**740,797**	655,464

Further information relating to loans to related parties is set out in note 30.

(a) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 28 June 2049 and earn interest at annual interest rates between 3.59% and 7.00% (2018: between 3.64% and 6.70%).

(b) Personal loans

The personal loans mature at various dates up to 30 November 2025 and earn interest at annual rates between 4.57% and 15.19% (2018: between 4.57% and 14.18%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans provided by the Group's authorised deposit-taking institution.

(d) Past due but not impaired

At 30 June 2019, the current portion of loans and advances that were past due but not impaired amounted to $26,935,000 (2018: $15,718,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value and risk exposures

The fair value of current and non-current loans and advances are provided in note 11. Information about the Group's exposure to credit risk and interest rate risk is provided in note 20.

7 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of the following:

	2019 $'000	2018 $'000
Securities held by benefit funds	**1,837,874**	1,667,374
Securities held by subsidiaries	**166,279**	147,727
	2,004,153	1,815,101

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the profit or loss.

(a) Securities held by benefit funds comprise the following:

	2019 $'000	2018 $'000
Equity trusts	**1,242,599**	1,134,143
Fixed interest and other debt security trusts	**506,747**	468,847
Mortgage trusts	**25,743**	3,249
Property syndicates and trusts	**62,785**	61,135
	1,837,874	1,667,374

(b) Securities held by subsidiaries comprise the following:

	2019 $'000	2018 $'000
Equity trusts	**22,425**	27,647
Fixed interest and other debt security trusts	**123,931**	95,746
Mortgage trusts	**3,283**	2,169
Property syndicates and trusts	**16,640**	22,165
	166,279	147,727

(c) Current and non-current split

The redemption terms for investments in certain managed trusts can be varied by their responsible entities in response to market conditions. For those investments which cannot be redeemed entirely within one year from reporting date, the amounts have been allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of the reporting period.

The carrying amounts of the above financial assets have been designated at fair value on initial recognition and are classified as follows:

	2019 $'000	2018 $'000
Current	**1,982,707**	1,784,580
Non-current	**21,446**	30,521
	2,004,153	1,815,101

(d) Fair value and risk exposures

Information on the fair value measurement basis is provided in note 11 while information about the Group's exposure to market risk is provided in note 20.

8 Financial assets – Other financial assets at amortised cost

	2019 $'000	2018 $'000
Other financial assets at amortised cost - Bank bills and term deposits	**56,904**	61,744

Fair value and risk exposures

Due to the short term nature of these investments, their carrying amount is assumed to approximate their fair value. Information about the Group's exposure to credit risk and the credit quality in relation to these investments is provided in note 20.

Financial assets and liabilities *continued*

9 Financial liabilities - Borrowings

	2019 $'000	2018 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**95,494**	82,769
Retirement Village Investment Notes	**5,423**	18,342
	100,917	101,111
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**16,320**	-
Unsecured interest bearing liabilities		
Call deposits	**419,173**	389,497
Term deposits	**274,058**	213,088
Development finance loans	**-**	47
Loan payable to related entity	**5,100**	5,100
Subordinated capital notes	**-**	30,000
	698,331	637,732
Total current borrowings	**815,568**	738,843
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**19,961**	25,384
Unsecured interest bearing liabilities		
Australian Unity Bonds - face value	**250,000**	250,000
Valuation at amortised cost	**(2,036)**	(3,378)
Australian Unity Bonds - at amortised cost	**247,964**	246,622
Term deposits	**17,401**	21,161
Development finance loans	**17,959**	6,854
	283,324	274,637
Total non-current borrowings	**303,285**	300,021
Total borrowings	**1,118,853**	1,038,864

(a) Australian Unity Bonds

On 15 December 2015, the Company issued 2,500,000 Series B Australian Unity Bonds - Tranche 1 (Australian Unity Bonds) of $100 each pursuant to the prospectus dated 9 November 2015, raising $250,000,000 (excluding issuance costs). Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHB). The bonds have a five-year term maturing on 15 December 2020 and bear interest at the three month bank bill rate (BBSW) plus a margin of 2.80% per annum. The interest is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year.

As specified in the prospectus, the proceeds from the issue were used to refinance the $120,000,000 Australian Unity Notes, partly finance the acquisition of Home Care NSW and for general corporate purposes.

The Australian Unity Bonds are redeemable by the Company for reasons related to taxation, a change of control or when less than 10% of the bonds remain on issue. An early redemption payment is applied pursuant to the prospectus. Bond holders have the right to require early redemption through a resolution only on the occurrence of a change of control.

Under the terms of the bonds, Australian Unity Limited is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by cash and cash equivalents of the Company. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Australian Unity Bonds. As at 30 June 2019, the Australian Unity Bonds Covenant Gearing Ratio was 21.9% (30 June 2018: 21.3%).

Since the issue of the bonds, the Company has not issued any debt securities which are subject to the negative pledge clauses of the terms of the bonds.

(b) Development finance loans

The non-current balance of development finance loans represented loan facilities from a related entity for the development of the Herston Quarter health precinct in Brisbane, Queensland.

(c) Retirement Village Investment Notes (RVIN)

RVIN are debt obligations issued by the Group and are secured in the form of a registered security over specific assets. The proceeds from RVIN issued were utilised by the Group for the purpose of expanding the Independent & Assisted Living business. The RVIN are secured by a first ranking registered security interest over intra-group loans in relation to the RVIN proceeds and the mortgages, granted as security for the loans, over allotments of units held in Australian Unity Retirement Village Trust #1 (in respect of Series 1, 2 and 4 Notes) and Australian Unity Retirement Village Trust #2 (in respect of Series 3 and 4 Notes).

Australian Unity Retirement Village Trust #1 (AURVT#1) comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria. Australian Unity Retirement Village Trust #2 (AURVT#2) comprises three other villages - Constitution Hill, Karagi Court and Kiah Lodge, all located in New South Wales. All of these villages are managed by a related entity Australian Unity Retirement Living Management Pty Ltd. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1, AURVT#2 or Australian Unity Retirement Living Services Limited (the parent entity of the Independent & Assisted Living business).

During the financial year, the Group repaid $2,022,000 of maturing RVIN. Subsequent to the reporting period, the Group repaid $16,320,000 non-interest bearing RVIN in accordance with the terms of the relevant prospectus.

The balance of RVIN as at 30 June 2019 amounted to $41,704,000 (2018: $43,726,000).

Financial assets and liabilities *continued*

9 Financial liabilities - Borrowings *continued*

(c) Retirement Village Investment Notes (RVIN) *continued*

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June 2019 $'000	30 June 2018 $'000
RVIN - Series 1	4	30 November 2018	5.15%	-	1,288
	5	30 November 2019	7.50%	**5,408**	-
RVIN - Series 2	3	31 December 2018	5.15%	-	734
RVIN - Series 3	11	30 June 2019	5.00%	-	6,320
	8	31 December 2019	7.50%	**15**	-
RVIN - Series 4	2	30 June 2019	5.00%	-	10,000
Interest bearing RVIN - current				**5,423**	18,342
RVIN - Series 1	5	30 November 2019	7.50%	-	5,408
	8	30 November 2020	5.60%	**15,988**	15,988
RVIN - Series 2	5	31 December 2020	5.60%	**3,973**	3,973
RVIN - Series 3	8	31 December 2019	7.50%	-	15
Interest bearing RVIN - non-current				**19,961**	25,384
Total interest bearing RVIN				**25,384**	43,726
RVIN - Series 3	11	30 June 2019		**6,320**	-
RVIN - Series 4	2	30 June 2019		**10,000**	
Non-interest bearing RVIN - current				**16,320**	-
Total RVIN				**41,704**	43,726

(d) Subordinated capital notes

The subordinated capital notes of $30,000,000 were issued on 11 July 2013 and had a maturity of 10 years with a non-call five year period. The notes bore a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00% per annum. After the non-call period, a step-up interest of 1.50% per annum applied. During the non-call period, the variable component of the interest rate was swapped at 3.71% per annum resulting in a fixed interest rate of 6.71% per annum. In May 2018 the Group exercised the option to redeem the subordinated capital notes after the non-call period. The notes were repaid in full on 11 July 2018.

(e) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2019, this rate amounted to between 0.01% and 2.45% (2018: between 0.01% and 2.05%).

(f) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2019 ranging between 1.25% and 4.10% (2018: between 1.50% and 4.10%).

(g) Mortgage offset savings accounts

The amounts represent customer savings accounts with the interest offsetting the interest of the respective mortgage loan accounts.

(h) Loan payable to related entity

The loan from related entity is repayable on demand and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2%. At 30 June 2019 this rate amounted to 3.20% (2018: 4.11%).

(i) Fair value and risk exposures

The fair values of borrowings are set out in note 11. Information about the Group's exposure to risk arising from borrowings is set out in note 20.

10 Other current liabilities

	2019 $'000	2018 $'000
Financial liabilities		
Refundable accommodation deposits	**242,694**	227,149
Resident loan liabilities	**881,733**	828,768
	1,124,427	1,055,917
Non-financial liabilities		
Unearned income	**140,564**	135,940
Other	**10,852**	12,144
	151,416	148,084
Total other current liabilities	**1,275,843**	1,204,001

(a) Unearned income

Unearned income represents mainly health insurance premium revenue not yet recognised in the profit or loss.

(b) Refundable accommodation deposits

Refundable accommodation deposits represent payments received from the residents of aged care facilities as upfront deposits for their aged care accommodation. Residents have the ability to pay the deposits up to six months after moving into an aged care facility. These deposits are non-interest bearing and are repayable within 14 days of a resident's departure from the facility or within 14 days of the granting of probate. Regulations restrict the permitted use of the accommodation deposits to repayment of accommodation deposit balances, capital expenditures of residential aged care facilities and investments in qualified financial products.

(c) Resident loan liabilities

Resident loan liabilities relate to residents who occupy the investment properties referred to in note 12. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value and risk exposures

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value. Details of the Group's exposure to risk arising from other current liabilities are set out in note 20.

11 Fair value measurements

(a) Recognised fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss
- Derivative financial instruments
- Investment properties
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2019.

(i) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements according to the following hierarchy:

- level 1: quoted prices (unadjusted) 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 or indirectly, and
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

(i) Fair value hierarchy *continued*

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2019 and 2018 on a recurring basis.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2019				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	**2,227**	**1,262,797**	**-**	**1,265,024**
Fixed interest and other debt security trusts	**-**	**630,678**	**-**	**630,678**
Mortgage trusts	**-**	**29,026**	**-**	**29,026**
Property syndicates and trusts	**17,459**	**61,966**	**-**	**79,425**
Other financial assets	**-**	**-**	**7,056**	**7,056**
Total financial assets	**19,686**	**1,984,467**	**7,056**	**2,011,209**
Non-financial assets				
Investment properties	**-**	**-**	**1,327,551**	**1,327,551**
Total non-financial assets	**-**	**-**	**1,327,551**	**1,327,551**
Financial liabilities				
Interest rate swaps	**-**	**4,565**	**-**	**4,565**
Life investment contract policy liabilities	**-**	**1,259,311**	**-**	**1,259,311**
Total financial liabilities	**-**	**1,263,876**	**-**	**1,263,876**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,511	1,159,279	-	1,161,790
Fixed interest and other debt security trusts	-	564,593	-	564,593
Mortgage trusts	-	5,418	-	5,418
Property syndicates and trusts	14,846	68,454	-	83,300
Other financial assets	-	-	7,065	7,065
Total financial assets	17,357	1,797,744	7,065	1,822,166
Non-financial assets				
Investment properties	-	-	1,169,437	1,169,437
Total non-financial assets	-	-	1,169,437	1,169,437
Financial liabilities				
Interest rate swaps	-	736	-	736
Life investment contract policy liabilities	-	1,179,421	-	1,179,421
Total financial liabilities	-	1,180,157	-	1,180,157

The majority of the financial assets at fair value through profit or loss are held through unlisted managed investment schemes operated by related entities. These unlisted managed investment schemes also hold investments from external investors.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for the recurring fair value measurements during the year. The transfers in and out of level 3 measurements are summarised in note (iii) below.

(ii) Valuation techniques used to derive level 2 and level 3 fair values

Financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities which are included in level 3 as disclosed in section (iii) below.

Investment properties

Investment properties comprise the Group's interests in retirement village independent living units, development sites and other non-owner occupied investment properties.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations. The directors determine a property's value using a reasonable fair value estimate as applicable to each type of investment property. Development sites are recognised at cost.

Fair value for completed retirement villages is determined using a financial model which calculates the net present value of future cash flows. The major inputs used in the financial models include:

- current prices in an active market for properties of a similar nature;
- resident turnover rates based on business experience, including the expected average length of residence based on mortality assumptions and voluntary turnover, average incoming ages and distributions;
- property growth rates based on analysis of property markets, historical experience and retirement village outlook; and
- discount rates appropriately set based on the view of risk and by reference to market transactions and conditions.

Fair value of other non-owner occupied property is based on periodic, but at least triennial, valuations by external accredited independent valuers.

All of the resulting fair value estimates of the investment properties are included in level 3 as explained in section (iii) below.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2019:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2017	7,048	976,799	983,847
Additions	-	189,140	189,140
Disposals	-	(506)	(506)
Transfers	-	(10,311)	(10,311)
Gains/(losses) recognised in other income*	17	14,315	14,332
Closing balance 30 June 2018	7,065	1,169,437	1,176,502
Opening balance 1 July 2018	**7,065**	**1,169,437**	**1,176,502**
Additions	**-**	**128,787**	**128,787**
Transfers	**-**	**(13)**	**(13)**
Gains/(losses) recognised in other income*	**(9)**	**29,340**	**29,331**
Closing balance 30 June 2019	**7,056**	**1,327,551**	**1,334,607**
*Included in the gain recognised in other income: Unrealised gain recognised in the profit or loss attributable to assets held at the end of the financial year			
2019	**(9)**	**29,340**	**29,331**
2018	17	14,315	14,332

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

(iii) Fair value measurements using significant unobservable inputs (level 3) *continued*

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2019 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	1,327,551	Discount rate	13.0% – 14.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -$13.3 million/+$14.6 million (2018: -$11.7 million/+$14.4 million).
		Property growth rate	1.0% – 4.0%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +$22.7 million/ -$20.6 million (2018: +$21.7 million/ -$19.5 million).
		Average length of residents' stay	5-8 years for serviced apartments, 9-13 years for other independent living units	The higher the average length of stay, the lower the fair value.

Valuation processes

The Group's Independent & Assisted Living Services platform includes a team that performs the valuations of the retirement village independent living units required for financial reporting purposes, including level 3 fair values. This team reports valuation recommendations to the CEO Independent & Assisted Living, the Chief Financial Officer and the Audit & Compliance Committee. Discussions of valuation processes and results are held between the valuation team, the Audit & Compliance Committee, the Chief Financial Officer and the CEO Independent & Assisted Living every six months in line with the Group's half-yearly reporting timelines. The results of the valuations are subject to audit or review every six months. The valuation method used in determining the fair value of these investment properties is drawn upon an actuarial model for property valuation. The main level 3 inputs used in measuring the fair value of investment properties, which include resident turnover rates, property growth rates and discount rates, are estimated by management based on comparable transactions and industry data. The key assumptions used in the valuation are reviewed by an independent qualified valuer on a yearly basis.

(b) Disclosed fair values

The Group also has a number of financial instruments which are not measured at fair value on the balance sheet. As at the end of the reporting period, those which fair values differ from their amortised cost are as follows:

	2019		2018	
	Amortised cost $'000	Fair value $'000	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**728,748**	**729,093**	642,388	642,798
Advances	**4,000**	**3,859**	4,148	3,814
	732,748	**732,952**	646,536	646,612
Current and non-current liabilities				
Australian Unity Bonds	**247,964**	**258,000**	246,622	258,750
Development finance loans	**17,959**	**18,209**	6,901	6,839
Retirement Village Investment Notes	**41,704**	**42,006**	43,726	43,633
Subordinated capital notes	**-**	**-**	30,000	30,000
Term deposits	**291,459**	**291,289**	234,249	233,847
	599,086	**609,504**	561,498	573,069

The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate.

Non-financial assets and liabilities

12 Non-financial assets – Investment properties

Investment properties consist of the Group's interests in retirement village independent living units, development sites and other non-owner occupied property as specified below. The development sites are held within the development entities. Upon completion of the development and the required occupancy targets being met, a number of the development sites will be sold to retirement village operators.

	2019 $'000	2018 $'000
Retirement village independent living units	**841,335**	792,552
Retirement village property funds	**88,236**	82,542
Development sites	**397,980**	294,343
	1,327,551	1,169,437

(a) Movements of investment properties

	2019 $'000	2018 $'000
At fair value		
Balance at the beginning of the financial year	**1,169,437**	976,799
Additions	**128,787**	185,929
Transfers to property, plant and equipment	**(13)**	(7,100)
Disposals	**-**	(506)
Net fair value movements	**29,340**	14,315
Balance at the end of the financial year	**1,327,551**	1,169,437

(b) Amounts recognised in profit or loss for investment properties

	2019 $'000	2018 $'000
Revenue	**57,267**	64,517
Expenses	**(32,681)**	(39,578)
Changes in fair value recognised in profit or loss	**29,340**	14,315
	53,926	39,254

Non-financial assets and liabilities *continued*

13 Non-financial assets - Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2017					
Cost	25,926	156,613	34,595	28,938	246,072
Accumulated depreciation	-	(20,272)	(20,504)	(20,741)	(61,517)
Net book amount	25,926	136,341	14,091	8,197	184,555
Year ended 30 June 2018					
Opening net book amount	25,926	136,341	14,091	8,197	184,555
Additions	-	41,170	830	1,120	43,120
Transfers from investment properties	7,100	-	-	-	7,100
Transfers from/(to) intangibles	-	-	3,714	-	3,714
Disposals	-	(4,243)	(3,114)	(1,185)	(8,542)
Depreciation charge	-	(4,268)	(6,216)	(2,183)	(12,667)
Closing net book amount	33,026	169,000	9,305	5,949	217,280
At 30 June 2018					
Cost	33,026	190,433	27,473	28,145	279,077
Accumulated depreciation	-	(21,433)	(18,168)	(22,196)	(61,797)
Net book amount	33,026	169,000	9,305	5,949	217,280
Year ended 30 June 2019					
Opening net book amount	**33,026**	**169,000**	**9,305**	**5,949**	**217,280**
Additions	**-**	**22,883**	**3,102**	**12,618**	**38,603**
Transfers from investment properties	**-**	**13**	**-**	**-**	**13**
Transfers from/(to) intangibles	**-**	**-**	**(2,253)**	**3,954**	**1,701**
Disposals	**-**	**-**	**(37)**	**(32)**	**(69)**
Depreciation charge	**-**	**(3,439)**	**(1,749)**	**(1,772)**	**(6,960)**
Closing net book amount	**33,026**	**188,457**	**8,368**	**20,717**	**250,568**
At 30 June 2019					
Cost	**33,026**	**213,329**	**28,155**	**44,674**	**319,184**
Accumulated depreciation	**-**	**(24,872)**	**(19,787)**	**(23,957)**	**(68,616)**
Net book amount	**33,026**	**188,457**	**8,368**	**20,717**	**250,568**

14 Non-financial assets - Intangible assets

	Goodwill $'000	Computer software $'000	Bed and other licences $'000	Management rights and other intangible assets $'000	Total $'000
At 1 July 2017					
Cost	187,094	117,086	12,655	120,514	437,349
Accumulated amortisation and impairment	-	(46,458)	(1,702)	(16,571)	(64,731)
Net book amount	187,094	70,628	10,953	103,943	372,618
Year ended 30 June 2018					
Opening net book amount	187,094	70,628	10,953	103,943	372,618
Acquisition of subsidiaries/businesses	427	-	-	12,503	12,930
Additions	-	9,392	-	598	9,990
Impairment of assets	(6,000)	-	-	-	(6,000)
Adjustments on the adoption of AASB 15	(541)	-	-	-	(541)
Transfers to property, plant and equipment	-	(3,714)	-	-	(3,714)
Disposals	(1,354)	(6,613)	-	-	(7,967)
Amortisation charge	-	(29,142)	(213)	(18,957)	(48,312)
Closing net book amount	179,626	40,551	10,740	98,087	329,004
At 30 June 2018					
Cost	185,626	92,434	12,655	125,288	416,003
Accumulated amortisation and impairment	(6,000)	(51,883)	(1,915)	(27,201)	(86,999)
Net book amount	179,626	40,551	10,740	98,087	329,004
Year ended 30 June 2019					
Opening net book amount	**179,626**	**40,551**	**10,740**	**98,087**	**329,004**
Adjustments on the adoption of AASB 15	**-**	**-**	**-**	**(5,977)**	**(5,977)**
Balance at 1 July 2019	**179,626**	**40,551**	**10,740**	**92,110**	**323,027**
Acquisition of subsidiaries/businesses	**767**	**-**	**-**	**3,837**	**4,604**
Additions	**1,853**	**22,425**	**-**	**(3,219)**	**21,059**
Transfers to property, plant and equipment	**-**	**(1,701)**	**-**	**-**	**(1,701)**
Disposals	**-**	**(399)**	**-**	**-**	**(399)**
Amortisation charge	**-**	**(10,638)**	**-**	**(12,188)**	**(22,826)**
Closing net book amount	**182,246**	**50,238**	**10,740**	**80,540**	**323,764**
At 30 June 2019					
Cost	**188,246**	**111,474**	**12,655**	**118,435**	**430,810**
Accumulated amortisation and impairment	**(6,000)**	**(61,236)**	**(1,915)**	**(37,895)**	**(107,046)**
Net book amount	**182,246**	**50,238**	**10,740**	**80,540**	**323,764**

The management rights and other intangible assets include those with an indefinite life of $24,757,000 as at 30 June 2019 (2018: $24,757,000). The management rights are related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are profitable and expected to continue their operations on a going concern basis.

Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) purchased from other approved providers are valued at cost. Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) initially granted to the Group by the Department of Health and Ageing are not ascribed a value. At 30 June 2019, the Group held 231 purchased licences and 1,039 granted licences (2018: 231 purchased licences and 758 granted licences).

Non-financial assets and liabilities *continued*

14 Non-financial assets - Intangible assets *continued*

(a) Impairment tests for goodwill and management rights

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication of impairment. The impairment test is conducted by comparing the asset's carrying amount with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount should be reduced to the recoverable amount. This reduction is recognised as an impairment loss in the income statement.

For the purpose of impairment tests, the carrying amount of goodwill and intangible assets with an indefinite useful life is allocated to the Group's cash generating units (CGUs) identified within the relevant business platforms. A summary of the goodwill and intangible assets with an indefinite useful life allocation to each CGU is as follows:

	2019 $'000	2018 $'000
Home & Disability Services	**141,116**	141,116
Wealth Assets Management	**34,108**	34,108
Trustee Services	**8,399**	8,399
Wealth Advice Services	**9,404**	6,742
Residential Communities	**20,017**	20,017
Health Services	**4,741**	4,741
	217,785	215,123

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections sourced from financial forecasts included in the Group's strategic plan. This plan, which includes expectations of future events that are believed to be reasonable under the current circumstances, is developed annually with a four year outlook and is approved by the directors.

Cash flows beyond the four year strategic plan period are extrapolated using growth rates based on estimates of expected long-term operating conditions appropriate for each CGU. An indefinite terminal cash flow calculation has been applied for cash flows beyond year five (except for the Home & Disability Services CGU disclosed in the section below).

(b) Key assumptions used for value-in-use calculations

Discount rates used in the value in use calculation represent the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. Pre-tax discount rates of 10.1% to 12.6% were applied to cash flow projections of the relevant CGU (2018: 9.7% to 12.7%). The terminal value is determined based on an assumption of terminal growth rate of 2.5% - 3.0% which is within the target long term inflation rate of the Reserve Bank of Australia (2018: 2.5% to 3.0%).

(c) Impact of possible changes in key assumptions

The value in use calculations are sensitive to changes in discount rates, terminal growth rates, earnings and working capital adjustments varying from the assumptions and forecast data used in impairment testing. Discount rates represent the current market assessment of the risks specific to the CGU taking into consideration the time value of money and inherent risks of the underlying assets. As such, sensitivity analyses were undertaken to examine the effect of a change in a variable on each CGU.

Based on this analysis it is concluded that, assuming the growth rate is at the level of the long term inflation rate, any possible change in the pre-tax discount rate of up to 13.5% (2018: 10.9%) would not cause the recoverable amount of goodwill and intangible assets with an indefinite life to fall below its carrying amount. The following section describes Home & Disability Services, Trustee Services and Wealth Advice Services CGUs that are prone to the changes in key assumptions.

(d) Home & Disability Services CGU

The value in use calculation for Home & Disability Services is more sensitive to the following assumptions:

(i) The growth in the number of customer contracts—the CGU is predominantly a newly acquired business, with the acquisition of the NSW State Government's home care operations in February 2016. Integration of this business was completed in February 2017 and since then it has been undergoing significant transformation of its operating environment and business processes. Projected growth of customer numbers and business efficiencies are based on experience to date, business plans and changing demographic opportunity.

In determining the growth in customer contracts, consideration has been given to the environmental context in which the business operates, including the current political climate and government policy relating to the National Disability Incentive Scheme (NDIS), Home Care Packages (HCP) and the Commonwealth Home Support Programme (CHSP).

Revenue growth assumptions for the CGU have been determined at an average of 4% per annum over the ten year projection period. The key assumptions that underpin the recoverable amount are revenue growth across HCP, continuity of CHSP, and achievement of forecast operating margins across the business. There are a number of initiatives underway to improve operating margins and leverage high performing parts of the operation across the HDS business. Any development that has unfavourable impacts to these assumptions over a sustained period has the potential to result in an impairment of the CGU.

(ii) Discount rates for the purpose of impairment testing—the pre-tax discount rate applied to Home & Disability Services' cash flow projections—is 10.1%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate—the terminal value has been calculated for this CGU on the extrapolated 10-year cash flows, with a terminal growth rate of 3%. A percentage point change in the terminal value rate would not alter the impact of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $122.7 million higher than its carrying amount.

(e) Trustee Services CGU

The calculation of value in use for Trustee Services is most sensitive to the following assumptions:

(i) The Group acquired Flinders Australia Limited, its trustee services business, in July 2015. In February 2017, the business received its trustees' licence. Since this time, the company has expanded its operations, investing in building capability, reviewed its growth strategy and portfolio, and implemented a new operating system. Each of these changes will support the growth of the business going forward. The forecasts reflect the significant commercial opportunity faced by the Trustee Services CGU, however, the Group acknowledges that there remains significant uncertainty around the pace and nature of growth and when this can be realised.

(ii) Discount rates for the purpose of impairment testing—the pre-tax discount rate applied to Trustee Services' cash flow projections is 11.4%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate—the terminal value has been calculated for this CGU on the extrapolated five year cash flows, with a terminal growth rate of 3%.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $9.6 million higher than its carrying amount.

(f) Wealth Advice Services CGU

The calculation of value in use for Wealth Advice Services is most sensitive to the following assumptions:

(i) The growth in the number of new clients for employed advisers and recruitment of self-employed advisers—the Group has built its wealth advice business over a number of years, both organically and through acquisition. The business derives its income primarily from fees for services performed rather than through grandfathered commissions. Less than 7% of the CGU's current revenue comes from grandfathered commissions and this revenue is assumed to cease in 2021. As such, the outcome of the recent Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are not projected to have a material impact on the activities of the business. Revenue growth assumptions for the CGU have been determined at 7-12% over the five year projection period and are underpinned by achievement of forecast operating margins. Projected growth of client and adviser numbers and margin efficiencies are based on experience, business plans and changing demographic opportunity. Any development that has unfavourable impacts to these assumptions over a sustained period has the potential to result in an impairment of the CGU.

(ii) Discount rates for the purpose of impairment testing—the pre-tax discount rate applied to Wealth Advice Services' cash flow projections is 11.4%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate—the terminal value has been calculated for this CGU on the extrapolated five year cash flows, with a terminal growth rate of 2.5%.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $10.8 million higher than its carrying amount.

Non-financial assets and liabilities *continued*

15 Non-financial liabilities - Deferred tax balances

The balance comprises temporary differences attributable to:

	2019 $'000	2018 $'000
Deferred tax assets		
Accrued expenses	**18,733**	11,735
Fixed assets	**13,676**	12,673
Capitalised expenditure	**2,562**	3,687
Policy bonus credits	**37,651**	32,197
Provisions	**32,162**	31,378
Risk Equalisation Special Account	**480**	390
Tax losses	**1,482**	1,964
Trust distribution	**2,607**	6,494
Unrealised losses	**1,429**	286
Other assessable items	**3,861**	2,534
Total deferred tax assets	**114,643**	103,338
Deferred tax liabilities		
Allocable cost adjustment on consolidation	**-**	1,013
Fixed assets and investment properties	**102,568**	87,766
Intangible assets	**22,715**	26,139
Risk Equalisation Special Account	**7,300**	10,199
Tax deferred	**4,255**	4,451
Unrealised gains	**51,406**	34,637
Other deductible items	**12,447**	5,835
Total deferred tax liabilities	**200,691**	170,040
Net Deferred tax liabilities	**86,048**	66,702

16 Non-financial liabilities - Provisions

	2019 $'000	2018 $'000
Current provisions		
Employee benefits provision	**52,005**	51,921
Outstanding claims provision	**63,584**	56,021
Other provisions	**4,340**	10,175
	119,929	118,117

Outstanding claims provision

Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. Claims reported but not yet paid are included as payables. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit or loss. Refer to note 23 for the movements in outstanding claims provision.

17 Equity

(a) Reserves

	2019 $'000	2018 $'000
Asset revaluation reserve	**2,462**	2,462
Post-employment benefit reserve	**3,664**	3,462
Cash flow hedges reserve	**(3,195)**	(515)
	2,931	5,409
Movements:		
Asset revaluation reserve		
Balance at the beginning of the year	**2,462**	2,462
Balance at the end of the year	**2,462**	2,462
Post-employment benefit reserve (i)		
Balance at the beginning of the year	**3,462**	3,011
Remeasurement of net defined benefit obligations	**202**	451
Balance at the end of the year	**3,664**	3,462
Cash flow hedges reserve (ii)		
Balance at the beginning of the year	**(515)**	(1,104)
Movements in hedging value during the year	**(4,202)**	841
Deferred tax	**1,522**	(252)
Balance at the end of the year	**(3,195)**	(515)

(i) Post-employment benefit reserve

Post-employment benefit reserve represents the defined benefit reserve that is used to record actuarial gains or losses on defined benefit liabilities and actual returns on fund assets (excluding interest income) which are recognised in other comprehensive income.

(ii) Cash flow hedges reserve

Cash flow hedges reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. The amounts are recognised in the profit or loss when the associated hedged transaction affects profit or loss.

(b) Retained earnings

Movements in retained earnings were as follows:

	2019 $'000	2018 $'000
Balance at the beginning of the financial year	**412,229**	360,687
Adjustment on adoption of AASB 15, net of tax	**(5,687)**	-
Profit for the year	**53,001**	51,542
Balance at the end of the financial year	**459,543**	412,229

Non-financial assets and liabilities *continued*

18 Cash flow information

(a) Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	2019 $'000	2018 $'000
Profit after income tax for the year	**53,001**	51,542
Profit from discontinued operations	**-**	(66,860)
Net operating cash flows after tax related to discontinued operations	**-**	(22,973)
Depreciation and amortisation expense	**29,786**	60,979
Impairment of assets	**-**	6,364
Investment income	**(2,043)**	(4,677)
Fair value gains on investment property	**(29,340)**	(14,315)
Loss/(gain) on disposal of assets	**(92)**	14,571
Business combination expenses	**767**	-
Share of net profit or loss of joint ventures	**44**	121
Changes in operating assets and liabilities (net of the effects of discontinued operations):		
Decrease/(increase) in trade and other receivables	**(4,879)**	21,805
Decrease/(increase) in loans and advances	**(85,333)**	49,252
Decrease in current tax assets	**-**	1,222
Decrease/(increase) in other operating assets	**(7,081)**	11,595
Increase in trade and other payables	**42,335**	12,884
Increase/(decrease) in deposits liability	**99,611**	(49,832)
Increase/(decrease) in current tax liabilities	**(12,188)**	31,786
Increase in deferred tax liabilities	**22,170**	3,150
Increase/(decrease) in provisions	**2,100**	(468)
Decrease in benefit fund policy liabilities	**(57,186)**	(34,699)
Increase in other operating liabilities	**9,575**	5,280
Net cash inflow from operating activities	**61,247**	76,727

(b) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities $'000	Other liabilities $'000	Total $'000
Opening balance as at 1 July 2018	**335,727**	**1,055,917**	**1,391,644**
Cash flows			
– Repayments of RVIN	**(2,022)**	**-**	**(2,022)**
– Repayments of subordinated capital notes	**(30,000)**	**-**	**(30,000)**
– Receipts from development finance loans	**11,058**	**-**	**11,058**
– Receipts from resident loan liabilities	**-**	**52,965**	**52,965**
– Receipts from refundable lease deposits	**-**	**15,545**	**15,545**
	(20,964)	**68,510**	**47,546**
Closing balance as at 30 June 2019	**314,763**	**1,124,427**	**1,439,190**

Risk management

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

19 Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise their 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 below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of financial instruments

In the measurement of financial instruments, the best evidence of fair value is a quoted price in an active market. In the event that there is no active market for the instrument, the fair value is measured based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The majority of valuation techniques employ only observable market data. However, in the case where market observable data for certain valuation component is not available, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends. These valuations are based upon assumptions established by application of professional judgement to analyse the data available to support each assumption. Changing the assumptions may change the resulting estimate of fair value.

(ii) Estimated impairment of loans and advances

The accounting policy requires the Group to assess impairment of loan assets upon initial recognition of the assets and whether there has been a significant increase in credit risk as at the reporting date compared with the risk as at the date of initial recognition. A provision for expected credit loss is estimated based on the cash shortfalls over the expected life of the assets. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

(iii) Impairment of goodwill and intangibles with indefinite useful lives

The Group tests annually whether goodwill or other intangibles have suffered any impairment. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

The recoverable amounts of cash generating units have been determined based on value-in-use calculations using certain assumptions.

(iv) Retirement village investment property

The fair value of retirement village investment property is determined as the present value of future cash flows based upon statistical modelling of expected cash flows from incoming and outgoing residents and includes assumptions in respect of a number of factors, including average length of residency and expected changes in property prices.

(v) Insurance liabilities

The estimates, assumptions and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 23 and 33.

(vi) Income taxes

The Group is subject to income taxes in Australia. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Critical judgements in applying the Group's accounting policies

(i) Classification of life insurance liabilities

Life insurance liabilities held within benefit funds managed by the Group are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non participating life investment contract liabilities in accordance with AASB 1038 *Life Insurance Contracts.*

Risk management *continued*

19 Critical accounting estimates and judgements *continued*

(b) Critical judgements in applying the Group's accounting policies *continued*

(ii) Interest in subsidiaries, associates and joint ventures
The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy, the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 21. For the interests in managed investment schemes, the Group considers its relationship with the majority of the schemes is that of an agent rather than a principal. Where the relationship is that of an agent, the Group does not have the power to control.

For interests in other entities where the Group does not have control, the Group exercises significant judgements to determine whether it has significant influence over the entity or joint control of an arrangement. Where there is a joint arrangement, the Group further determines whether it is structured as a joint operation or a joint venture. The Group has determined as investments in associates those relationships where significant influence over another entity exists. The Group has concluded that the joint arrangement investments in Acorn Capital Limited and Platypus Asset Management Pty Ltd are joint ventures. The Group does not have power to control these entities.

20 Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board has established the Risk and Compliance Committee, which is responsible for developing and monitoring risk management policies.

The Group's Risk Management Framework (RMF) is based upon a top-down policy approach and a bottom-up process for identifying risks. It sets out the risk management principles, mandatory requirements and minimum standards that are to be applied to risk management practices across the Group. The RMF is consistent with AS/NZS ISO 31000 2009: Risk Management in identifying, assessing, controlling and treating its material risks. This analysis is recorded in business unit Risk Registers, which are fully reviewed annually by the Risk and Compliance Committee. Senior Management are required to keep their business unit Risk Register current and to report regularly, including against any treatment or action plans recorded in the Risk Register. Senior Management are also required to provide regular attestations of compliance with the RMF and other applicable Group policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In addition, the board has established the Group Investment Committee to oversee the particular activities and risks associated with the Group's investment responsibilities.

The Audit Committee, in consultation with the Risk and Compliance Committee, oversees the internal controls, policies and procedures that the Group uses to identify and manage business risks. The Committees are assisted in their roles by Group Audit, Group Risk & Compliance and Finance & Strategy. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Risk & Compliance oversees risk management and compliance and Finance & Strategy measures the quantitative aspects of the controls. The results of these reviews are reported to the Risk and Compliance Committee, the Audit Committee and the Company's board.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

Financial instruments held by the benefit funds managed by the Group do not expose the Group to market risk as any movement in the carrying value of financial instruments held by the benefit funds has an equal and opposite effect on policyholder liabilities.

(i) Foreign exchange risk
Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial investment will fluctuate as a result of movements in international exchange rates. The Group's main foreign exchange risk arises from its holding in foreign investment funds.

As at the end of the reporting period, if foreign exchange rates had increased or decreased by 10% (2018: 10%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Exchange rates +10% (2018: +10%)	**(208)**	(1,031)	**(208)**	(1,031)
Exchange rates -10% (2018: -10%)	**208**	1,031	**208**	(1,031)

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices. The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as financial assets at fair value through profit or loss. The Group is not directly exposed to commodity price risk.

To manage its price risk arising from equity investments, the Group diversifies its portfolio in accordance with investment policies overseen by the Group Investment Committee, the objective of which is to manage risk within acceptable limits.

The majority of the Group's equity investments are held through investments in trusts managed by related entities. The equity investments held by these trusts are publicly traded.

The table below summarises the impact of changes in securities prices assuming the prices had increased or decreased by 10% (2018: 10%) at the end of the reporting period with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Securities prices +10% (2018: +10%)	**3,685**	2,238	**3,685**	2,238
Securities prices -10% (2018: -10%)	**(3,685)**	(2,238)	**(3,685)**	(2,238)

The price risk for unlisted securities is immaterial and therefore it was not included in the sensitivity analysis.

The assumptions used in the sensitivity analysis are based on an analysis of published economic data.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2019 and 2018, the Group's borrowings at variable rate were denominated in Australian Dollars.

As at the end of the reporting period, the Group had the following financial assets and liabilities exposed to variable interest rate risk:

	2019 $'000	**2018 $'000**
Financial assets		
Cash and cash equivalents	**533,043**	564,612
Financial assets at fair value through profit or loss	**150,877**	122,596
Loans and advances	**555,714**	485,674
	1,239,634	1,172,882
Financial liabilities		
Australian Unity Bonds (i)	**250,000**	250,000
Call deposits	**414,848**	329,035
Development finance loans	**-**	47
Loan payable to related entity	**5,100**	5,100
Subordinated capital notes (ii)	**-**	30,000
Interest rate swap, at notional principal amounts	**(250,000)**	(280,000)
	419,948	334,182
Net position	**819,686**	838,700

(i) The Series B Australian Unity Bonds - Tranche 1 (Australian Unity Bonds) carry a 2.80% fixed margin (2018: 2.80%) resulting in a total interest rate at 30 June 2019 of 4.49% (2018: 4.88%). The variable interest component of the bonds was hedged via an interest rate swap at 2.20% effective from 14 July 2016 and will expire on the maturity of the bonds.

(ii) The subordinated capital notes as at 30 June 2018 carried a 3.00% fixed margin resulting in a total interest rate at 30 June 2018 of 5.05%. Only the variable interest portion was hedged via an interest rate swap. The notes were fully repaid in July 2018.

Risk management *continued*

20 Financial risk management *continued*

(a) Market risk *continued*

(iii) Cash flow and fair value interest rate risk *continued*
The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. The scenarios are run only for interest bearing liabilities. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the board and monitored by management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

As at the end of the reporting period, if interest rates had increased or decreased by 0.50% (2018: 0.50%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Interest rates +0.50% (2018: +0.50%)	**2,387**	2,446	**2,387**	2,446
Interest rates -0.50% (2018: -0.50%)	**(2,387)**	(2,446)	**(2,387**	(2,446)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed on a Group basis to ensure that this risk is minimised. Credit risk arises from derivative financial assets, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an internal assessment is made in relation to the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are required to be settled in cash or using major credit cards to mitigate credit risk.

Under the current credit risk modelling, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Regardless of the analysis, a significant increase in credit risk is presumed if a debtor or borrower is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within the prescribed days of when they fall due as determined by each business segment.

Trade and other receivables
The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

There is generally no significant concentration of credit risks as the organisation transacts with a large number of individually immaterial debtors. This is further mitigated in relation to health insurance policy debtors where the credit risk will only continue during the grace period as specified by legislation and/or in the policy document, after this period the policy is either paid up or terminated.

In relation to any other individually material debtors, it is the Group's policy that any customers who are likely to have such material balances owing and wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored. In addition, debtor balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss as permitted by the standard. Under the simplified ECL approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Group conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. The additional provision during the current financial year was immaterial.

Loans provided by the bank to customers

The Group's subsidiary, Australian Unity Bank Limited (formerly Big Sky Building Society Limited), provides mortgage and personal loans to customers. The mortgage loans consist of residential housing loans and commercial property loans. The Group is exposed to the risk of loss in relation to these loans due to the failure by customers to meet their obligations in accordance with the agreed terms. To mitigate the risk of potential losses that may arise from any default, the bank holds collateral, when required, as security for the loans. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans, net of any provisions for impairment. Loan mortgage insurance is generally taken out for any residential mortgages with an LVR in excess of 80%. Accordingly, the financial effect of these measures is that remaining credit risk on loans is very low. Some lending products will be mostly unsecured (e.g. personal loans). Loans impairment experience supports the assignment of a credit risk rating of satisfactory or better. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group Board. The compliance with credit limits by wholesale customers is regularly monitored by management.

The Group makes an assessment whether there is a significant increase in credit risk at each reporting date. In this assessment, the Group considers historical loss experience and adjusts this with the current observable data and reasonable forecast of future economic condition which includes macroeconomic factors to detect any indication of a significant increase in credit risk. An analysis to estimate the expected credit loss is performed on each portfolio of accounts with shared risk characteristics. As disclosed in the accounting policy note, the Group applies a three-stage approach to distinguish the categories of loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. The addition to credit loss provision during the current financial year was immaterial.

Other loans and advances

The Group has loans to related entities and advances to other parties. To assess whether there is a significant increase in credit risk, the Group considers the financial or economic conditions that may cause a significant change to the borrower's ability to meet its obligations, the actual or anticipated significant adverse changes in the performance of the borrowers and significant changes in the value of the collateral supporting the obligation.

The loans to related entities are secured by a second mortgage on the properties of the related entities and by a personal guarantee from the directors of the related entities. There is no significant increase in credit risk and these loans are expected to be repaid within a year.

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	
	High grade $'000	Other grade $'000	$'000	$'000	Total $'000
At 30 June 2019					
Cash and cash equivalents	**944,767**	**-**	**-**	**-**	**944,767**
Trade and other receivables	**419**	**63,600**	**42,739**	**5,063**	**111,821**
Financial assets at fair value through profit or loss	**630,678**	**1,373,475**	**-**	**-**	**2,004,153**
Other financial assets at amortised cost	**56,904**	**-**	**-**	**-**	**56,904**
Loans and advances	**609,963**	**111,230**	**26,935**	**7,367**	**755,495**
Other financial assets	**-**	**37,769**	**-**	**-**	**37,769**
	2,242,731	**1,586,074**	**69,674**	**12,430**	**3,910,909**
At 30 June 2018					
Cash and cash equivalents	1,011,024	-	-	-	1,011,024
Trade and other receivables	470	79,390	47,600	9,029	136,489
Financial assets at fair value through profit or loss	564,593	1,250,508	-	-	1,815,101
Other financial assets at amortised cost	61,744	-	-	-	61,744
Loans and advances	525,313	120,972	15,718	8,368	670,371
Other financial assets	-	30,386	-	-	30,386
	2,163,144	1,481,256	63,318	17,397	3,725,115

Risk management *continued*

20 Financial risk management *continued*

(b) Credit risk *continued*

The credit risk on the above financial assets of the Group which have been recognised in the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment. Credit risk for physical securities and derivative instruments are monitored by exposure limits to counterparties. These limits are determined by reference to third party credit ratings. The maximum credit risk exposure of the financial assets at the end of each reporting period is their carrying amount.

Credit risk further arises in relation to irrevocable loan commitments provided to the customers of the bank. The irrevocable loan commitments are binding contracts to extend credit to customers as long as no violation of any condition in the contracts occurs. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of $12,426,000 (2018: $15,898,000).

The Group provides financial guarantees to certain parties amounting to $36,750,000 (2018: $36,799,000). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum credit risk exposure of the financial guarantees is the maximum amount that could be paid if the guarantee is called on.

Financial assets held by the benefit funds managed by the Group do not expose the Group to credit risk as any movement in the carrying value of these assets has an equal and opposite effect on policyholder liabilities.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities based on the contractual maturities remaining at the end of each reporting period. The Group expects that certain liabilities will be settled at maturities which are different to their initial contractual maturities, including deposits where the Group expects (as part of the subsidiary’s normal banking operations) that a large proportion of these balances will roll over.

The amounts disclosed in the table are the contractual undiscounted principal and interest cash flows and hence may differ to the amounts reported on the balance sheet. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

For the financial guarantee and bank credit commitments as at 30 June 2019 (refer to notes 27 and 28), as the probability and value of the obligation that may be called on is unpredictable, it is not practical to state the timing of any potential payment. However, there is a contractual obligation for the Group to provide the funds when they are called upon by the counterparties.

	Less than 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2019						
Trade and other payables	**190,409**	**-**	**-**	**-**	**-**	**190,409**
Current tax liabilities	**-**	**19,475**	**-**	**-**	**-**	**19,475**
Interest bearing liabilities						
Australian Unity Bonds	**6,247**	**6,247**	**255,726**	**-**	**-**	**268,220**
Development finance loan	**559**	**559**	**18,704**	**-**	**-**	**19,822**
Call deposits	**419,733**	**-**	**-**	**-**	**-**	**419,733**
Term deposits	**205,881**	**70,698**	**18,542**	**-**	**-**	**295,121**
Mortgage offset savings accounts	**95,494**	**-**	**-**	**-**	**-**	**95,494**
Retirement Village Investment Notes	**22,471**	**559**	**20,446**	**-**	**-**	**43,476**
Loan payable to related entity	**82**	**5,182**	**-**	**-**	**-**	**5,264**
	750,467	**83,245**	**313,418**	**-**	**-**	**1,147,130**
Benefit fund policy liabilities	**115,346**	**248,930**	**-**	**-**	**1,912,541**	**2,276,817**
Other liabilities	**486**	**2,120**	**1,621**	**-**	**1,131,051**	**1,135,278**
Total liabilities	**1,056,708**	**353,770**	**315,039**	**-**	**3,043,592**	**4,769,109**
At 30 June 2018						
Trade and other payables	134,705	-	-	-	-	134,705
Current tax liabilities	-	32,345	-	-	-	32,345
Interest bearing liabilities						
Australian Unity Bonds	6,247	6,247	268,220	-	-	280,714
Subordinated capital notes	30,503	-	-	-	-	30,503
Development finance loan	214	214	7,399	-	-	7,827
Call deposits	389,840	-	-	-	-	389,840
Term deposits	178,967	35,638	30,917	-	-	245,522
Mortgage offset savings accounts	82,769	-	-	-	-	82,769
Retirement Village Investment Notes	3,239	17,490	27,156	-	-	47,885
Loan payable to related entity	105	5,205	-	-	-	5,310
	691,884	64,794	333,692	-	-	1,090,370
Benefit fund policy liabilities	176,507	143,888	-	-	1,861,969	2,182,364
Other liabilities	911	5,128	4,986	-	1,058,053	1,069,078
Total liabilities	1,004,007	246,155	338,678	-	2,920,022	4,508,862

Risk management *continued*

20 Financial risk management *continued*

(d) Capital risk management

Capital is represented by members' funds and comprises earnings retained in relation to past activities of Australian Unity Limited. It is the board's policy to maintain a strong capital base so as to maintain member, stakeholder, creditor and market confidence and to sustain future development of the business.

Capital management plays a central role in managing risk to create member value whilst also ensuring that the interests of all stakeholders including investors, policyholders, lenders and regulators are met.

Capital is utilised to finance growth, non-current asset acquisitions and business plans and also provides support if adverse outcomes arise from health insurance, investment performance or other activities.

The appropriate level of capital is determined by the board based on both regulatory and economic considerations. Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2019 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, and the economic, operational and capital needs of the business.

There were no changes in the Group's approach to capital management during the year.

(e) Insurance risk

The health insurance segment of the Group provides private health insurance which provides benefits to cover costs arising from a range of services, including hospital services, medical services, prostheses and ancillary services. Some contracts cover all services, some cover only ancillary services and others cover all services excluding ancillary services. The benefits are provided under two types of contracts: health insurance contracts and health related insurance contracts. The latter provides cover for overseas visitors.

Insurance risk is managed through appropriate product design, claims management, close monitoring of insurance risk and experience, holding capital in excess of prudential requirements, risk equalisation, varying premiums and the operation of preventative health programs.

Product design
Robust product development and review processes including appropriate sign-off requirements are applied to mitigate the risk of the insurer's products attracting a disproportionally large number of high claimers.

Claims management
Comprehensive claims management procedures and controls are applied to ensure correct and timely settlement of claims in accordance with policy conditions and provider contracts. Claims are monitored on a monthly basis to track the experience of the portfolios.

Insurance risk and experience monitoring
The Group's Risk & Compliance Committee and the board review the monthly financial and operational results, including insurance operating measures and prudential capital requirements. The insurance risks and experience for the industry are also monitored by the Australian Prudential Regulation Authority (APRA).

Prudential capital requirements
Private health insurers must comply with prudential capital requirements providing a safeguard against certain adverse experience. The board has adopted a conservative approach by applying a target level of capital in excess of the prudential requirements.

Risk equalisation
The *Private Health Insurance Act 2007* requires resident private health insurance contracts to meet community rating requirements, prohibiting health insurers from discriminating between people on the basis of their health status, gender, race, sexual orientation, religious belief, age, lifestyle, frequency of need for treatment or claims history. To support these restrictions, all private health insurers must participate in the Risk Equalisation Special Account under which the cost of proportions of the eligible claims of all persons aged 55 years and over and those claims meeting the high cost claim criteria are shared across all private health insurers.

Concentration of insurance risk
The health insurance contracts written cover a large number of members across Australia. The Group has no exposure to concentration of risk.

Ability to vary premium rates
The Group is able to vary premium rates annually under a process which requires the approval of the Minister for Health and Ageing for all premium changes.

Preventative health programs
The Group operates preventative health programs to contribute to members' health and reduce the risk of hospitalisation and thus claims.

(f) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

While the Group Risk & Compliance Committee has delegated responsibility for developing and monitoring risk management policies and reviewing the adequacy of the risk management framework, each business unit has a risk officer and risk management processes and practices which provide oversight of operational risk undertaken in each business. Each business unit works closely with the Group Risk Management team. There are documented risk procedures to manage and maintain oversight of operational risks. These procedures include thresholds for escalation and monitoring. Group Risk is responsible for exercising governance over operational risk through the management of the group risk management framework, policy development, risk analysis, fraud prevention and reporting of risk matters to the Group Risk & Compliance Committee.

The Group's risk framework is supported by specific policies and procedures with the effectiveness of the framework assessed through a series of independent assurance reviews conducted by Group Audit.

The Group has adopted an operational risk management process which consists of a staged approach involving establishing the context, identification, analysis, assessment, treatment and monitoring of current, emerging and potential future operational risks.

Business disruption is a critical risk to the ability to operate, so the Group has comprehensive business continuity, recovery and crisis management plans. These are intended to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

The Group obtains insurance cover from third party providers to cover those operational risks where cost effective premiums can be obtained, however, insurance is not treated as a guaranteed mitigation for operational risk.

Group structure

This section provides information that will help users understand how the Group structure affects the financial position and performance of the Group as a whole. In particular, there is information about:

- principal subsidiaries included in the consolidated financial statements,
- parent entity, health insurance and bank financial information, and
- reconciliation of profit attributable to members of Australian Unity Limited.

21 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the controlled entities. The table below lists the principal controlled entities. All these entities are wholly-owned by the Group and are incorporated in Australia.

Wholly-owned by the Parent entity	Wholly-owned by the controlled entities
Australian Unity Advice Pty Ltd	Albert Road Development Manager Pty Ltd
Australian Unity Bank Limited (formerly Big Sky Building	Australian Unity Aged Care Investments Pty Ltd
Society Limited)	Australian Unity Aged Care Trust #1
Australian Unity Finance Limited	Australian Unity Aged Care Trust #2
Australian Unity Funds Management Limited	Australian Unity Aged Care Trust #4
Australian Unity Group Services Pty Ltd	Australian Unity Aged Care Trust #5
Australian Unity Health Care Pty Ltd	Australian Unity Albert Road Retirement Village Land Trust
Australian Unity Health Limited	Australian Unity Aurora Operations Trust
Australian Unity Investment Real Estate Limited	Australian Unity Campbell Place Aged Care Land Trust
Australian Unity Personal Financial Services Limited	Australian Unity Campbell Place Retirement Village Land Trust
Australian Unity Property Limited	Australian Unity Care Services Pty Ltd
Australian Unity Retirement Living Holdings Pty Ltd	Australian Unity Carlton Aged Care Trust
Australian Unity Retirement Living Investments Limited	Australian Unity Carlton Retirement Trust #1
Australian Unity Retirement Living Services Limited	Australian Unity Carlton Retirement Trust #2
Australian Unity Strategic Holdings Pty Limited	Australian Unity Herston Quarter Aged Care Land Holdings Pty Ltd
Australian Unity Strategic Investments Pty Ltd	Australian Unity Herston Quarter Retirement Community Land Holdings Pty Ltd
Herston Company Pty Ltd	Australian Unity Home Care Pty Ltd
Lifeplan Australia Friendly Society Limited	Australian Unity Home Care #2 Pty Ltd
Remedy Healthcare Group Pty Ltd	Australian Unity Home Care Service Pty Ltd
	Australian Unity Investment Trust
	Australian Unity Mornington Development Trust
	Australian Unity Peninsula Grange RACF Land Trust
	Australian Unity Retirement Development Management Pty Ltd
	Australian Unity Retirement Living Management Pty Ltd
	Australian Unity Retirement Village Trust #1
	Australian Unity Retirement Village Trust #2
	Australian Unity Retirement Village Trust #5
	Australian Unity Sienna Grange Development Trust
	Australian Unity Trustees Limited
	Campbell Place Development Manager Pty Ltd
	Herston Development Company Pty Ltd
	Rathdowne Place Residences Project Manager Pty Ltd
	Retirement Management Services Pty Ltd
	Sienna Grange Aged Care Land Trust
	The Australian Unity Victoria Grange Development Trust
	The Governor's Retirement Resort Pty Ltd
	Victoria Grange Sub Trust

22 Parent entity financial information

(a) Summary financial information

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

	2019 $'000	2018 $'000
Balance sheet		
Cash and cash equivalents	**151,757**	206,958
Other current assets	**30,019**	7,106
Current assets	**181,776**	214,064
Non-current assets	**901,662**	834,117
Total assets	**1,083,438**	1,048,181
Current liabilities	**69,831**	71,264
Non-current liabilities	**280,510**	271,272
Total liabilities	**350,341**	342,536
Members' balances	**255,625**	255,625
Reserves	**(3,195)**	(395)
Retained earnings	**480,667**	450,415
Total equity	**733,097**	705,645
Profit for the year	**30,253**	120,438
Total comprehensive income for the year	**30,253**	120,438

(b) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2019 and 2018.

(c) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2019 and 2018.

Group structure *continued*

23 Health insurance financial information

The disclosures below relate only to the continuing operations of the health insurance business of a controlled entity.

(a) Details of income and expenses

	2019 $'000	2018 $'000
Revenue		
Premium revenue	**683,456**	686,544
Expenses		
Claims expense	**(612,299)**	(613,304)
Risk equalisation	**63,937**	59,433
State levies	**(3,576)**	(3,783)
Net claims expense	**(551,938)**	(557,654)
Gross underwriting result	**131,518**	128,890
Management expenses		
Commission	**(14,915)**	(16,551)
Employee benefit expense	**(27,126)**	(28,277)
Marketing	**(4,825)**	(6,720)
Technology	**(8,713)**	(8,202)
Other management expenses	**(18,118)**	(16,737)
Total management expenses	**(73,697)**	(76,487)
Net underwriting result	**57,821**	52,403
Investment income	**12,990**	12,014
Finance costs	**(1,451)**	(2,878)
Profit before income tax	**69,360**	61,539
Income tax expense	**(21,452)**	(18,214)
Profit after income tax	**47,908**	43,325

(b) Net Risk Equalisation Special Account (RESA) receivable

	2019 $'000	2018 $'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	**14,848**	16,231
Net RESA raised during the year	**63,937**	59,433
Net RESA received during the year	**(62,250)**	(60,816)
Balance at the end of the financial year	**16,535**	14,848

(c) Outstanding claims provision

	2019 $'000	2018 $'000
Outstanding claims - central estimate of the expected present value of future payments for claims incurred	**57,438**	50,332
Risk margin	**4,546**	4,389
Claims handling costs	**1,600**	1,300
Outstanding claims provision	**63,584**	56,021
Movement in the outstanding claims provision (current liabilities)		
Balance at the beginning of the financial year	**56,021**	54,139
Claims incurred during the year	**615,964**	616,607
Claims paid during the year	**(604,736)**	(611,422)
Movement in other components	**(3,665)**	(3,303)
Balance at the end of the financial year	**63,584**	56,021

The expected future payments for claims incurred are expected to be settled within one year and as such the undiscounted value approximates their present value.

The risk margin of 7.7% (2018: 8.5%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2018: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The outstanding claims estimates are based on the hospital and ancillary valuation classes. Estimated outstanding claims are calculated using two methods. For all ancillary claims and for hospital claims incurred in or prior to the service month of May 2019, a chain ladder method is used; adjustments are then applied to reflect changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods. For hospital claims incurred in the service month of June 2019, the estimate is based on the business' latest forecast of incurred claims costs, adjusted to reflect actual business volumes and mix. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 1.7 months (2018: 1.6 months). The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments.

Impact of changes in key variables

The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A 10 percent increase/decrease in the central estimate would result in a $4.02 million decrease/increase to profit after tax (2018: $3.52 million) and a $4.02 million decrease/increase to equity (2018: $3.52 million).

A 10 percent movement in other key outstanding claims variables, including risk margin and claims handling costs, would result in an insignificant decrease/increase to profit after tax and equity.

(d) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2019 (2018: $nil) at a 75% (2018: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

Group structure *continued*

24 Bank financial information

The disclosures below relate only to the bank activities of the wholly owned subsidiary, Australian Unity Bank Limited (formerly Big Sky Building Society Limited) as an individual entity.

(a) Financial performance summary

	2019 $'000	2018 $'000
Interest income	**32,296**	31,455
Interest expense	**(12,774)**	(11,694)
Net interest income	**19,522**	19,761
Non-interest income	**2,779**	3,689
Total income	**22,301**	23,450
Other operating expenses	**(18,699)**	(19,518)
Profit before income tax	**3,602**	3,932
Income tax expense	**(1,090)**	(1,182)
Profit after income tax	**2,512**	2,750

(b) Financial position summary

	2019 $'000	2018 $'000
Cash and cash equivalents	**11,439**	10,024
Financial assets at fair value through profit or loss	**78,489**	54,219
Other financial assets at amortised cost	**52,075**	54,923
Loans and advances	**736,465**	650,974
Other assets	**7,554**	7,301
Total assets	**886,022**	777,441
Interest bearing liabilities	**811,160**	708,593
Other liabilities	**9,714**	6,245
Total liabilities	**820,874**	714,838
Net assets (Equity)	**65,148**	62,603

(c) Capital adequacy

	2019 $'000	2018 $'000
Reserves and retained earnings	**76,447**	75,506
Less regulatory prescribed adjustments	**(5,559)**	(5,282)
Regulatory capital base	**70,888**	70,224
Risk weighted exposures	**441,230**	400,190
Capital adequacy ratio	**16.07%**	17.55%

25 Reconciliation of profit attributable to members of Australian Unity Limited

	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated profit or loss $'000
For the year ended 30 June 2019			
Continuing operations			
Revenue and other income	**1,374,129**	**-**	**1,374,129**
Direct life insurance premium revenue	**-**	**471**	**471**
Outwards reinsurance expense	**-**	**(213)**	**(213)**
Deposits received - investment contracts with DPF*	**-**	**58,094**	**58,094**
Investment income	**-**	**176,252**	**176,252**
Other	**-**	**(63)**	**(63)**
Total revenue and other income	**1,374,129**	**234,541**	**1,608,670**
Life insurance claims expense	**-**	**(1,061)**	**(1,061)**
Benefits and withdrawals paid - investment contracts with DPF*	**-**	**(108,145)**	**(108,145)**
Expenses, excluding finance costs	**(1,296,229)**	**(88,223)**	**(1,384,452)**
Total expenses, excluding finance costs	**(1,296,229)**	**(197,429)**	**(1,493,658)**
Finance costs	**(17,739)**	**-**	**(17,739)**
Share of net losses of joint ventures	**(44)**	**-**	**(44)**
Profit/(loss) before income tax	**60,117**	**37,112**	**97,229**
Income tax benefit/(expense)	**(7,116)**	**(37,112)**	**(44,228)**
Profit from continuing operations	**53,001**	**-**	**53,001**
Profit from discontinued operation	**-**	**-**	**-**
Profit after income tax	**53,001**	**-**	**53,001**
For the year ended 30 June 2018			
Continuing operations			
Revenue and other income	1,318,654	-	1,318,654
Direct life insurance premium revenue	-	493	493
Outwards reinsurance expense	-	(223)	(223)
Deposits received - investment contracts with DPF*	-	41,024	41,024
Investment income	-	124,063	124,063
Other	-	2,651	2,651
Total revenue and other income	1,318,654	168,008	1,486,662
Life insurance claims expense	-	(8,878)	(8,878)
Benefits and withdrawals paid - investment contracts with DPF*	-	(91,748)	(91,748)
Expenses, excluding finance costs	(1,341,206)	(42,310)	(1,383,516)
Total expenses, excluding finance costs	(1,341,206)	(142,936)	(1,484,142)
Finance costs	(20,543)	-	(20,543)
Share of net losses of joint ventures	(121)	-	(121)
Profit/(loss) before income tax	(43,216)	25,072	(18,144)
Income tax benefit/(expense)	27,898	(25,072)	2,826
Loss from continuing operations	(15,318)	-	(15,318)
Profit from discontinued operation	66,860	-	66,860
Profit after income tax	51,542	-	51,542

*DPF = Discretionary Participating Feature

Group structure *continued*

26 Business combination

(a) Wealth Advice's acquisition

On 1 April 2019, Australian Unity Personal Financial Services, a wholly-owned entity of the Group, acquired the business of RAJ Financial Pty Ltd and Fintech Solutions Pty Ltd from a self-employed financial adviser. The acquisition is in line with the arrangement made in the initial agreement with the adviser and the Company's strategic approach to attain scale and synergy benefits through an increase in its employed financial adviser base. The business assets acquired mainly consist of client contracts, business intellectual property and business records. The agreement includes transfers of employees and the respective employee entitlements. The purchase consideration was paid in cash amounting to $5.3 million. An amount of $0.8 million from the consideration paid was deemed as an incentive to the acquiree and was expensed as incurred. Net assets recognised in the preliminary accounting for the acquisition mainly consisted of $3.8 million customer list and $0.8 million goodwill. The goodwill represents the expected benefits flowing from the additional scale and synergy of operations that do not qualify to be separately recognised.

(b) Final accounting for Bridgeport acquisition

In the previous financial year, Australian Unity Personal Financial Services acquired the business of Bridgeport, a financial advice business of Netwealth Group Limited. The accounting for the business combination has been finalised in the 2019 financial year in which the purchase consideration was reduced by $1.3 million. The adjusted amount of purchase consideration was $11.0 million, consisting of a cash payment at completion date of $4.9 million, first deferred amount paid in 2019 of $4.0 million and second deferred amount estimated at $2.1 million to be paid in 2020. The deferred amounts are subject to the amount of recurring revenue within the respective periods. Net assets recognised in the acquisition accounting mainly consisted of intangible assets with a finite life (client relationships) of $9.3 million and goodwill of $1.9 million. The goodwill reflects the expected synergy benefits, workforce and other items that do not qualify to be separately recognised.

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

27 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019 $'000	2018 $'000
Investment property		
Within one year	**30,717**	17,606
Later than one year but not later than five years	**38,590**	-
Total capital commitments	**69,307**	17,606

In addition, the Group is engaged in a social infrastructure development project in Brisbane, Queensland, being the Herston Quarter Redevelopment Project. Under the overarching Development Agreement between Herston Development Company Pty Ltd (HDC - a wholly-owned subsidiary of the Group) and the Metro North Hospital and Health Service, HDC has committed to deliver various contractual milestones for each Stage of the Project, including but not limited to site services isolation/relocation and rehabilitation of Stage 5 of the Project (Heritage Buildings). These milestones are anticipated to be completed within the next two years with capital expenditure in the range of $50 million - $60 million.

(b) Lease commitments: where the Group is the lessee

Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the end of the reporting period but not recognised as liabilities are payable as follows:

	2019 $'000	2018 $'000
Within one year	**21,877**	13,646
Later than one year but not later than five years	**60,379**	18,481
Later than five years	**119,478**	37
	201,734	32,164

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 10.98 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(c) Credit related commitments

The Group has binding commitments to extend credit which are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	2019 $'000	2018 $'000
Irrevocable approved but undrawn loans	**12,426**	15,898
Revocable loans with balances available for redraw	**38,548**	38,107
Revocable undrawn lines of credit, credit cards and overdrafts	**19,992**	21,774
	70,966	75,779

28 Contingencies

(a) Contingent liabilities

There have been legal claims lodged for damages against the Group for which no provision has been raised, due to the belief it is not probable that these claims will succeed and that it is not practical to estimate the potential effect of these claims. The Directors are of the view that none of these claims are likely to result in material exposure. The Group also has contingent liabilities arising in the ordinary course of business, including costs which might arise from a customer remediation program, in relation to which any unprovided liabilities cannot yet be reliably estimated.

(b) Guarantees

The Group has entered into bank guarantee arrangements totalling $36,750,000 (2018: $36,799,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group. Partially offsetting this, the Group is the beneficiary of insurance bonds/guarantees totalling $7,618,000 (2018: $7,618,000).

The Group had no other contingent assets or liabilities at 30 June 2019.

29 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 30 June 2019 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

30 Related party transactions

(a) Parent entity

Australian Unity Limited is the parent entity and the ultimate parent entity of the Australian Unity Group.

(b) Subsidiaries

Interests in subsidiaries are set out in note 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 31.

(d) Related party transactions

Transactions between the Group and related parties for the financial years ended 30 June 2019 and 2018 were as follows:

- Dividends received from joint ventures, $766,720 (2018: $530,432).
- Investment management fees charged by joint ventures, $1,157,751 (2018: $804,882).
- Commission, director fees and other costs charged by/(charged to) joint ventures, $1,071,151 (2018: $223,597).
- Performance fees charged by joint ventures, $231,654 (2018: $1,434,652).
- Donations to a related charity organisation, $618,573 (2018: $519,451).
- Net amount of development loans repaid by related entities, $nil (2018: $16,452,391).
- Investment income from related entities, $9,241,901 (2018: $9,092,441).
- Capital returns from joint venture entities, $7,436,000 (2018: $nil).

All transactions with related entities are entered into on normal commercial terms and conditions and at market rates as applicable.

(e) Balances with related parties

The following balances with related entities which are not part of the consolidated entity were outstanding at the end of each reporting period:

	2019 $	2018 $
Assets		
Cash and cash equivalents	**645,873,434**	612,151,926
Trade and other receivables	**4,233,766**	4,297,379
Financial assets at fair value through profit or loss	**547,506,572**	585,561,666
	1,197,613,772	1,202,010,971
Liabilities		
Trade and other payables	**743,688**	1,770,248
Loans payable to related entities	**23,059,231**	11,954,334
	23,802,919	13,724,582

31 Key management personnel disclosures

(a) Key management personnel compensation

	2019 $	2018 $
Short term employee benefits	**7,822,833**	6,244,032
Post employment benefits	**222,874**	217,655
Long term benefits	**766,835**	573,461
	8,812,542	7,035,148

Detailed remuneration disclosures are provided in the Remuneration report in the Directors' report.

(b) Other transactions with key management personnel

From time to time the directors of the Parent entity and its controlled entities may purchase or subscribe to the various products or securities offered by the Group. These transactions are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

32 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Parent entity, its related practices and non-related audit firms:

(a) Audit and other assurance services

	2019 $	2018 $
PricewaterhouseCoopers Australia		
Audit and review of financial statements	**1,477,720**	1,611,269
Audit of regulatory returns	**294,652**	288,130
Total remuneration for audit and other assurance services	**1,772,372**	1,899,399

(b) Taxation and other services

	2019 $	2018 $
PricewaterhouseCoopers Australia		
Tax compliance services	**167,712**	212,651
Tax consulting services	**52,500**	130,184
Other services	**30,400**	221,457
Total remuneration for taxation and other services	**250,612**	564,292
Total auditors' remuneration	**2,022,984**	2,463,691

It is Australian Unity Limited's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties only where PricewaterhouseCoopers' expertise and experience with Australian Unity Limited's business are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

33 Benefit fund policy liabilities

The Group's life insurance disclosures are set out below and reflect the operations of the benefit funds managed by the Group.

(a) Analysis of policy liabilities

	2019 $'000	2018 $'000
Life investment contract liabilities	**1,259,311**	1,179,421
Life insurance contract liabilities - guaranteed element	**912,191**	901,979
Life insurance contract liabilities - other	**660**	684
Unvested policyholder liabilities	**104,655**	100,280
Total policy liabilities	**2,276,817**	2,182,364
Expected to be realised within 12 months	**364,276**	320,395
Expected to be realised in more than 12 months	**1,912,541**	1,861,969
	2,276,817	2,182,364

There are no investment linked contracts where policy liabilities are subject to investment performance guarantees. There are no other contracts except as already disclosed in this note with a fixed or guaranteed termination value.

Other information *continued*

33 Benefit fund policy liabilities *continued*

(b) Reconciliation of changes in policy liabilities

	2019 $'000	2018 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**1,179,421**	1,071,464
Increase recognised in the profit or loss	**49,097**	58,375
Premiums recognised as a change in contract liabilities	**285,863**	276,512
Claims recognised as a change in contract liabilities	**(255,070)**	(226,930)
Balance at the end of the financial year	**1,259,311**	1,179,421
Life insurance contract liabilities		
Balance at the beginning of the financial year	**902,663**	945,640
Increase/(decrease) recognised in the profit or loss	**10,188**	(42,977)
Balance at the end of the financial year	**912,851**	902,663
Unvested policyholder liabilities		
Balance at the beginning of the financial year	**100,280**	99,360
Decrease recognised in the profit or loss	**4,375**	920
Balance at the end of the financial year	**104,655**	100,280
Net policy liabilities at the end of the financial year	**2,276,817**	2,182,364

(c) Analysis of policy liability revenue and expenses

	2019 $'000	2018 $'000
Revenue and other income		
Total life insurance contract premium revenue	**58,565**	41,517
Reinsurance expense	**(213)**	(223)
Life insurance contract claims revenue	**58,352**	41,294
Interest income	**6,661**	6,275
Distribution income	**69,643**	82,429
Realised gains	**3,357**	6,127
Unrealised gains	**96,591**	29,232
Other income	**(63)**	2,651
Total revenue from life insurance business	**234,541**	168,008
Expenses		
Total life insurance and participating contract claims expense	**109,206**	100,626
Life insurance contract claims expense	**109,206**	100,626
Management fees	**23,970**	23,429
Other expenses	**593**	2,563
Movement in life insurance contract liabilities	**10,188**	(42,977)
Movement in unvested policyholder liabilities	**4,375**	920
Movement in life investment contract liabilities	**49,097**	58,375
Total expenses from life insurance business	**197,429**	142,936

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2019. The actuarial report was prepared by the appointed actuary Mr Sean McGing FIA, FIAA, FAICD, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence #411770. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

Policy Liability Valuations for Defined Benefit Funds

The defined benefit funds comprise the following:

- Personal Risk Insurance Fund;
- Endowment and Funeral Fund (denoted as the Funeral Fund);
- Life Assurance Benefit Fund;
- Central Sick and Funeral Fund;
- Funeral and Ancillary Benefits Fund;
- Travel Protection Fund;
- Whole of Life Funeral Fund; and
- Accidental Death Benefits Fund, Adult Accident Fund and Student Accident Fund, collectively referred to as the "Accident Funds"

The policy liabilities for the defined benefit funds are determined in accordance with Prudential Standard LPS 340 issued by the *Australian Prudential Regulation Authority ("APRA")* under the *Life Insurance Act 1995*.

Policy liabilities are valued using the projection method (with the exception of the Personal Risk Insurance Fund and the Accident Funds). Under the projection method, estimates of future cash flows (i.e. premiums, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows.

Allowance has been made for tax and fees where appropriate. The balance of the benefit fund represents unvested policyholder liabilities, which will ultimately be distributed to members or transferred to the management fund (depending on the benefit fund rules).

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2019 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2015-17)[2]
Funeral Fund	**16.0**	**1.90%**	**0.86%**	**0%**	**1.04%**	**70%**
Life Assurance Benefit Fund	**9.5**	**1.36%**	**2.25%**	**30%**	**-0.62%**	**75%**
Central Sick and Funeral Fund	**11.0**	**1.42%**	**2.00%**	**0%**	**-0.58%**	**60%**
Funeral and Ancillary Benefit Fund	**15.0**	**1.59%**	**2.00%**	**0%**	**-0.41%**	**100%**
Travel Protection Fund	**14.5**	**1.57%**	**2.00%**	**30%**	**-0.43%**	**100%**
Whole of Life Funeral Fund	**12.0**	**1.46%**	**1.50%**	**0%**	**-0.04%**	**100%**

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2018 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2014-16)[3]
Funeral Fund	14.5	3.10%	1.00%	0%	2.10%	70%
Life Assurance Benefit Fund	9.0	2.62%	2.25%	30%	0.26%	75%
Central Sick and Funeral Fund	9.5	2.63%	2.00%	0%	0.63%	60%
Funeral and Ancillary Benefit Fund	14.0	2.82%	2.00%	0%	0.82%	100%
Travel Protection Fund	13.5	2.79%	2.00%	0%	0.79%	100%
Whole of Life Funeral Fund	11.0	2.68%	1.50%	0%	1.18%	100%

1 A single zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term has been used to discount cash flows, noting that Funeral Funds has also added an illiquidity premium to the rate.
2 ALT 2015-17 refers to Australian Life Tables (Male and Female) 2015-2017.
3 ALT 2014-16 refers to Australian Life Tables (Male and Female) 2014-2016.

Other information *continued*

33 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

The mortality assumptions were derived by analysis of the recent past experience of the funds, the experience of similar funds and actuarial judgment. The fee assumptions were based on the allowable fee transfers to the management fund in the fund rules.

The following additional assumptions apply:

- For the Funeral and Ancillary Benefit Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Benefit Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2018: 2.5 percent) per annum; and
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 4.0 percent (2018: 4.0 percent) of deaths will result in claims and the average claim amount is $900 (2018: $1,000) inflating at 2.5 percent (2018: 2.5 percent) per annum.
- In addition, policy liabilities are held in the management fund in relation to non-contactable members of the Assurance Benefit Fund and the Funeral Fund for which insufficient data exists to accurately calculate a member level liability.

For the remaining defined benefit funds, policy liabilities are valued using the accumulation method. For the Personal Risk Insurance Fund the policy liability is equal to 100% of the annual premium. For the Accidental Death Benefits Fund the policy liability is equal to 50% of the annual premium. For the Adult Accident Fund and Student Accident Fund the policy liability is equal to the unearned premium plus the outstanding claim liability, determined by reference to the past delay pattern of claim payments.

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

- Capital Guaranteed Bond;
- Capital Guaranteed Mortgage Bond;
- Grand Bonds Assurance Fund;
- Capital Guaranteed Funeral Fund (Non Taxable);
- Capital Guaranteed Funeral Fund (Taxable);
- Capital Secure Funeral Fund;
- Bonus Accumulation Fund;
- Bonus Bond;
- Capital Guaranteed Deferred Annuity Fund;
- Community Bond Fund;
- Education Savings Plan;
- Flexishield Bond Fund;
- NextGen Capital Guaranteed Fund;
- Telecom Rollover Fund;
- Funeral Bond Fund;
- Prepaid Funeral Fund;
- Funeral Fund No. 2; and
- Tax Minimiser Funeral Fund.

The policy liabilities for defined contribution funds are determined in accordance with Prudential Standard LPS 340 issued by APRA under the *Life Insurance Act 1995*.

For the investment account funds other than the funeral funds, the policy liabilities are valued using the accumulation method and are equal to the contributions made by members, net of contribution fees, together with bonus additions to date. The balance of the fund represents unvested policyholder liabilities, which will ultimately be distributed to members by way of future bonus declarations.

The Grand Bonds Assurance Fund has an additional death benefit and bonus guarantee. The liability for bonus guarantees has been evaluated by inspecting individual policies that may give rise to bonus guarantees. The liability for death benefits was determined using the projection method in which estimates of future death benefit payouts are projected into the future. The liability is then calculated as the net present value of these projected death payouts. Allowance has been made for tax and fees where appropriate.

In addition to the above, for the Flexishield Bond Fund and the Community Bond Fund a small liability for early death risk is maintained. A deferred tax liability in respect of future termination bonuses is included in the policy liability for the Education Savings Plan.

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds but using a yield curve rather than a risk-free rate for the average liability duration. The key assumptions for the policy liability calculations for the funeral funds at 30 June 2019 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2015-17)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	**8.5**	**0%**	**3.00%**	**0%**	**0%**	**105%**
Capital Guaranteed Funeral Fund (Taxable)	**10.0**	**0%**	**3.00%**	**30%**	**0%**	**110%**
Capital Secured Funeral Fund	**7.0**	**0%**	**3.00%**	**0%**	**0%**	**120%**
Funeral Bond Fund	**6.5**	**0%**	**1.50%**	**0%**	**0%**	**100%**
Prepaid Funeral Fund	**7.0**	**0%**	**1.50%**	**0%**	**0%**	**110%**
Funeral Fund No 2 - Non Taxable	**7.5**	**0%**	**2.50%**	**0%**	**0%**	**115%**
Funeral Fund No 2 - Taxable	**9.0**	**0%**	**2.50%**	**30%**	**0%**	**115%**
Tax Minimiser Funeral Fund	**10.0**	**0%**	**1.50%**	**30%**	**0%**	**130%**

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2018 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2016-16)[3]
Capital Guaranteed Funeral Fund (Non Taxable)	8.0	0%	3.00%	0%	0%	105%
Capital Guaranteed Funeral Fund (Taxable)	10.0	0%	3.00%	30%	0%	110%
Capital Secured Funeral Fund	6.5	0%	3.00%	0%	0%	120%
Funeral Bond Fund	6.0	0%	1.50%	0%	0%	100%
Prepaid Funeral Fund	6.5	0%	1.50%	0%	0%	110%
Funeral Fund No 2 - Non Taxable	7.5	0%	2.50%	0%	0%	115%
Funeral Fund No 2 - Taxable	9.0	0%	2.50%	30%	0%	115%
Tax Minimiser Funeral Fund	9.0	0%	1.50%	30%	0%	140%

1 The zero coupon Commonwealth Government Security yield curve plus illiquidity premium have been used to discount cash flows.
2 ALT2015-17 refers to Australian Life Tables (Male and Female) 2015-2017.
3 ALT2014-16 refers to Australian Life Tables (Male and Female) 2014-2016.

The assumptions were derived by analysis of the recent past experience of the funds, the experience of similar funds and actuarial judgment. The fee assumptions were based on the allowable fee transfers to the management fund in the fund rules.

For the Capital Guaranteed Funeral Fund (Taxable), Tax Minimiser Funeral Fund and Funeral Benefits Fund No. 2, a deferred tax benefit in respect of future termination bonuses is added to the policy liability.

Taxation
Rates of taxation in Australia are assumed to continue at current levels, in accordance with legislation known at the valuation date.

Surrender values
Where a surrender option exists, surrender values are based on the provisions specified within the policy contract. Surrender values assumed are those current at the end of each reporting period. Discontinuance rates are based on the fund's experience.

Profit carriers
Each benefit fund contributes to the management fund via any fee transfers authorised in the benefit fund rules and transfers of a part of surplus disclosed in authorised fund valuations. Profit is equivalent to the authorised surplus transfers to the management fund and therefore profit carriers are not applicable. For the investment account funds there is no provision in the funds' rules for any surplus to be transferred to the management fund. The management fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Restrictions on assets
Assets held in benefit funds for the benefit of policyholders can only be used in accordance with *Life Insurance Act 1995* regulations.

Assets backing policy liabilities
Assets backing benefit fund policy liabilities are measured at fair value through profit or loss. All of the assets backing life insurance and investment contract liabilities are included within the benefit funds and are separately identifiable.

Other information *continued*

33 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

Future participating benefits
The bonus rates assumed are those supported by policy liabilities. The bonus rates are based on investment returns net of ongoing expenses and taxation after allowing for a suitable safety margin.

The level of future bonus rates are not guaranteed. Given the nature of the underlying assets held by the various benefit funds, the level of any future bonuses declared will be subject to the performance of the investment markets and assets that the benefit funds are invested in.

Sensitivity analysis
The Group has no material sensitivity analysis to disclose. If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except for the Personal Risk Insurance Fund (PRIF). As the Group maintains sufficient unallocated surplus to cover fluctuations in experience, there is no impact on equity.

Effects of changes in assumptions
There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2019. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement.

The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

The benefit funds are exposed to insurance risk and the principal risk arising under insurance contracts is that benefit payments exceed the carrying amount of insurance liabilities.

Life insurance contracts included within the benefit funds include endowments, contracts for lump sum risk and benefits paid for death or ill health. For endowment contracts the sum assured plus bonuses is paid automatically upon reaching required age. For whole of life endowment contracts, the sum assured plus bonus is paid on death. For lump sum risk and benefits paid on death or ill health, benefits are payable upon death, disablement or defined trauma events.

Some benefit funds limit exposure to insurance risk by ceding part of the liabilities assumed through reinsurance. For the unit linked business the financial risks on these contracts are borne by the policyholder because there is a direct link between the investments and the liability obligations.

Bonuses declared are recommended and reviewed by the Group's Investment Committee. The Group also uses the appointed actuary's annual financial condition report to inform decisions on capital management issues.

Changes in economic conditions and demographics may alter the unallocated surplus. The Capital Requirements are designed to ensure there is sufficient unallocated surplus to cover the effect of these changes. The equity will not change. For all the defined benefit funds other than the PRIF, if experience varies from expectation, then the member liability and the unallocated benefit funds will change by equal and opposite amounts. As the management fund has sufficient unallocated benefit funds to cover fluctuations in experience, the equity will not change. Due to the simplifications employed in the valuation of the PRIF, reasonable changes in assumptions will not impact the liability. Due to the small size of the fund, any changes in equity will not be significant for the Group.

Concentrations
The Group is not exposed to large concentrations of insurance risk. Mortality risk is adequately reinsured with highly rated counterparties thereby reducing concentration risk.

Interest rate risk
The management of the risks associated with investments undertaken by benefit funds, including interest rate risk, is subject to the relevant regulatory requirements, which are governed by the *Life Insurance Act 1995*. This includes satisfying solvency requirements, which requires statutory reserves to be held specifically to address interest rate risk to the extent that assets are not matched against liabilities.

Credit risk
Credit risk arises in relation to investments in financial assets. Credit risk is monitored by exposure limits to counter parties.

These limits are determined by reference to third party credit ratings. The Group does not have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date in relation to financial assets is the carrying amount of those assets as indicated in the balance sheet.

(f) Solvency and capital adequacy information

The Group is required by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2019 and 2018.

For each benefit fund subject to a solvency requirement, the figures in note 34 below represent the ratio of the solvency reserve requirement to the assets available for solvency.

The Group has maintained adequate levels of capital in accordance with the prudential standards specified by the *Life Insurance Act 1995*.

(g) Disaggregated information - Benefit Funds

Note 34 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

34 Disaggregated information - Benefit funds

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2019							
Non-investment linked benefit funds - Life insurance contracts	**258**	**7,886**	**-**	**1,061**	**6,628**	**455**	**-**
Investment linked benefit funds - Life investment contracts with DPF*	**58,094**	**91,714**	**-**	**108,145**	**23,435**	**18,228**	**-**
Investment contracts without DPF*	**-**	**76,652**	**(63)**	**-**	**58,160**	**18,429**	**-**
Total	**58,352**	**176,252**	**(63)**	**109,206**	**88,223**	**37,112**	**-**
30 June 2018							
Non-investment linked benefit funds - Life insurance contracts	270	1,704	25	8,878	(7,074)	195	-
Investment linked benefit funds - Life investment contracts with DPF*	41,024	36,226	2,699	91,748	(17,837)	6,038	-
Investment contracts without DPF*	-	86,133	(73)	-	67,221	18,839	-
Total	41,294	124,063	2,651	100,626	42,310	25,072	-

*DPF = Discretionary Participating Features

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2019					
Non-investment linked benefit funds - Life insurance contracts	**54,439**	**681**	**54,338**	**782**	**-**
Investment linked benefit funds - Life investment contracts with DPF*	**947,742**	**32,570**	**963,168**	**17,144**	**-**
Investment contracts without DPF*	**1,239,858**	**37,818**	**1,259,311**	**18,365**	**-**
Total	**2,242,039**	**71,069**	**2,276,817**	**36,291**	**-**
30 June 2018					
Non-investment linked benefit funds - Life insurance contracts	48,605	578	48,715	468	-
Investment linked benefit funds - Life investment contracts with DPF*	928,002	31,849	954,228	5,623	-
Investment contracts without DPF*	1,134,878	60,009	1,179,421	15,466	-
Total	2,111,485	92,436	2,182,364	21,557	-

Benefit Fund investments assets include all their income producing assets, principally Cash and cash equivalents and Financial assets at fair value through profit or loss.

*DPF = Discretionary Participating Features

Other information *continued*

34 Disaggregated information - Benefit funds *continued*

(b) Non-investment linked benefit funds - Life insurance contracts

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2019							
Central sick and funeral fund	**-**	**892**	**-**	**109**	**783**	**-**	**-**
Funeral and ancillary benefits fund	**4**	**2,655**	**-**	**500**	**2,160**	**(1)**	**-**
Funeral fund	**-**	**2,481**	**-**	**167**	**2,314**	**-**	**-**
Life assurance benefit fund	**-**	**1,646**	**-**	**214**	**1,013**	**419**	**-**
Travel protection fund	**92**	**94**	**-**	**1**	**140**	**45**	**-**
Other	**162**	**118**	**-**	**70**	**218**	**(8)**	**-**
Total	**258**	**7,886**	**-**	**1,061**	**6,628**	**455**	**-**
30 June 2018							
Assurance benefit fund	-	36	-	7,351	(7,366)	51	-
Central sick and funeral fund	-	212	-	215	(4)	1	-
Funeral and ancillary benefits fund	5	440	-	558	(114)	1	-
Funeral fund	-	495	-	135	360	-	-
Life assurance benefit fund	-	438	-	543	(161)	56	-
Travel protection fund	94	44	-	5	100	33	-
Other	171	39	25	71	111	53	-
Total	270	1,704	25	8,878	(7,074)	195	-

	Assets		Liabilities				
	Investments $'000	Other $'000	Life insurance $'000	Other $'000	Equity $'000	Capital in excess of prescribed capital amount $'000	Capital adequacy multiple
30 June 2019							
Central sick and funeral fund	**7,359**	**3**	**7,351**	**11**	**-**	**507**	**3**
Funeral and ancillary benefits fund	**14,957**	**405**	**15,339**	**23**	**-**	**360**	**2**
Funeral fund	**15,839**	**92**	**15,930**	**1**	**-**	**230**	**1**
Life assurance benefit fund	**13,659**	**5**	**13,166**	**498**	**-**	**455**	**6**
Travel protection fund	**1,340**	**6**	**1,146**	**200**	**-**	**200**	**1**
Other	**1,285**	**170**	**1,406**	**49**	**-**	**450**	**-**
Total	**54,439**	**681**	**54,338**	**782**	**-**	**2,202**	
30 June 2018							
Assurance benefit fund	-	-	-	-	-	-	-
Central sick and funeral fund	6,685	-	6,675	10	-	622	7
Funeral and ancillary benefits fund	13,243	161	13,387	17	-	-	1
Funeral fund	13,729	125	13,847	7	-	381	2
Life assurance benefit fund	12,488	48	12,400	136	-	154	1
Travel protection fund	1,216	4	1,042	178	-	163	1
Other	1,244	240	1,364	120	-	449	-
Total	48,605	578	48,715	468	-	1,769	

(c) Investment linked benefit funds - Life investment contracts with discretionary participating features (DPF)

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2019							
Capital guaranteed bond	**108**	**1,749**	**-**	**6,794**	**(5,134)**	**197**	**-**
Capital guaranteed funeral bond (taxable)	**535**	**7,965**	**-**	**2,938**	**3,707**	**1,855**	**-**
Funeral fund no 2	**1,046**	**28,194**	**-**	**14,311**	**10,750**	**4,179**	**-**
NextGen investments capital guaranteed fund	**23,881**	**928**	**-**	**29,653**	**(5,014)**	**170**	**-**
Tax minimiser funeral fund	**29,689**	**40,090**	**-**	**21,846**	**37,018**	**10,915**	**-**
Other	**2,835**	**12,788**	**-**	**32,603**	**(17,892)**	**912**	**-**
Total	**58,094**	**91,714**	**-**	**108,145**	**23,435**	**18,228**	**-**
30 June 2018							
Capital guaranteed bond	121	1,680	-	7,546	(5,889)	144	-
Capital guaranteed funeral bond (taxable)	557	3,497	-	3,284	193	577	-
Funeral fund no 2	1,176	11,300	2,337	16,274	(3,219)	1,758	-
NextGen investments capital guaranteed fund	2,375	764	-	8,172	(5,144)	111	-
Tax minimiser funeral fund	34,044	11,264	-	22,579	20,367	2,362	-
Other	2,751	7,721	362	33,893	(24,145)	1,086	-
Total	41,024	36,226	2,699	91,748	(17,837)	6,038	-

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2019					
Capital guaranteed bond	**66,957**	**-**	**66,731**	**226**	**-**
Capital guaranteed funeral bond (taxable)	**61,418**	**4,095**	**63,329**	**2,184**	**-**
Funeral fund no 2	**201,478**	**11,670**	**208,609**	**4,539**	**-**
NextGen investments capital guaranteed fund	**50,769**	**47**	**50,705**	**111**	**-**
Tax minimiser funeral fund	**331,908**	**14,525**	**337,218**	**9,215**	**-**
Other	**235,212**	**2,233**	**236,576**	**869**	**-**
Total	**947,742**	**32,570**	**963,168**	**17,144**	**-**
30 June 2018					
Capital guaranteed bond	73,081	63	72,963	181	-
Capital guaranteed funeral bond (taxable)	56,813	5,171	61,121	863	-
Funeral fund no 2	194,270	11,270	202,069	3,471	-
NextGen investments capital guaranteed fund	56,072	68	56,075	65	-
Tax minimiser funeral fund	290,969	12,838	303,909	(102)	-
Other	256,797	2,438	258,091	1,145	-
Total	928,002	31,848	954,228	5,623	-

Other information *continued*

34 Disaggregated information - Benefit funds *continued*

(d) Investment linked benefit funds - Investment contracts without discretionary participating features (DPF)

	Revenue		Expenses	Profit/(loss) for the year	
	Investment $'000	Other $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2019					
Balanced growth	**1,340**	**(35)**	**1,028**	**277**	**-**
Education savings plan	**12,806**	**-**	**9,656**	**3,150**	**-**
Managed investment	**2,533**	**-**	**1,697**	**836**	**-**
NextGen investments	**49,485**	**-**	**37,804**	**11,681**	**-**
Select strategies	**5,505**	**-**	**4,052**	**1,453**	**-**
Other	**4,983**	**(28)**	**3,923**	**1,032**	**-**
Total	**76,652**	**(63)**	**58,160**	**18,429**	**-**
30 June 2018					
Balanced growth	2,602	(36)	1,965	601	-
Education savings plan	13,543	-	11,033	2,510	-
Managed investment	3,508	-	2,495	1,013	-
NextGen investments	49,774	-	38,896	10,878	-
Select strategies	10,372	-	7,882	2,490	-
Other	6,334	(37)	4,950	1,347	-
Total	86,133	(73)	67,221	18,839	-

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2019					
Balanced growth	**23,936**	**401**	**23,463**	**874**	**-**
Education savings plan	**211,806**	**20,515**	**228,190**	**4,131**	**-**
Managed investment	**45,767**	**150**	**46,044**	**(127)**	**-**
NextGen investments	**773,951**	**14,130**	**779,284**	**8,797**	**-**
Select strategies	**90,597**	**363**	**89,302**	**1,658**	**-**
Other	**93,801**	**2,259**	**93,028**	**3,032**	**-**
Total	**1,239,858**	**37,818**	**1,259,311**	**18,365**	**-**
30 June 2018					
Balanced growth	24,619	921	24,341	1,199	-
Education savings plan	178,790	20,533	195,273	4,050	-
Managed investment	47,011	2,623	49,380	254	-
NextGen investments	693,946	27,797	716,833	4,910	-
Select strategies	102,154	5,456	104,916	2,694	-
Other	88,358	2,679	88,678	2,359	-
Total	1,134,878	60,009	1,179,421	15,466	-

35 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures. The financial statements are for the consolidated entity consisting of Australian Unity Limited (Parent entity) and its subsidiaries, referred to in these financial statements as the Group.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value (including derivative instruments and insurance liabilities at present value of expected future cash flows), certain classes of property, plant and equipment and investment property.

(iii) New and amended accounting standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

AASB	Title
AASB 15	Revenue from contracts with customers
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15
AASB 2016-7	Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4

The adoption of accounting standards noted below did not have material impact to the Group's financial statements.

(b) Implementation of AASB 15 *Revenue from Contracts with Customers*

The Group has implemented AASB 15 from 1 July 2018 and the relevant accounting policies have been amended to comply with the new revenue recognition requirements. The amended accounting policies are described in note 35(ag), noting the changes applicable to revenue from contracts with customers and relevant accounts in note 35(ag)(iii).

(c) Discontinued operation

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

(d) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of 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.

Other information *continued*

35 Summary of significant accounting policies *continued*

(d) Principles of consolidation *continued*

(i) Subsidiaries *continued*

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 35(h)).

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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, balance sheet and statement of changes in equity respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting (refer to (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures, but not joint operations.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees are changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 35(r).

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with members of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to members of Australian Unity Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(vi) Life insurance benefit funds

The Group's life insurance operations are conducted within separate benefit funds as required by the *Life Insurance Act 1995*.

The assets, liabilities, revenue and expenses of the benefit funds are consolidated in the Group's financial statements.

(e) Benefit fund policy liabilities

(i) Classification

The Group's life insurance liabilities are held within separate benefit funds as required by the *Life Insurance Act 1995*. The activities of the benefit funds are included within the consolidated financial statements but are governed and managed separately. Life insurance liabilities are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non-participating life investment contract liabilities in accordance with AASB 1038 *Life Insurance Contracts*.

Life insurance contracts are contracts which transfer significant insurance risk at the inception of the contract. Insurance risk is considered to be significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Life investment contracts are contracts regulated under the *Life Insurance Act 1995* but that do not transfer significant insurance risk. Life investment contracts are further categorised into participating and non-participating contracts. Participating life investment contracts are contracts that contain a discretionary participation feature ("DPF"). A DPF is a contractual right to receive as a supplement to guaranteed benefits, additional benefits: (i) that are likely to be a significant portion of the total benefits; (ii) whose amount or timing is contractually at the discretion of the issuer; and (iii) that are based on the performance of a specified pool of assets.

Participating life investment contract liabilities are classified and accounted for in the same manner as life insurance contract liabilities, that is, under the requirements of AASB 1038 *Life Insurance Contracts*, and are referred to in these financial statements as life insurance contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 9 *Financial Instruments* and are referred to in these financial statements as life investment contract liabilities.

Life investment contract liabilities include investment linked contracts in which the Group issues a contract where the benefit amount is directly linked to the market value of the investments held by the benefit fund. While the underlying assets are registered in the name of the benefit fund and the investment linked policyowner has no direct access to the specific assets, the contractual arrangements are such that the investment linked policyowner bears the risks and rewards of the benefit fund's investment performance. The Group derives fee income from the administration of the investment linked contracts.

Non-investment linked business is business in which the Group issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event.

(ii) Valuation

The fair value of life insurance contract liabilities are determined using a projection method. The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method. Further details of the actuarial assumptions used in the calculation of these policy liabilities are set out in note 33.

The unit linked funds are classified as life investment contract liabilities and measured at fair value. The contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value. The liability to policyholders is linked to the performance and value of the assets that back the liabilities. The liabilities are therefore the same as the fair value of the assets.

(iii) Claims expense

For life insurance contract liabilities and participating investment contract liabilities, claims are recognised when the liability to the policyholder under the contract has been established (i.e. on notification of death, at time of admittance, or when payment is due).

For life investment contract liabilities there are no claims expenses. Surrenders and withdrawals are not included in the profit or loss but are instead deducted from investment contract liabilities.

(f) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(g) Borrowings

Borrowings are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition or issue of the borrowings. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the Group's share of the net identifiable assets of the subsidiary acquired, and the measurement of all amounts has been reviewed, the difference is recognised directly in the profit or loss as a bargain purchase.

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

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.

Other information *continued*

35 Summary of significant accounting policies *continued*

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(j) Deferred acquisition costs

Acquisition costs represent commission and other expenses incurred in relation to the acquisition of health insurance contracts. These costs 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 profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised on a straight line basis over a period in line with the average expected duration of the customer relationships to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The average expected duration of the customer relationships is reassessed annually.

(k) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedging relationship designated.

The Group designates its derivatives as hedges of interest rate risk associated with the cash flows of recognised liabilities (cash flow hedges).

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are included in other assets or other liabilities as applicable. Movements in the hedging reserve are shown in the consolidated statement of Changes in Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

(l) Employee benefits

Employees engaged in the Group's operations are employed by subsidiary entities, Australian Unity Group Services Proprietary Limited, Australian Unity Home Care Service Pty Ltd, Australian Unity Bank Limited (formerly Big Sky Building Society Limited) and Lifeplan Australia Friendly Society Limited.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on high quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Superannuation

The employer contributes to the Australian Unity Staff Superannuation Plan (a sub plan of the MLC employer sponsored superannuation plan), the Hesta Superannuation Fund and other complying superannuation funds nominated by employees. The Australian Unity Staff Superannuation Plan is open to new members and is an accumulation fund, where the employer contributions are fully vested in the member. The Hesta Superannuation Fund is an industry based fund for employees working in the retirement village complexes and aged care facilities. The employer is required to contribute to the above mentioned plans in accordance with the Superannuation Guarantee Legislation.

One of the Group's subsidiaries makes contributions to three external defined benefit superannuation schemes that provide defined benefit amounts for employees on retirement. These schemes are closed to new members from the Group. The net obligation in respect of these defined benefit schemes is calculated separately for each of the relevant Group employees by estimating the amount of future benefits that they have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity. The Group does not consider its net obligation in respect of these defined benefit schemes to be material as at the end of each reporting period.

(m) Financial guarantee contracts

A financial guarantee contract is a contract requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with terms of the debt instrument. Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(n) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Australian Unity Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains/(losses) resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain/(loss). For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain/(loss) and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in other comprehensive income and accumulated in reserves as equity.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components 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.

Other information *continued*

35 Summary of significant accounting policies *continued*

(p) Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grant and subsidies will be received and the Group will comply with all attached conditions.

Government grants and subsidies relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants and subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(q) Health insurance

(i) Classification

Health insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a health insurance contract, it remains as a health insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Group has determined that all current contracts with health insurance policyholders are health insurance contracts.

(ii) Claims expense

Health insurance claims include all claim losses occurring during the year, whether reported or not, and any adjustments to claims outstanding from previous years.

(r) Impairment of assets

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. Other assets 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 to sell and value in use. 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 (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(s) Income tax

Current and deferred tax is recognised in 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.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. 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.

Tax consolidation

Australian Unity Limited (Parent entity) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The Parent entity, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The Parent entity also recognises the current tax assets or liabilities, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities under the tax consolidated group entered into a tax funding agreement under which the wholly-owned entities fully compensate the Parent entity for any current tax payable assumed and are compensated by the Parent entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Parent entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The Parent entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(t) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 35(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. 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. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount, based on value in use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Bed licences are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Management rights

Management rights acquired separately are initially recognised at cost. The cost of management rights acquired in a business combination is their fair value as at the date of acquisition. Management rights with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of management rights over their estimated useful lives, which vary from 4 to 20 years. These management rights are assessed for impairment whenever there is an indication that they may be impaired. Management rights with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Other information *continued*

35 Summary of significant accounting policies *continued*

(t) Intangible assets *continued*

(iv) Computer software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost.

Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of software and licences over their estimated useful lives, which vary from 4 to 7 years.

(u) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in and first out basis.

(v) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties other than the development sites are stated at fair value. Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise. Development sites are recognised at cost.

Retirement village investment property relates to interests in retirement village independent living units and aged care facilities where the aged care facilities are managed by operators which are not part of the Group. These investments are initially measured at cost and when the facilities are complete, or substantially complete, they are stated at fair value. The fair value represents the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, such as average length of residence and expected changes in property prices.

Land held for development purposes of investment property is also classified as investment property.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset (refer to note 35(y)) and sold to a retirement village operator.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains/(losses) on the derecognition of an investment property are recognised in the profit or loss in the year of derecognition.

(w) Investments and other financial assets

(i) Classification

The Group classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the relevant cash flows.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model the objective of which is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

(ii) Recognition and derecognition

A financial asset is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally at trade date. Loans and receivables are recognised when cash is advanced to the borrowers.

A financial asset is derecognised when the contractual cash flows from the asset expire or the rights to receive contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of the ownership are transferred. Any interest in a transferred financial asset that is created or retained by the Group is recognised as a separate asset or liability.

(iii) Measurement

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to the initial recognition, for financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held as described below. The Group reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments, the fair value will be recorded in profit or loss, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company classifies its debt instruments:

- **Amortised cost**
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI)**
  Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversal of impairment losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through profit or loss (FVPL)**
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net within investment gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the profit or loss using the effective interest rate method.

Equity instruments

The Group subsequently measures all investments in equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends and distributions from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in investment gains/(losses) in the statement of profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI. The recognition of impairment depends on whether there has been a significant increase in credit risk.

Debt investments at amortised cost are considered to be low credit risk, and thus the impairment provision is determined as 12 months ECL.

For loans to customers, the Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- **Stage 1: 12-months ECL**
  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- **Stage 2: Lifetime ECL - not credit impaired**
  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- **Stage 3: Lifetime ECL - credit impaired**
  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of significant increase in credit risk, loans are grouped on the basis of shared credit risk characteristics, taking into account the type of loans, days in arrears, loan collaterals, remaining term to maturity, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted amount of the present value of all reasonable cash shortfalls over the expected life of the loans discounted at the effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive.

Other information *continued*

35 Summary of significant accounting policies *continued*

(w) Investments and other financial assets *continued*

(iv) Impairment *continued*

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including macroeconomic factors and how changes in these factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The amount of ECL is recognised using a provision for doubtful debts account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(x) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

(i) Group as a lessee

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the leased assets' fair value or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over their useful life. However, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term, the assets are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(ii) Group as a lessor

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(y) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(z) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the end of each reporting period under insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims Incurred But Not Reported (IBNR), claims Incurred But Not Enough Reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments of claims expected to be settled within one year are not discounted as the undiscounted value approximates their present value. The expected future payments of other claims are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(aa) Property, plant and equipment

(i) Cost

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected useful life. Estimates of remaining useful lives are reassessed annually for major items.

The expected useful lives are as follows:

Category	Useful life
Buildings	40 years
Plant and equipment	5-20 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount and included in the profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

Non-property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the assets come into operational service.

(ab) Provisions

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 and the amount can be reliably estimated.

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. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(ac) Refundable lease deposits

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ad) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(ae) Reserve for credit losses

The reserve for credit losses is used by a bank subsidiary company to recognise an additional impairment allowance for credit losses required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to this regulatory authority. It is recognised as an appropriation of retained earnings to non distributable reserves. This additional impairment allowance is not permitted by Australian Accounting Standards to be recognised as an impairment charge against loans and overdrafts or recognised as an expense in the Consolidated statement of comprehensive income.

(af) Resident loans

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ag) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue/income can be reliably measured. As the Group operates diverse businesses, it applies a number of relevant accounting standards for the recognition of revenue: AASB 1023 *General Insurance Contracts*, AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 117 *Leases*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, and AASB 1038 *Life Insurance Contracts*. The following summarises specific recognition criteria in line with these standards:

(i) Health insurance premium revenue (AASB 1023)
Health insurance premium revenue is recognised in the profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. The proportion of premium received or receivable not earned in the profit or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

(ii) Government grants and subsidies (AASB 120)
Government grants and subsidies funding aged care and home care services are recognised as the services are provided.

(iii) Revenue from contracts with customers (AASB 15)
The Group's revenue governed by the requirements of AASB 15 is related to services provided under contracts with customers in the operation of retirement communities, aged care facilities, home care & disability services, health services, wealth assets management and administration, financial planning, estate planning, trustee services, and finance and general insurance broking services. The revenue recognition from these services is based on the delivery of performance obligations by the Group and an assessment of when the control is transferred to the customer. Revenue is recognised either at a point in time when the performance obligation in the contract has been completed by the Group or over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

Other information *continued*

35 Summary of significant accounting policies *continued*

(ag) Revenue recognition *continued*

(iii) Revenue from contracts with customers (AASB 15) *continued*

The transaction price is measured at contract inception, being the amount to which the Group expects to be entitled and to which it has rights under the contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on certain achievements. Such amounts are only included based on the expected value or the most likely outcome, and only to the extent that it is highly probable that no revenue reversal will occur. The Group identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. The transaction price is adjusted for the time value of money where the period between the transfer of the promised services to the customers and payment made by the customers exceeds one year.

Independent and assisted living services fees
Independent and assisted living services fees are revenue generated from the provision of home and disability services and the management of retirement communities and aged care facilities. Revenue is recognised over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

Management and performance fees
Management fees are earned from wealth management and trustee services provided over the life of the contracts and revenue is recognised periodically over time. Any associated performance fees are deemed to be a variable component of the management services that are constrained and recognised only if it is highly probable that the performance hurdles are met and reversal will not occur.

Brokerage and commission income
Brokerage and commission are earned from contracts with customers where the Group entities act as an agent to sell general and life insurance products. Commission is also earned from property sale services provided within trustee services and the operations of retirement villages. Revenue is recognised at a point in time when the transfer of the underlying asset has occurred.

Healthcare services revenue
Healthcare services revenue represents fees charged for dental, physiotherapy and other healthcare services provided to customers. Revenue is recognised after the delivery of services to the customers.

Assets and liabilities recognised from contracts with customers
As a result of the contracts with customers, the Group recognises Trade receivables and a number of contract assets and liabilities. Trade receivables are recognised when the Group has the right to consideration that is unconditional (no change in accounting policy). Contract assets are recognised when the Group has a conditional right to consideration for the services that have been provided to customers.

Contract liabilities are recognised when the Group receives payments in advance for the services that will be provided to customers. The Group also capitalises incremental costs in obtaining contracts with customers.

Accrued and deferred income
Customer contracts generally include arrangements for payments dependent upon the nature and type of services being provided. Customer payments may be required at the inception of the contract (advance payment) or regular payments for ongoing service delivery or at the end of the contract (in arrears) or a combination of these with varied amounts. Accrued income is recognised as a contract asset for unbilled service revenue. Deferred income is recognised as a contract liability where a customer pays in advance or pays a deposit prior to the delivery of the contracted services. On the balance sheet, accrued income is presented as part of Trade and other receivables, while deferred income is presented as part of Trade and other payables.

Capitalised costs to obtain a contract
The incremental costs of obtaining a contract with a customer are capitalised as an asset to the extent to which the costs are expected to be recovered over a period of more than one year. The asset is amortised on a systematic basis that is consistent with the timing of recognition of the relevant revenue. The asset is subject to an impairment assessment through a review of the recoverability against the remaining future revenue, net of respective future expenses. The capitalised costs to obtain a contract are presented as part of Intangible assets on the balance sheet.

In determining the amount of capitalised costs to obtain a contract, management forms a number of key judgements and assumptions which include an assessment of the incremental costs, whether such costs should be expensed as incurred or capitalised, and the period of amortisation of the capitalised costs. These judgements may inherently be subjective, and cover future events such as the recoverability of the capitalised costs through future net income streams over a certain period.

Deferred management fee
Deferred management fee (DMF) is a contracted fee charged to a resident of a managed retirement village. The amount of DMF is linked either to the ingoing contribution the resident paid on entry to the retirement village or to the turnover value of a unit on exiting the village and is expressed as a percentage charge per annum over the period of occupancy. The number of years the DMF can be charged is usually capped to a specific period of time. DMF revenue is recognised at the time of unit turnover from one resident to another.

Practical expedients
The Group has elected to make use of the following practical expedients permitted under AASB 15:

- Completed contracts before the date of transition have not been reassessed;
- Information about remaining performance obligations for contracts with an original expected duration of one year or less is not disclosed;
- The amount of the transaction price allocated to the remaining performance obligations and an explanation of when the revenue is expected to be recognised is not disclosed; and
- Contract costs incurred related to customer contracts with an amortisation period of less than one year have been expensed as incurred.

(iv) Interest income (AASB 9)
Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(v) Dividends and distributions (AASB 9)
Dividends and distributions are recognised when the Group's right to receive the income is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(vi) Benefit funds - Life insurance premiums and fees (AASB 1038)
For life insurance contract liabilities and participating investment contract liabilities, premium revenue is recognised when the liabilities arising from them are created. For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities on the balance sheet (rather than being included in the profit or loss).

(ah) Risk Equalisation Special Account

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the *Private Health Insurance (Risk Equalisation Administration) Rules 2007*, all health insurers must participate in the Risk Equalisation Special Account (RESA). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

The amounts receivable from the RESA are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(ai) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided as part of the monthly management reporting document. The chief operating decision maker has been identified as the Group Executive Committee that has delegated responsibility from the board for the achievement of the business strategic and operational plans approved by the board.

(aj) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost. They are presented as current liabilities unless payment is not due within 12 months after the end of each reporting period.

(ak) Trade and other receivables

Trade and other receivables, which are generally settled on 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

The Group applies the simplified expected credit loss approach in place of the incurred credit loss. Under the expected credit loss approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the impairment loss is recognised in the profit or loss. When a trade receivable for which an impairment provision had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

(al) Unexpired risk liability

At the end of each reporting period the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the profit or loss. 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 balance sheet as an unexpired risk liability.

Other information *continued*

35 Summary of significant accounting policies *continued*

(am) New standards and interpretations not yet adopted

The following table sets out the new and amended accounting standards issued by the Australian Accounting Standards Board that are not mandatory for 30 June 2019 reporting period and have not been adopted by the Group.

AASB	Title	Operative Date *
AASB 16	Leases	1 January 2019
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1 January 2019
AASB 17	Insurance contracts	1 January 2021
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	1 January 2019
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019
AASB 2018-3	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements	1 January 2019
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020

* Operative date is for the annual reporting periods beginning on or after the date shown in the above table, unless otherwise stated.

The Group's assessment on the potential impact of AASB 16 and IFRS 17 is set out in the following paragraphs. The other standard amendments noted above are not expected to have a material impact to the amounts reported in the consolidated financial statements. Where applicable the Group will apply these standards to the annual reporting periods beginning on or after the operative dates set out above.

(i) AASB 16 *Leases*

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019. The standard will primarily affect accounting by lessees and will result in the recognition of almost all leases on the balance sheet. Accounting by lessors will not significantly change. The standard removes the current distinction between operating and financing leases and it is applicable to all lease contracts with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 requires the recognition of a right-of-use asset and a financial liability, being the liability to pay rental for the leased item. Consequently, depreciation of the right-of-use asset and interest expense on the lease liability will be recognised in the income statement, replacing rental expense. The standard also requires enhanced disclosures.

The Group's major operating lease contracts are property leases and vehicle leases. With the adoption of AASB 16 on 1 July 2019, the Group recognised right-of-use assets and lease liabilities amounting to $129.2 million and $136.9 million respectively, reducing deferred tax balances by $2.3 million and retained earnings by $5.4 million. The application of AASB 16 will not have any impact on the gearing ratio covenant of the Series B Australian Unity Bonds - Tranche 1.

(ii) AASB 17 *Insurance contracts*

AASB 17 will replace AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts.* The standard is applicable to annual reporting periods beginning on or after 1 January 2021. In November 2018, the IASB tentatively decided to defer the IFRS 17 application date to 1 January 2022. With this deferral, the Company's application date will be from 1 July 2022. The standard will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. It requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability with a period of one year or less. Claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. The Group has started to consider the impact this standard will have on the Group's operations and its financial statements. The application of this standard will impact the health insurance and life insurance businesses of the Group.

(an) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less any adjustments for impairment losses. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ao) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified.

36 Changes in accounting policies

As disclosed in note 35(b), the Group has adopted AASB 15 from 1 July 2018. This has resulted in changes to accounting policies and adjustments to certain amounts recognised in the financial statements. In accordance with the transitional provisions of AASB 15, the Group elected to apply the modified retrospective method wherein the standard is retrospectively applied to only the most current period presented in the financial statements (comparative figures are not restated). Under this method the cumulative effect is recognised as an adjustment to the opening retained earnings at 1 July 2018.

The following summarises the impacts of the adoption of AASB 15 to the Group's accounting policies and its recognition and measurement of revenue and the relevant assets and liabilities:

(i) Recognition of revenue and costs of obtaining customer contracts
The change in revenue recognition has postponed the recognition of revenue on fees received in advance from general insurance broking services. As a result, an adjustment of $327,000 was charged to the opening retained earnings at 1 July 2018 relating to previously recognised revenue which is now required to be recognised as income over the period of the contract.

Revenue from these contracts is now recognised over time in line with when the performance obligation is satisfied, except for those with completed performance obligations or having variable consideration that is highly probable to have no risk of reversal. Revenue on these contracts continues to be recognised at a point in time.

The Group has also re-assessed capitalisation of costs relating to obtaining customer contracts. AASB 15 requires the capitalisation of incremental costs of obtaining a contract with a customer where these are expected to be recovered over the life of the contract. An assessment on the capitalised costs in relation to Herston Quarter project, which is reported as Intangible assets, has resulted in an adjustment of $4,184,000. This was charged to the opening retained earnings at 1 July 2018.

(ii) Adjustment in joint venture's retained earnings
The subsidiaries of the Group have investments in a joint venture, Acorn Capital Limited (Acorn). Following its adoption of the new AASB 15 *Revenue from Contracts with Customers* from 1 July 2018, Acorn has made changes to their recognition of revenue which resulted in an adjustment to their retained earnings and accrued income as at 1 July 2018. In consequence, the Group has made an adjustment to the value of its investments in the joint venture and the Group's retained earnings as at 1 July 2018, in proportion to its ownership of the joint venture, amounting to $1,176,000.

(iii) Reconciliation of accounts impacted by AASB 15 as at 1 July 2018
The following table is a reconciliation of the carrying amount of the accounts within the Group's balance sheet which were impacted by the application of AASB 15 as at 1 July 2018:

	Net assets		AASB 15	Retained earnings
Accounts	**Carrying amount 30 June 2018 $'000**	**Addition/ (deduction) $'000**	**Carrying amount 1 July 2018 $'000**	**Addition/ (deduction) 1 July 2018 $'000**
Increase in unearned income				
Trade and other payables	(123,683)	(467)	(124,150)	(467)
Deferred tax liabilities	(66,702)	140	(66,562)	140
Net impact		(327)		(327)
Reduction in capitalisation of Herston project costs				
Intangible assets	329,004	(5,977)	323,027	(5,977)
Current tax liabilities	(31,786)	1,793	(29,993)	1,793
Net impact		(4,184)		(4,184)
Impact of AASB 15 adjustment in a joint venture				
Investments in joint ventures	27,431	(1,176)	26,255	(1,176)
Reduction to Net assets and Retained earnings		(5,687)		(5,687)

(iv) Presentation of contract assets and contract liabilities
Following the adoption of AASB 15, contract assets and contract liabilities are recognised separately from trade receivables and trade payables. However, there is no change in the category of assets and liabilities disclosed on the balance sheet. Contract assets as at 30 June 2019 which consist of accrued income of $31,087,000 have been included in Trade and other receivables, while contract liabilities which consist of deferred income of $26,852,000 have been included in Other current liabilities.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 38 to 111 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) 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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 35; and

(c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
28 August 2019

Independent auditor's report to the members

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Independent auditor's report

To the members of Australian Unity Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Unity 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 balance sheet 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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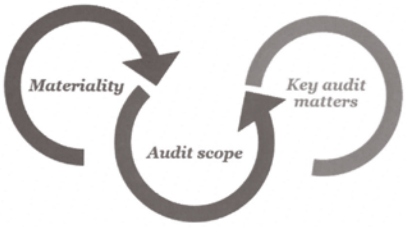
Our audit approach

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

- For the purpose of our audit we used overall Group materiality of $7.2 million, which represents approximately 1% of the Members' Funds of the Group.
- 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 Members' Funds because, in our view, it is the key financial statement metric used by the primary users of the financial report.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is structured into four operating segments, being Retail, Wealth & Capital Markets, Independent & Assisted Living (IAL) and Corporate Functions and Eliminations.
- We, as the group audit team, audited the most financially significant entities in the Retail, Wealth & Capital Markets and IAL segments.
- We performed an audit of Australian Unity Group Services Limited, a subsidiary within the Corporate Functions and Eliminations segment, which provides payroll, accounts payable and corporate treasury services to the Group.
- We performed specific risk focused audit procedures over certain account balances, and at a Group level this included the consolidation process and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter

Valuation of investment properties
(Refer to note 12 in the financial report)
 	
Investment properties consist of the Group's interest in retirement village independent living units and development sites. At 30 June 2019 the carrying value of the Group's investment properties was $1,327.6 million.
 	
Investment properties are carried at fair value. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property impact fair values.
 	
The value of investment properties is dependent on the terms of the residents' contracts and the inputs to the Group's valuation model ("the model"). Amongst others, the following assumptions are key in establishing fair value:
• Discount rate
• Average length of stay
• Property growth rate
 	
As at 30 June 2019, the Group engaged an independent valuation expert to review the key assumptions used in the model.
 	
We considered this a key audit matter because of the:
• Relative size of the investment property balance to net assets and related valuation movements
• Sensitivity of investment property valuations to changes in key inputs / assumptions.
	Our audit procedures over the valuation of investment properties included the following:
	• We assessed the valuation methodology, inputs and key assumptions used in the model for the retirement village independent living units and development sites.
	• For a sample of contracts with residents ("resident contracts") across the portfolio, we compared the key inputs used in the model to underlying contracts. We found that the key inputs used in the model were materially consistent with the sampled resident contracts.
	• For the independent review of key valuation assumptions performed by the valuation expert, we performed the following procedures amongst others:
	  - Assessed the expert's independence, experience, competency and the results of their procedures.
	  - Read the expert's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to their valuation.
	  - Compared the key assumptions used in the expert's valuation report to those used in the model.

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Key audit matter	*How our audit addressed the key audit matter*
Revenue recognition *(Refer to note 2 in the financial report)* Revenue from services includes government grants and subsidies funding aged care, home and disability services which are recognised as the relevant services are provided by the Group. We considered this a key audit matter due to the high volume of revenue transactions and the possible uncertainty around determining when contractual service obligations under the funding agreements have been achieved.	For government grants and subsidies funding aged care, home and disability services, we performed the following procedures amongst others: • Read a sample of executed government funding agreements and relevant communications with the government. • Agreed the funding received by the Group to the supporting bank statements. • Performed testing on a sample of revenue transactions, including comparing service hours delivered to contractual obligations. • Calculated the proportion of services performed by the Group to the total services yet to be performed and compared this to the Group's estimate of revenue recognised at 30 June 2019.
Valuation of intangible assets *(Refer to note 14 in the financial report)* The Group had $323.8m of intangible assets at 30 June 2019. $182.2m of this related to goodwill and a further $24.8m related to management rights and customer contracts which had been acquired as part of historical acquisitions which were assessed by the Group to have an indefinite useful life. Australian Accounting Standards require an assessment, at least annually, to establish whether goodwill and indefinite lived intangible assets should continue to be recognised or if any impairment is required. The Group's impairment assessment is performed at the level of the cash generating unit (CGU) to which the goodwill or intangible asset with indefinite useful life can be allocated. The impairment assessment relied on the calculation of the value-in-use for each of the CGUs. This calculation was based on estimated future cash flows for each CGU discounted at a rate of return. No impairment has been identified in relation to any of the CGUs.	We performed the following procedures, amongst others, to assess the valuation of intangible assets: • Assessed whether the level at which the impairment assessment was performed was consistent with our knowledge of the Group's operations and internal Group reporting. • Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU for the purposes of impairment. • Compared the forecast cash flows used in the impairment assessment to the latest business forecasts. • Compared the performance of the CGUs against historical forecasts to assess the accuracy of the assumptions used in the latest business forecasts. • Compared a sample of discount rates and long term growth rates applied to the forecast cash flows to industry averages and those determined by PwC valuation experts.

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Key audit matter	How our audit addressed the key audit matter
	• Assessed the overall appropriateness of the assumptions when considered in the aggregate. • Considered the sensitivity of the value-in-use calculation by varying key assumptions and applying other values within a reasonably possible range, for example, by increasing the discount rate and reducing growth rates to assess the impact of deviations from forecast operating performance. We satisfied ourselves that the sensitivity of the value-in-use calculations was appropriately highlighted within the disclosures in note 14.
Valuation of actuarially determined insurance liabilities *(Refer to notes 16 and 34 in the financial report)*	
Actuarially determined insurance liabilities consist of outstanding claims provisions relating to the Group's health insurance business ($63.6m) and non-investment linked benefit fund policyholder liabilities ($54.3m). We considered this a key audit matter because of the significant judgements required by the Group in estimating claims liabilities and benefit fund policyholder liabilities. These significant areas of judgement are discussed further below: a) Healthcare outstanding claims provisions Our audit focussed on the central estimate component as changes in actuarial assumptions driving this component are most likely to result in material changes in the total provision. We focussed on the estimates relating to the last two months of the financial year as a lower proportion of claims for these months are received at balance date, and therefore greater judgement is required. In particular, judgements relate to estimating the type and amount of claims incurred but not yet received or processed. b) Benefit fund policyholder liabilities In determining the valuation of the liabilities, the key actuarial assumptions made by the Group's valuation experts include mortality assumptions and the discount rate applied.	To assess the assumptions used by the Group to determine the value of insurance liabilities, we along with PwC independent actuarial experts performed the following procedures amongst others: • Developed an understanding of the processes that the Group undertook to calculate the value of insurance liabilities, including the models used by the Group in calculating the actuarial liabilities. • Compared the methodologies used by the Group to those commonly applied in the industry and used in the prior year. • Compared key actuarial assumptions used by the Group in forecasting expected payments to our own expectations based on the Group's historical experience, current trends and industry knowledge. • For healthcare outstanding claims, we also compared the level of claims received after the year end, which related to the current financial year, to the estimate of outstanding claims provisions recorded by the Group.

Key audit matter	*How our audit addressed the key audit matter*
Funding and Capital management *(Refer to note 9 in the financial report)* As disclosed in Note 9 Australian Unity Limited is required by the Australian Unity Bonds prospectus to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. A key input to the calculation of the Group's debt covenants is the amount of interest bearing liabilities in the Group's consolidated balance sheet. The Group operates a number of development funds which utilise third party capital in conjunction with support from financiers to fund the development of new retirement village units and aged care beds. The Group has not consolidated the Funds into the Group financial position as it does not consider it has control over these Funds. We considered this a key audit matter given: • The judgement required by the Group in determining whether or not the Development Funds should be consolidated • The impact that the financing structure of the development funds may have on the Covenant Gearing Ratio if these funds were consolidated.	We performed the following procedures, amongst others: • We considered the terms and conditions of key agreements (including Trust Deeds, Investment Information Memorandums and Financing agreements) and whether the Group's assessment of the accounting treatment of the development funds was in accordance with Australian Accounting Standards. • We assessed the Group's calculation of the Covenant Gearing Ratio as at 30 June 2019 by: - Comparing the methodology used to perform the calculation against the definition of the Gearing Ratio in the Australian Unity Bonds Base Prospectus - Agreeing the key inputs to the calculation, such as the total of interest bearing liabilities and total equity, to the Group's accounting records - Performing tests over the mathematical accuracy of the calculation - Agreeing the Group's calculated ratio to note 9 in the financial report.
Operation of financial reporting Information Technology (IT) systems and controls We considered this a key audit matter because the Group's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Group's controls over IT systems include: • The framework of governance over IT systems • Program development and changes • Access to process, data and IT operations • Governance over generic and privileged user accounts	Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

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 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 31 to 37 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Australian Unity 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

Peter van Dongen
Partner

Andrew Cronin
Partner

Melbourne
28 August 2019

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