Australian Unity
Real Wellbeing

ASX Announcement

28 February 2023

Australian Unity Limited – Interim Financial Report

Please find attached Australian Unity Limited's Interim Financial Report for the half-year ended 31 December 2022.

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This announcement has been authorised for distribution to the ASX by:

The Board of Australian Unity Limited

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ASX code:
AYU

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Issuer:
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ACN 087 648 888

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The listing of Australian Unity Securities on the ASX does not affect Australian Unity Limited's status as a mutual entity

Australian Unity Limited
ABN 23 087 648 888

Interim financial report and directors' report for the half-year ended 31 December 2022

Australian Unity Limited ABN 23 087 648 888
Interim financial report and directors' report - 31 December 2022

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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:

271 Spring Street
Melbourne VIC 3000

The financial statements were authorised for issue by the directors on 28 February 2023.

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 half-year ended 31 December 2022.

Directors

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

Lisa Chung, Chair (appointed Chair on 26 October 2022)
Melinda Cilento, Non-executive Director (appointed Deputy Chair on 26 October 2022)
Rohan Mead, Group Managing Director & CEO
Lucinda Brogden, Non-executive Director (appointed on 8 September 2022)
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Helen Nott, Non-executive Director (appointed on 8 September 2022)
Julien Playoust, Non-executive Director
Peter Promnitz, Chair (retired on 26 October 2022)
Gregory Willcock, Non-executive Director (retired on 7 September 2022)

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited as at the date of this report.

Dividends

During the first six months of the 2023 financial year, the Company paid a fully franked dividend of $2.5068 (2022: $2.5068) per Australian Unity Mutual Capital Instrument totaling $8,608,352 (2022: $3,008,160).

Operating and financial review

In the six months to 31 December 2022, the Australian Unity Group continued advancing its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value and is supportive of personal and community wellbeing.

The half-year under review was different to the equivalent period in the prior year, following the unwinding of most of the COVID-19 pandemic restrictions. In this half-year, however, the economy, businesses and communities faced the post-pandemic impact of significant investment market disruption and volatility, increasing inflation and consequent policy gyrations, including rapidly increasing interest rates, and policy interventions in industry settings. In this context, Australian Unity delivered a sound financial result.

Profit after tax for the half-year under review was $14.2 million, compared to $15.5 million in the prior corresponding period (the prior period included a $20.3 million before tax revaluation of the investment in the Platypus Asset Management business on the Group’s acquisition of a controlling interest).

Highlights of the half-year included sound results across the Group’s business platforms overall—despite activities of the Independent & Assisted Living (IAL) platform continuing to be adversely affected by the pandemic and those in the Retail and Wealth & Capital Markets (W&CM) platforms by the flow-on effects of financial market and regulatory change. Within IAL, the Home Care Services business model further progressed in developing improved and sustainable patient and outcome-focused healthcare services. Results in the Retail and IAL platforms lifted over the prior comparative period while the W&CM platform were lower due to investment and real estate market volatility and the prior comparative period revaluation uplift referred to above. The Group continued to advance its social infrastructure agenda, which included the further growth of funds invested in critical social infrastructure, such as disability accommodation and childcare.

Despite a general return to a more normal operating environment, the impact of the COVID-19 pandemic—first reported in the operating and financial review for the year to 30 June 2020—continued to be felt in many ways across the Group’s businesses. For example, the application of additional measures to seek to protect aged care residents, home care customers and the employees who support them was ongoing as COVID-19 continued.

Australian Unity has responded throughout the pandemic by maintaining, and where possible improving, levels of service and responsiveness to the needs and wellbeing of members, customers and employees, while at the same time pursuing efficiency measures to mitigate risks and curtail expenditures. This focus remains in place.

Operating and financial review (continued)

To acknowledge the impact of COVID-19 on health insurance members' access to some health services, Australian Unity announced that it plans to defer the implementation of the 2023 premium increase for private health insurance (PHI) policyholders from 1 April 2023 to 1 November 2023. This planned deferral adds to the package of financial support and relief measures previously provided to support our PHI policyholders through the pandemic and is in recognition of the impact of cancelled, suspended and postponed healthcare services and will bring the total support measures to some $85 million. These prior-period measures have also included the provision of premium relief through the application of 'premium-free days'; the implementation of a range of ancillary product benefit improvements; a six-month deferral of the 2020 premium increase; a low, relative to the sector, 2021 premium increase; cover for COVID-19 related hospital admissions; and a range of telehealth services.

The Group's total revenue and other income increased to $855.2 million (31 December 2021: $835.0 million) during the half-year under review. Overall, revenues from operating businesses grew by $20.5 million ($40.8 million exclusive of the above-mentioned prior comparative period revaluation of the investment in the Platypus Asset Management business) while investment returns lifted by $12.3 million. Revenues attaching to benefit funds decreased by $12.6 million due to lower investment performance.

Total expenses, excluding financing costs, were $806.5 million (31 December 2021: $794.1 million). Expenses of operating businesses increased by 2.2 percent or $16.0 million over the prior corresponding period, with higher employee expenses (up $26.8 million) and banking operation interest expenses (up $8.9 million) while gross health insurance claims were $21.3 million lower. Expenses of benefit funds were down $3.6 million.

The overall outcome represents an improvement in the aggregate financial position, with operating earnings for the half-year of $32.4 million—an increase of $18.6 million or 135.2 percent on the prior corresponding period.

While COVID-19 continues to affect the Group's individual businesses, Australian Unity remains positive about its capacity to respond to these challenges, as well as those posed by higher inflation, and looks to continue building on the considerable opportunities arising from an external environment of uncertainty and market disruption. In the context of this market volatility, the Group will continue to prioritise balance sheet resilience and operational flexibility.

The Group's operations are conducted through three business platforms: IAL; Retail; and W&CM. Key aspects of the operating, financial and strategic performance of each platform during the half-year to 31 December 2022 are set out below. In June 2022 the Group announced that the IAL platform was being divided into two new business areas—Home Health and Specialist Care. As the transformation was not fully implemented throughout the period under review, the financial information and commentary reported for the half-year to 31 December 2022 reflects the former three platform operating stucture.

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 Group overheads and 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 (IAL)

The IAL platform operates retirement communities and provides home care, aged care, retirement living, disability and allied health 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.

Financial performance - Independent & Assisted Living

	Half-year to 31 December 2022 $million	Half-year to 31 December 2021 $million	Variance %
Total segment revenue	**318.3**	291.3	9.3
Operating expenses	**281.8**	263.8	(6.8)
Adjusted EBITDA	**36.5**	27.5	32.9

The IAL platform recorded a solid financial result with total segment revenue of $318.3 million for the half-year, representing an increase of 9.3 percent compared to the prior corresponding period (31 December 2021: $291.3 million).

Home Care Services experienced a 6.4 percent increase in revenue to $180.7 million, Residential Communities increased 8.4 percent to $102.6 million, Health Services increased 30.3 percent to $33.9 million, while Developments increased 27.4 percent to $1.1 million.

Operating and financial review (continued)

Independent & Assisted Living (IAL) (continued)

IAL's adjusted EBITDA of $36.5 million represented an increase of 32.9 percent or $9.0 million on the prior corresponding period.

Home Care Services (HCS)

HCS delivered an adjusted EBITDA of $18.4 million, which was an increase of 59.2 percent on the prior corresponding period. This increase is predominantly related to the ongoing focus on achieving operational efficiencies, combined with cost saving and transformation initiatives across a number of business areas, as well as the introduction of new pricing strategies across Home Care Package (HCP) funding.

More than 1.2 million hours of care were delivered by 2,683 care workers. Care worker retention and recruitment remained a key focus area for the business, given the ongoing challenges experienced across the aged care industry, heightened by the COVID-19 pandemic.

Total Home Care Packages under management reached 10,238 at 31 December 2022—an increase of 195 package clients in the six months to 31 December 2022 (30 June 2022: 10,043).

Within HCS, the Aboriginal Home Care business delivered an adjusted EBITDA of $1.5 million in the half-year under review (31 December 2021: $0.2 million). Approximately 97,000 hours of care were delivered to 2,522 clients by 198 care workers. There were 895 Home Care Packages under management, which was an increase of 30 packages in the six months to 31 December 2022 (30 June 2022: 865).

During the period under review, the Group divested the Disability Services business unit, with the transition of customers and care workers to another dedicated disability services provider on 12 December 2022. From 30 June 2022 until the date of transition, approximately 68,000 hours of care were delivered to 307 customers by 140 care workers.

Residential Communities

Residential Communities operates 11 integrated retirement villages and residential aged care precincts (30 June 2022: 10) in addition to 12 standalone retirement villages (30 June 2022: 13) across New South Wales, Victoria and Queensland. The portfolio comprises 2,664 independent living units (ILUs) and 1,125 aged care beds (30 June 2022: 2,664 ILUs and 1,007 aged care beds) following the commissioning of the rebuilt Walmsley Aged Care residence in November 2022.

COVID-19 gave rise to multiple contained outbreaks within each aged care residence. Despite this, occupancy levels within this portfolio reached 92 percent (30 June 2022: more than 94 percent). The portfolio continued to confront the challenges of attracting, retaining and managing necessary absenteeism associated with COVID-19, resulting in expenditure of $4.9 million on agency staff (31 December 2021: $0.7 million).

The aged care portfolio also successfully transitioned to the Federal Government's new aged care funding instrument implemented on 1 October 2022.

Occupancy within mature retirement villages improved to 94 percent (30 June 2022: 93 percent) following sustained momentum in sales. The gross value of resales during the six-month period ending 31 December 2022 was up 20 percent compared to the prior corresponding period to approximately $80 million (31 December 2021: approximately $67 million).

In an environment where Australia's aged care sector is facing a number of challenges, including those that stem from rising demand, pressure on financial sustainability and ongoing (and uncertain) regulatory and funding changes following the Aged Care Royal Commission, the Group is reviewing the arrangements under which it operates residential aged care, to safeguard both quality care and sustainability. It is anticipated this review will be concluded by mid-2023.

Health Services including Remedy Healthcare and Dental

Remedy Healthcare increased revenue by 33.9 percent to $28.5 million (31 December 2021: $21.3 million), with the increase predominantly related to the Beyond Blue Support Service that commenced operations in February 2022, combined with an increase in activity across the business as a result of easing disruption from COVID-19. More than 32,000 hours of allied services were delivered to HCS clients of Australian Unity, an increase of 23.4 percent on the prior corresponding period.

Remedy Healthcare delivered more than 3,600 'hospital substitution' programs in the period, an increase of 13.9 percent on the prior corresponding period (31 December 2021: approximately 3,200).

Ramsay Connect—the joint venture with Ramsay Healthcare—enrolled more than 1,400 patients into community care hospital substitution and rehabilitation programs, representing a 21.2 percent increase in patient numbers on the prior corresponding period.

Operating and financial review (continued)

Independent & Assisted Living (IAL) (continued)

Australian Unity operates five dental clinics, located in Melbourne CBD (Spring Street), Hughesdale, Moonee Ponds, Rowville and Box Hill. Patient visits increased to 25,756 in the six months to 31 December 2022, an increase of 12.7 percent, compared to the prior corresponding period (31 December 2021: 22,861).

Development

IAL continued to work closely with W&CM in progressing its development pipeline including its signature Better Together® small household aged care model. Further information on development activities is disclosed within the W&CM section of this report.

Outlook

The IAL businesses remain focused on the health and wellbeing needs of customers and key stakeholders—families, primary carers, communities and government agencies.

Workforce growth and transformation of business operations will continue to be key focus areas throughout the remainder of this financial year, ensuring that the business is well positioned and prepared for the introduction of the new Support at Home funding program in July 2024.

COVID-19 and workforce shortages are expected to continue to present challenges and disruptions, however, the business is actively managing these challenges.

The mandatory implementation of minimum care and registered nurse minutes in residential aged care settings comes into effect in the upcoming financial year. The business is well positioned to implement this transition across all of our aged care residences.

Retail

The Retail platform brings together Australian Unity's private health insurance, banking business and general insurance activities. Focusing on the needs of members and customers and broader community value, the Retail business seeks to provide packages and solutions that contribute to solving affordability challenges and that meet the contemporary needs of Australians.

Financial performance - Retail

	Half-year to 31 December 2022 $million	Half-year to 31 December 2021 $million	Variance %
Total segment revenue	**372.9**	355.6	4.9
Operating expenses	**307.3**	315.5	2.6
Adjusted EBITDA	**65.6**	40.1	63.6

The Retail platform delivered a strong result for the half year, with an adjusted EBITDA of $65.6 million—63.6 percent higher than the prior corresponding period. The result includes a $17.3 million or 4.9 percent increase in total segment revenue driven by $6.7 million or 2.0 percent increase in private health insurance revenue and $10.6 million or 73.6 percent increase in banking revenue.

The result reflects a $21.0 million or 8.2 percent increase in private health insurance claims net of risk equalisation compared to the previous corresponding period. The higher level of claims, however, was offset by a reduction in the deferred claims liability provision, which was established in 2020 in response to the deferral of procedures and benefits due to COVID-19. The deferred claims liability decreased by $30.3 million during the half-year to $40.7 million at 31 December 2022.

Total operating expenses were $307.3 million—$8.2 million or 2.6 percent lower than the prior corresponding period. This decrease reflects a $25.3 million reduction in net health insurance claims after allowing for the reduction in the deferred claims liability, an $8.9 million increase in bank interest expense due to higher interest rates and a $8.2 million increase in other operating expenses across the Retail platform.

Operating and financial review (continued)

Retail (continued)

Australian Unity Health Limited (private health insurance)

Health insurance offers Australians a vital level of choice and certainty in managing their health as their needs change over time. Australian Unity's policyholders are insured against a range of costs that, depending on the cover held, includes hospital accommodation, theatre fees, prostheses and more, with extras cover extending to treatments such as dental, optical and physiotherapy.

The number of private health insurance (PHI) policyholders decreased by 1.9 percent over the half-year to 165,053 at 31 December 2022. Overseas visitor cover benefited from a relaxation in border restrictions, with policyholders increasing 15.4 percent to 3,737 at 31 December 2022.

During the period, Australian Unity announced further savings for our PHI policyholders through a planned seven-month deferral of the 2023 premium rate increase from 1 April 2023 until 1 November 2023. This adds to the package of pandemic support measures provided to our policyholders to date, set out at the beginning of this report.

In January 2023, the federal Minister for Health approved Australian Unity Health Limited's (AUHL) 2023 Premium Round submission, with an average increase of 3.76 percent. While this was above the announced sector average for 2023 of 2.90 percent, AUHL's average increase over the past 3 years of 2.83 percent per annum is slightly above the sector average of 2.78 percent per annum.

Australian Unity Bank Limited

As at 31 December 2022, Australian Unity Bank had more than 26,000 customers, with its total assets growing by $85.3 million to $1,421.3 million (30 June 2022: $1,336.0 million) during the half-year under review. The Expected Credit Loss provision on loans increased by $0.7 million to $9.1 million (30 June 2022: $8.4 million).

Australian Unity Bank continued to focus on delivering quality products and services, with an emphasis on digital delivery. Despite significant challenges and disruption presented by the COVID-19 pandemic, the Gross Loan Portfolio increased by $36.0 million to $1,150.5 million (30 June 2022: $1,114.5 million).

Australian Unity Bank Limited's Issuer Credit Rating by S&P Global remained stable at 'BBB+' during the reporting period.

Outlook

The outlook for the Retail platform remains cautiously positive, notwithstanding the continued uncertainties as health insurance claims normalise and bank credit growth slows in response to higher interest rates.

The Retail platform has established a solid foundation for the delivery of customer growth and member value. The platform remains focused on several opportunities arising from the health insurance and banking adjacencies, including packages of banking and insurance products and customer-centered digital platforms that assist the co-ordination of essential financial and health insurance related services.

Wealth & Capital Markets (W&CM)

The W&CM platform comprises the funds management, social infrastructure, life & super, advice and trustee services business units.

The platform undertook a strategic review of its business during the period to better align with the Group's strategic objectives. The review resulted in the development of a new target operating model, being implemented during the 2023 financial year. These changes will enable W&CM to accelerate its contribution to the achievement of Australian Unity's 10-year vision and bring stronger focus to the activities that support the health, financial and wellbeing needs of members, customers and the broader community.

The strategic purpose of the W&CM platform is to lead Australian Unity's efforts in helping Australians achieve and sustain their financial wellbeing, by delivering accessible services, investment, capital and social infrastructure solutions that meet community needs.

W&CM continues to be well placed to take a meaningful role in addressing Australia's social infrastructure challenge. Examples include its expertise in property, across established assets such as healthcare and aged care and increasingly through capabilities in childcare, purpose-built student accommodation and specialist disability accommodation, combined with its ability to raise funds from a wide array of sources within debt and equity markets.

Operating and financial review (continued)

Wealth & Capital Markets (W&CM) (continued)

The platform has investment expertise in cash, fixed interest securities, listed property securities and Australian shares, along with market-leading products in investment bonds, funeral bonds, and education savings plans, that provide access to contemporary, responsible, sustainable investment and savings options for all Australians. In addition, the business works with customers, advisers and industry partners to provide professional advice and trustee services that, together, seek to provide the right services at the right time in the right way, to support the financial and overall wellbeing of our customers.

Financial performance - Wealth & Capital Markets

	Half-year to 31 December 2022 $million	Half-year to 31 December 2021 $million	Variance %
Total segment revenue	**99.5**	104.9	(5.1)
Other income	**-**	20.3	n/a
Operating expenses	**96.1**	95.1	(1.1)
Adjusted EBITDA	**3.4**	30.1	(88.7)

The platform recorded a 5.1 percent decrease in total segment revenue compared to the prior corresponding period reflecting the timing of project-based property services income and continuing impacts from the global pandemic and investment market downturn. In the first half of the 2022 financial year, the segment recorded a $20.3 million gain in other income, arising from the revaluation of the platform's investment in the Platypus Asset Management business on acquisition of a controlling interest (see further on this below under *Funds Management*).

Adjusted EBITDA decreased by 88.7 percent compared to the prior corresponding period. After adjusting for one-off revenue through the controlling interest in the Platypus Asset Management business and one-off costs during the current and prior periods, the decrease was 33.0 percent.

At a platform level, the aggregate value of assets under management and administration (AUMA), excluding cross-investments (investments by Australian Unity funds in other funds managed or operated by Australian Unity or our associates) was $29.79 billion as at 31 December 2022 (30 June 2022: $28.50 billion).

Funds Management

Against a challenging backdrop of ongoing pandemic impacts on markets and distribution activity, the Funds Management business delivered positive growth in key metrics for the half-year under review. Funds under management and advice grew to $10.84 billion as at 31 December 2022 (30 June 2022: $9.90 billion). The business delivered positive net flows across all distribution channels and while market conditions challenged investment performance, the products continued to deliver true to label investment performance for investors and positive social impact to our community.

During the period, the Funds Management business made significant progress in executing its strategic plan to establish a focused portfolio of high quality, differentiated and relevant investment products aligned with Australian Unity's Community and Social Value Framework. For the second year in a row, Altius won the Australian Sustainability Fund Manager of the Year at KangaNews' 2022 Awards for its contribution to driving strong environmental and social outcomes through its investment strategy.

Platypus Asset Management's funds under management and advice grew to $4.66 billion (30 June 2022: $4.33 billion), benefiting from the strong continued support of retail, sophisticated and institutional investors.

Altius Asset Management's funds under management stood at $1.74 billion (30 June 2022: $1.89 billion). Research house ratings were retained across all products. Altius also released its inaugural Impact Report.

Acorn Capital's (a joint venture) funds under management grew to $631.5 million (30 June 2022: $493.0 million) as the business continued to grow through the expansion of its distribution efforts and new research house ratings.

The Funds Management business also manages the $938.9 million investment portfolio of the Group (30 June 2022: $1.01 billion), including the Group's regulatory and strategic capital. In the year to 31 December 2022, the portfolio's weighted average investment return was 1.3 percent, reflecting resilient performance for funds requiring high levels of liquidity across the business' diverse array of investment activities against a backdrop of fluctuating markets.

Operating and financial review (continued)

Wealth & Capital Markets (W&CM) (continued)

Social infrastructure

The Social infrastructure business delivered a positive half-year, with property assets under management increasing to $5.31 billion as at 31 December 2022 (30 June 2022: $4.92 billion). Its multi-year development pipeline stood at $0.73 billion (30 June 2022: $1.31 billion), with lending and debt facilities on behalf of investors (through property funds and its commercial lending activities) of $2.31 billion (30 June 2022: $2.05 billion).

The gross asset value (GAV) of the Healthcare Property Trust reached $3.69 billion, with acquisitions during the period totalling $361.5 million. Significantly, HPT settled the purchase of 12 aged care facilities as well as a number of other transactions that further strengthened the pipeline for the fund. The proceedings issued by NorthWest Healthcare Australia RE Limited against Australian Unity parties including the fund’s responsible entity, Australian Unity Limited and Australian Unity Strategic Holdings Pty Ltd in the Supreme Court of NSW were ongoing. A trial date has been provisionally set for October 2023.

The Select Income Fund delivered a strong performance for the half-year, reaching $366.7 million in FUM (30 June 2022: $305.8 million).

The Group’s presence in social infrastructure continued to grow and broaden. The Childcare Property Fund raised $12.5 million of equity in the half-year under review, which supported a 55 percent growth in total assets of the fund to $68.06 million. This fund growth contributed to an improvement in geographic diversification, diluting previously over-weight fund exposure in Queensland from 71.8 percent to 38.8 percent.

The Specialist Disability Accommodation (SDA) Fund raised $10.6 million in equity, which supported 53.0 percent growth in total assets of the fund to $110.2 million. The number of SDA dwellings in the portfolio also increased by 59.5 percent to 67, all being designed for High Physical Support.

The Property business continued to work closely with the Group’s IAL platform during the period, with the redevelopment of the 120 bed Walmsley Residential Aged Care Facility in Kilsyth, Victoria (completed November 2022), and a vertically integrated residential aged care and assisted living development in South Melbourne, Victoria comprising 84 aged care beds and 71 assisted living apartments (estimated to be completed April 2023).

The design of the prime development site in Brisbane (Auchenflower), which has approval for a vertical retirement village and residential aged care precinct, has been amended to better suit the Better Together® model.

Life & Super

The Life & Super business remains one of Australia's largest investment, education and funeral bonds provider, with $2.34 billion in funds under management and administration as at 31 December 2022 (30 June 2022: $2.30 billion).

During the half-year, gross inflows across Life & Super products reached $112.3 million (31 December 2021: $125.7 million), representing a 10.7 percent decrease compared to the prior corresponding period. This outcome was an encouraging result given the high inflation and associated cost of living pressures experienced by households across Australia during the period.

Support for Life & Super’s products remained strong, particularly in the independent financial adviser network, and the business continued to work with large industry superannuation funds to broaden access to its products through this large and growing network. In the direct-to-consumer market, the 10Invest Investment Bond achieved $78.4 million of funds under management as at 31 December 2022. Australian Unity also continued to occupy a leading position in the pre-paid funeral market via its specialised business Funeral Plan Management, with funeral funds under management of $574.6 million (30 June 2022: $624.5 million) across more than 90,000 clients.

Advice

The Advice business continued to focus on its plan to reach more Australians with accessible and fit for purposes financial advice.

In the half-year to 31 December 2022, nine advisers joined our organisation, with the overall total number of advisers remaining stable at 173 (30 June 2022: 170). Funds under advice (FUA) grew to $10.45 billion (30 June 2022: $9.99 billion), while personal life insurance premiums in-force increased to $111.1 million (30 June 2022: $77.0 million). In addition, separately managed investment accounts (SMA) constructed by the Advice business grew in FUM to $871.4 million (30 June 2022: $798.7 million).

Trustees

The growth of the Trustees business continued with a 12.3 percent increase in FUM to $0.46 billion in the period under review.

Operating and financial review (continued)

Wealth & Capital Markets (W&CM) (continued)

Outlook

The W&CM platform continues to seek to deliver differentiated products and services designed to support and improve the financial wellbeing and economic empowerment of customers, addressing an important community need.

The platform offers a broad yet customer-focused range of products and services centred around enhancing customer financial wellbeing, 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 opportunities, and to deliver increased community and social value.

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

Matters subsequent to the end of the half-year

On 28 February 2023, the Board of Australian Unity Limited has determined an interim fully franked dividend of $2.4932 per Australian Unity Mutual Capital Instrument, totalling $8,561,479, to be paid on 17 April 2023. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2022 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 31 December 2022 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.

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 9.

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.

Lisa Chung
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
28 February 2023

Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2022, 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 review; and

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

This declaration is in respect of Australian Unity Limited and the entities it controlled during the period.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
28 February 2023

	Notes	Half-year 2022 $'000	2021 $'000
Revenue and other income	3	**855,232**	835,044
Expenses, excluding finance costs	4	**(806,477)**	(794,102)
Operating profit		**48,755**	40,942
Finance costs	4	**(24,472)**	(20,360)
Share of net profit/(loss) of joint ventures		**(734)**	1,101
Profit before income tax		**23,549**	21,683
Income tax expense	5	**(9,371)**	(6,215)
Profit for the half-year		**14,178**	15,468
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		**267**	9,234
Income tax relating to this item		**(80)**	(2,770)
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**205**	(2,029)
Other comprehensive income for the half-year, net of tax		**392**	4,435
Total comprehensive income for the half-year		**14,570**	19,903
Profit for the half-year is attributable to:			
Members of Australian Unity Limited	16	**14,178**	15,468
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		**14,570**	19,903

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 16.

	Notes	**31 December 2022 $'000**	30 June 2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**993,901**	1,086,445
Trade and other receivables		**108,999**	142,909
Current tax assets		**14,796**	6,949
Loans and advances	7	**25,420**	28,793
Financial assets at fair value through profit or loss	8	**2,150,080**	2,024,638
Other financial assets at amortised cost		**74,425**	70,505
Other current assets		**44,912**	41,187
Total current assets		**3,412,533**	3,401,426
Non-current assets			
Loans and advances	7	**1,121,863**	1,083,019
Financial assets at fair value through profit or loss	8	**140,652**	122,347
Investments in associates and joint ventures		**17,921**	18,655
Investment properties	12	**1,958,574**	1,904,376
Property, plant and equipment		**493,517**	490,028
Right-of-use assets		**103,133**	109,881
Intangible assets		**365,462**	362,439
Other non-current assets		**41,459**	41,678
Total non-current assets		**4,242,581**	4,132,423
Total assets		**7,655,114**	7,533,849
LIABILITIES			
Current liabilities			
Trade and other payables		**138,828**	165,805
Borrowings	9	**1,256,586**	1,156,166
Lease liabilities		**16,580**	17,306
Provisions	13	**175,902**	189,588
Other current liabilities	10	**1,877,678**	1,854,117
Benefit fund policy liabilities		**285,986**	251,431
Total current liabilities		**3,751,560**	3,634,413
Non-current liabilities			
Borrowings	9	**458,890**	488,830
Lease liabilities		**104,364**	108,977
Deferred tax liabilities		**52,552**	26,281
Provisions		**23,553**	21,110
Benefit fund policy liabilities		**2,109,506**	2,106,557
Total non-current liabilities		**2,748,865**	2,751,755
Total liabilities		**6,500,425**	6,386,168
Net assets		**1,154,689**	1,147,681
EQUITY			
Members' balances		**255,919**	255,919
Mutual Capital Instruments	14	**342,127**	342,127
Reserves		**30,386**	28,948
Retained earnings		**526,257**	520,687
Equity attributable to members of Australian Unity Limited		**1,154,689**	1,147,681
Total equity		**1,154,689**	1,147,681

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

	Notes	Members' balances $'000	Mutual Capital Instruments $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2021		255,919	116,897	7,140	486,538	866,494
Mutual Capital Instruments issued	14	-	224,969	-	-	224,969
Profit for the half-year		-	-	-	15,468	15,468
Other comprehensive income						
- Cash flow hedges		-	-	6,464	-	6,464
- Post-employment benefits		-	-	(2,029)	-	(2,029)
Total comprehensive income		-	-	4,435	15,468	19,903
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		-	-	-	(3,008)	(3,008)
		-	-	-	(3,008)	(3,008)
Balance at 31 December 2021		255,919	341,866	11,575	498,998	1,108,358
Balance at 1 July 2022		**255,919**	**342,127**	**28,948**	**520,687**	**1,147,681**
Profit for the half-year		**-**	**-**	**-**	**14,178**	**14,178**
Other comprehensive income						
- Cash flow hedges		**-**	**-**	**187**	**-**	**187**
- Post-employment benefits		**-**	**-**	**205**	**-**	**205**
Total comprehensive income		**-**	**-**	**392**	**14,178**	**14,570**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		**-**	**-**	**-**	**(8,608)**	**(8,608)**
MCI-based payments		**-**	**-**	**1,046**	**-**	**1,046**
		-	**-**	**1,046**	**(8,608)**	**(7,562)**
Balance at 31 December 2022		**255,919**	**342,127**	**30,386**	**526,257**	**1,154,689**

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

	Notes	Half-year 2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,095,912**	1,218,527
Payments to suppliers and employees (inclusive of goods and services tax)		**(809,306)**	(900,597)
Health insurance claims and benefits paid		**(268,916)**	(257,340)
Net payments of loan assets		**(36,177)**	(31,738)
Net receipts of deposits liability		**69,192**	18,991
Interest received		**26,446**	15,687
Dividends and distributions received		**7,777**	3,805
Interest and finance charges paid		**(19,989)**	(10,716)
Income tax refunds/(payments)		**154**	(12,500)
Net cash inflow from operating activities		**65,093**	44,119
Cash flows from investing activities			
Payments for business acquisitions, net of cash receipts		**(422)**	(68,964)
Payments for investments		**(570,212)**	(703,145)
Payments for investment properties		**(44,036)**	(77,748)
Payments for property, plant and equipment		**(11,673)**	(10,696)
Payments for intangible assets		**(11,743)**	(13,178)
Receipts from investments		**427,663**	689,308
Dividends received from joint ventures		**-**	2,955
Net cash outflow from investing activities		**(210,423)**	(181,468)
Cash flows from financing activities			
Receipts from Mutual Capital Instruments (MCI) issues, net of issuance costs		**-**	222,769
Receipts from borrowings		**9,992**	8,529
Net receipts from refundable lease deposits and resident liabilities		**60,602**	61,641
Payments of borrowings		**(9,200)**	(14,850)
Payments of MCI dividend		**(8,608)**	(3,008)
Net cash inflow from financing activities		**52,786**	275,081
Net increase/(decrease) in cash and cash equivalents		**(92,544)**	137,732
Cash and cash equivalents at the beginning of the half-year		**1,086,445**	1,008,647
Cash and cash equivalents at the end of the half-year	6	**993,901**	1,146,379

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

Notes to the consolidated financial statements

Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2022 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

1 Accounting policies

(a) Implementation of new and amended accounting standards which are mandatory for the first time

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Where applicable, the Group has also adopted new and amended accounting standards which have become mandatory for the interim reporting period since its previous financial year as set out below. The application of these standards has no impact to the amounts reported in the Group's financial statements.

AASB	Title
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments

(b) Comparative information

To enhance comparability with current period disclosures, certain comparative amounts in the financial statements are reclassified. These reclassifications have no impact on the Group’s profit or net assets.

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).

2 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 three customer-facing business platforms which are Independent & Assisted Living, Retail and Wealth & Capital Markets; and the Corporate functions.

2 Segment information (continued)

(a) Description of segments (continued)

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 and operation of Approved Deposit-taking Institution.
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.

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2022 is as follows:

Half-year ended 31 December 2022	**Independent & Assisted Living $'000**	**Retail $'000**	**Wealth & Capital Markets $'000**	**Corporate functions $'000**	**Total $'000**
Total segment revenue	318,313	372,940	99,523	(5,754)	785,022
Inter-segment revenue	(2,504)	-	-	2,504	-
Revenue from external customers	315,809	372,940	99,523	(3,250)	785,022
Adjusted EBITDA	36,531	65,578	3,402	(44,540)	60,971
Depreciation and amortisation					(28,313)
Interest expense					(24,481)
Investment income					7,853
Other expenses					(302)
Income tax expense					(1,550)
Profit from operations					14,178
Share of loss after tax from joint ventures (included in adjusted EBITDA)					(734)
Total segment assets include:					
Income producing assets	160,193	1,798,472	77,081	180,259	2,216,005
Working capital assets	41,867	81,226	82,067	195,448	400,608
Non-interest bearing assets	789,356	20,103	321,957	240,622	1,372,038
Total segment assets	991,416	1,899,801	481,105	616,329	3,988,651
Total segment liabilities include:					
Borrowings and net inter-segment lending	53,684	1,310,981	94,599	379,984	1,839,248
Working capital liabilities	370,837	211,289	31,957	63,839	677,922
Non-interest bearing liabilities	219,852	19,553	29,807	47,580	316,792
Total segment liabilities	644,373	1,541,823	156,363	491,403	2,833,962

2 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2021 is as follows:

Half-year ended 31 December 2021	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
Total segment revenue	291,322	355,623	104,877	(7,446)	744,376
Inter-segment revenue	(2,723)	-	-	2,723	-
Revenue from external customers	288,599	355,623	104,877	(4,723)	744,376
Other income*	-	-	20,329	-	20,329
Adjusted EBITDA	27,485	40,094	30,142	(37,338)	60,383
Depreciation and amortisation					(25,050)
Interest expense					(20,365)
Investment income					(3,848)
Other expenses					(6,219)
Income tax benefit					10,567
Profit from operations					15,468
Share of profit after tax from joint ventures (included in adjusted EBITDA)					1,101
As at 30 June 2022					
Total segment assets include:					
Income producing assets	158,224	1,739,747	74,423	222,896	2,195,290
Working capital assets	32,734	74,158	86,404	87,139	280,435
Non-interest bearing assets	842,585	30,225	306,445	190,443	1,369,698
Total segment assets	1,033,543	1,844,130	467,272	500,478	3,845,423
Total segment liabilities include:					
Borrowings and net inter-segment lending	219,185	1,241,788	87,672	225,957	1,774,602
Working capital liabilities	260,008	260,416	40,077	70,253	630,754
Non-interest bearing liabilities	218,592	17,947	24,796	31,051	292,386
Total segment liabilities	697,785	1,520,151	152,545	327,261	2,697,742

* Based on the measures reported internally to directors, Other income and adjusted EBITDA of Wealth & Capital Markets included a revaluation gain of $20,329,000 arising from a business combination.

(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.

Adjusted EBITDA

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

2 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year	
	2022	2021
	$'000	$'000
Adjusted EBITDA	**60,971**	60,383
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 4)	**(28,313)**	(25,050)
Interest expense		
Finance costs (note 4)	**(24,472)**	(20,360)
Other	**(9)**	(5)
	(24,481)	(20,365)
Investment income:		
Dividend and distribution income (note 3)	**7,459**	3,770
Impairment loss on investment property (note 12(a))	**-**	(5,523)
Loss on investments in financial instruments (note 3)	**(3,533)**	(4,859)
Other interest income (note 3)	**3,618**	1,742
Other	**309**	1,022
	7,853	(3,848)
Other expenses:		
Merger and acquisition expenses	**-**	(5,224)
Other	**(302)**	(995)
	(302)	(6,219)
Profit before income tax attributable to members of Australian Unity Limited (note 16)	**15,728**	4,901
Profit before income tax of benefit funds (note 16)	**7,821**	16,782
Profit before income tax	**23,549**	21,683

3 Revenue and other income

The Group operates in Australia and generates revenue through its business platforms that operate private health insurance, banking 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 adopts different accounting standards for revenue recognition as applicable to each category of revenue.

The following is revenue and other income from operations:

	Half-year	
	2022	2021
	$'000	$'000
Health insurance net premium revenue	**347,816**	341,153
Revenue from services		
Independent and assisted living services and other fees	**164,207**	139,313
Government grants and subsidies funding aged care, home and disability services	**103,320**	109,270
Management and performance fees revenue	**49,688**	48,517
Brokerage and commission	**41,540**	39,061
Healthcare services revenue	**31,122**	22,180
	389,877	358,341
Interest income of bank	**23,570**	13,838
Investment earnings		
Fair value gains, net of impairment loss, on investment property	**9,629**	4,370
Dividend and distribution income	**7,459**	3,770
Other interest income	**3,618**	1,742
Loss on investments in financial instruments	**(3,533)**	(4,859)
	17,173	5,023
Benefit funds income	**63,960**	76,539
Other income	**12,836**	40,150
	855,232	835,044

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.

3 Revenue and other income (continued)

Disaggregation of revenue from services for each business segment for the half-year ended 31 December 2022 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

Half-year ended 31 December 2022	**Independent & Assisted Living $'000**	**Retail $'000**	**Wealth & Capital Markets $'000**	**Corporate Functions $'000**	**Total $'000**
Health insurance net premium revenue	**-**	**347,816**	**-**	**-**	**347,816**
Revenue from services					
Independent & assisted living services and other fees	**167,465**	**-**	**271**	**(3,529)**	**164,207**
Government grants and subsidies funding aged care, home and disability services	**103,320**	**-**	**-**	**-**	**103,320**
Management and performance fees revenue	**(13)**	**-**	**50,547**	**(846)**	**49,688**
Brokerage and commission	**1,129**	**1,418**	**38,993**	**-**	**41,540**
Healthcare services revenue	**30,605**	**-**	**-**	**517**	**31,122**
	302,506	**1,418**	**89,811**	**(3,858)**	**389,877**
Interest income of bank	**-**	**23,570**	**-**	**-**	**23,570**
Investment earnings					
Fair value gains on investment property	**10,162**	**-**	**(533)**	**-**	**9,629**
Dividend and distribution income	**-**	**4,895**	**1,035**	**1,529**	**7,459**
Other interest income	**1,506**	**914**	**136**	**1,062**	**3,618**
Gain/(loss) on investments in financial instruments	**(2,072)**	**(1,867)**	**86**	**320**	**(3,533)**
	9,596	**3,942**	**724**	**2,911**	**17,173**
Benefit funds income	**-**	**-**	**63,960**	**-**	**63,960**
Other income	**3,569**	**409**	**8,013**	**845**	**12,836**
Revenue and other income	**315,671**	**377,155**	**162,508**	**(102)**	**855,232**
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividend and distribution income	**-**	**(4,895)**	**(1,035)**	**(1,529)**	**(7,459)**
Other investment income	**566**	**953**	**(222)**	**(1,382)**	**(85)**
Other	**(428)**	**(273)**	**2,232**	**(237)**	**1,294**
Revenue from benefit funds	**-**	**-**	**(63,960)**	**-**	**(63,960)**
	138	**(4,215)**	**(62,985)**	**(3,148)**	**(70,210)**
Revenue from external customers in segment reporting	**315,809**	**372,940**	**99,523**	**(3,250)**	**785,022**

3 Revenue and other income (continued)

Half-year ended 31 December 2021	**Independent & Assisted Living $'000**	**Retail $'000**	**Wealth & Capital Markets $'000**	**Corporate Functions $'000**	**Total $'000**
Health insurance net premium revenue	**-**	**341,153**	**-**	**-**	**341,153**
Revenue from services					
Independent & assisted living services and other fees	**142,211**	**-**	**505**	**(3,403)**	**139,313**
Government grants and subsidies funding aged care, home and disability services	**109,270**	**-**	**-**	**-**	**109,270**
Management and performance fees revenue	**(12)**	**-**	**49,782**	**(1,253)**	**48,517**
Brokerage and commission	**1,115**	**1,317**	**36,629**	**-**	**39,061**
Healthcare services revenue	**22,881**	**-**	**-**	**(701)**	**22,180**
	275,465	**1,317**	**86,916**	**(5,357)**	**358,341**
Interest income of bank	**-**	**13,838**	**-**	**-**	**13,838**
Investment earnings					
Fair value gains, net of impairment loss, on investment property	**4,903**	**-**	**(533)**	**-**	**4,370**
Dividend and distribution income	**-**	**3,132**	**366**	**272**	**3,770**
Other interest income	**31**	**-**	**2**	**1,709**	**1,742**
Gain/(loss) on investments in financial instruments	**(201)**	**(3,625)**	**(827)**	**(206)**	**(4,859)**
	4,733	**(493)**	**(992)**	**1,775**	**5,023**
Benefit funds income	**-**	**-**	**76,539**	**-**	**76,539**
Other income	**2,296**	**339**	**36,766**	**749**	**40,150**
Revenue and other income	**282,494**	**356,154**	**199,229**	**(2,833)**	**835,044**
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividend and distribution income	**-**	**(3,132)**	**(366)**	**(272)**	**(3,770)**
Other investment income	**170**	**3,625**	**825**	**(1,503)**	**3,117**
Other income - business combination revaluation gain	**-**	**-**	**(20,329)**	**-**	**(20,329)**
Other	**5,935**	**(1,024)**	**2,057**	**(115)**	**6,853**
Revenue from benefit funds	**-**	**-**	**(76,539)**	**-**	**(76,539)**
	6,105	**(531)**	**(94,352)**	**(1,890)**	**(90,668)**
Revenue from external customers in segment reporting	**288,599**	**355,623**	**104,877**	**(4,723)**	**744,376**

4 Expenses

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

	Half-year	
	2022	2021
	$'000	$'000
Client care costs	**36,088**	32,370
Commission expense	**40,884**	38,216
Computer and equipment costs	**25,282**	21,373
Depreciation and amortisation expense	**28,313**	25,050
Employee benefits expense	**300,155**	273,314
Expenses in relation to benefit funds	**56,139**	59,757
Fund manager and administration fees	**8,340**	7,821
Health insurance claims expense	**283,639**	304,951
Health insurance claims recoveries - Net Risk Equalisation Special Account	**(40,665)**	(36,893)
Interest expense of bank	**11,163**	2,286
Legal and professional fees	**15,038**	11,201
Marketing expenses	**7,152**	7,103
Occupancy costs	**12,273**	10,426
Other expenses	**22,676**	37,127
	806,477	794,102
Depreciation and amortisation		
Depreciation of property, plant and equipment	**8,155**	6,269
Depreciation of right-of-use assets	**7,437**	7,227
Amortisation of intangible assets	**12,721**	11,554
	28,313	25,050
Finance costs		
Interest and finance charges on borrowings	**9,322**	8,924
Notional interest on leases and related accounts	**15,150**	11,436
Finance costs expensed	**24,472**	20,360

5 Income tax

(a) Income tax expense

	Half-year	
	2022	2021
	$'000	$'000
Current tax	**(24,974)**	(3,466)
Current tax - benefit funds	**(2,556)**	3,044
Deferred tax	**27,547**	(7,101)
Deferred tax - benefit funds	**15,073**	9,887
Adjustments for current tax of prior periods	**(1,022)**	-
Adjustments for current tax of prior periods - benefit funds	**(4,697)**	3,851
	9,371	6,215

5 Income tax (continued)

(a) Income tax expense (continued)

	Half-year	
	2022	2021
	$'000	$'000
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease in deferred tax assets	**28,280**	5,174
Increase/(decrease) in deferred tax liabilities	**14,340**	(2,388)
	42,620	2,786

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

	Half-year	
	2022	2021
	$'000	$'000
Profit before income tax	**23,549**	21,683
Less: Profit in benefit funds	**(7,821)**	(16,782)
Profit before income tax for the period	**15,728**	4,901
Tax at the Australian tax rate of 30% (2022: 30%)	**4,718**	1,470
Non-assessable income	**(2,890)**	(7,278)
Other assessable amounts	**7**	499
Non-deductible expenditures	**392**	2,020
Other deductible expenditures	**(660)**	(771)
Other tax adjustments	**(17)**	(6,507)
Tax in benefit funds	**7,821**	16,782
Income tax expense	**9,371**	6,215

The income tax results for the six months to 31 December 2022 and the 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.

Financial assets and liabilities

6 Financial assets - Cash and cash equivalents

	31 December	30 June
	2022	2022
	$'000	$'000
Cash at bank and on hand	**28**	27
Bank balances	**129,653**	92,101
Deposits at call	**864,220**	994,317
	993,901	1,086,445

The balance of cash and cash equivalents as at 31 December 2022 included the Parent Entity's accounts totalling $87,030,000 (30 June 2022: $136,451,000) and amounts held by benefit funds totalling $343,067,000 (30 June 2022: $380,741,000).

7 Financial assets - Loans and advances

	31 December 2022 $'000	30 June 2022 $'000
Current		
Mortgage loans	**29,736**	32,477
Personal loans	**4,602**	4,627
Provision for impairment	**(8,918)**	(8,311)
Total - current	**25,420**	28,793
Non-current		
Mortgage loans	**1,114,926**	1,077,644
Personal loans	**5,846**	4,184
Provision for impairment	**(161)**	(71)
Advances	**1,252**	1,262
Total - non-current	**1,121,863**	1,083,019
Total loans and advances	**1,147,283**	1,111,812

(a) Mortgage loans

Mortgage loans are provided to customers by the Group's authorised deposit-taking institution, Australian Unity Bank Limited (AUBL). The mortgage loans are secured on real property. These loans mature at various dates up to 31 December 2052 and earn interest at annual interest rates between 1.84% and 9.08% (30 June 2022: between 1.84% and 6.83%).

AUBL entered into transactions by which financial assets were transferred to the Reserve Bank of Australia (RBA) under repurchase agreements. These transactions were associated with the term funding facilities provided by the RBA. The transfers of financial assets under repurchase agreements do not qualify for derecognition. As at 31 December 2022, the carrying amounts of the financial assets under repurchase agreements totalled to $50,360,000 (30 June 2022: $50,360,000). Refer to note 9(d) for further information of the RBA term funding facilities.

(b) Personal loans

AUBL also provides personal loans to customers. The personal loans mature at various dates up to 12 December 2029 and earn interest at annual rates between 5.99% and 15.18% (30 June 2022: between 5.99% and 15.18%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans above. It is calculated based on an expected credit loss (ECL) model. The provision for impairment totalling to $9.1 million as at 31 December 2022 (30 June 2022: $8.4 million) consisted of $5.9 million loans in the Stage 1 twelve-month ECL category (30 June 2022: $5.7 million), $0.9 million loans in the Stage 2 lifetime ECL not credit impaired category (30 June 2022: $0.6 million), and $2.3 million loans in the Stage 3 lifetime ECL credit impaired category (30 June 2022: $2.1 million).

(d) Past due but not impaired

At 31 December 2022, loans and advances that were past due but not impaired amounted to $58,029,000 (30 June 2022: $38,118,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value

The fair value of current and non-current loans and advances are provided in note 11.

8 Financial assets at fair value through profit or loss

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

	31 December 2022 $'000	30 June 2022 $'000
Securities held by benefit funds	**1,941,443**	1,827,908
Securities held by subsidiaries	**349,289**	319,077
	2,290,732	2,146,985

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:

	31 December 2022 $'000	30 June 2022 $'000
Equity trusts	**1,400,596**	1,305,628
Fixed interest and other debt security trusts	**476,995**	449,785
Mortgage trusts	**15,764**	16,664
Property syndicates and trusts	**48,088**	55,831
	1,941,443	1,827,908

(b) Securities held by subsidiaries comprise the following:

	31 December 2022 $'000	30 June 2022 $'000
Equity trusts	**26,203**	25,019
Fixed interest and other debt security trusts	**209,988**	176,962
Mortgage trusts	**1**	1,380
Property syndicates and trusts	**113,097**	115,716
	349,289	319,077

(c) Current and non-current split

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

	31 December 2022 $'000	30 June 2022 $'000
Current	**2,150,080**	2,024,638
Non-current	**140,652**	122,347
	2,290,732	2,146,985

9 Financial liabilities - Borrowings

	31 December 2022 $'000	30 June 2022 $'000
Current		
Secured interest bearing liabilities		
RBA term funding facilities	**25,193**	25,193
Retirement Village Investment Notes	**33,210**	-
Total secured interest bearing liabilities	**58,403**	25,193
Unsecured interest bearing liabilities		
Call deposits	**629,628**	645,492
Loan payable to related entity	**5,100**	5,100
Mortgage offset savings accounts	**178,939**	168,546
Term deposits	**384,516**	311,835
Total unsecured interest bearing liabilities	**1,198,183**	1,130,973
Total current borrowings	**1,256,586**	1,156,166
Non-current		
Secured interest bearing liabilities		
Development finance loan	**28,593**	18,601
RBA term funding facilities	**18,389**	18,389
Retirement Village Investment Notes	**18,401**	51,611
Total secured interest bearing liabilities	**65,383**	88,601
Unsecured interest bearing liabilities		
Australian Unity Bonds - Series C		
Face value	**115,019**	115,019
Valuation at amortised cost	**(1,059)**	(1,245)
At amortised cost	**113,960**	113,774
Australian Unity Bonds - Series D		
Face value	**207,000**	207,000
Valuation at amortised cost	**(1,768)**	(2,078)
At amortised cost	**205,232**	204,922
Bank Loans	**-**	9,200
Term deposits	**74,315**	72,333
Total unsecured interest bearing liabilities	**393,507**	400,229
Total non-current borrowings	**458,890**	488,830
Total borrowings	**1,715,476**	1,644,996

9 Financial liabilities - Borrowings (continued)

(a) Australian Unity Bonds

On 15 October 2019, the Company issued 1,150,192 Series C and 2,070,000 Series D Australian Unity Bonds - Tranche 1 of $100 each pursuant to the prospectus dated 9 September 2019, raising $322,019,200 in total. Series C and Series D Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHC and AYUHD respectively). Series C Australian Unity Bonds have a five-year term maturing on 15 December 2024 and bear interest at the three month BBSW rate plus a margin of 2% per annum. Series D Australian Unity Bonds have a seven-year term maturing on 15 December 2026 and bear interest at the three month BBSW rate plus a margin of 2.15% per annum. The interest of both series of bonds is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year.

As specified in the prospectus, the net proceeds from the issue of the bonds (after deducting the bonds issuance costs) were used to refinance the Series B Australian Unity Bonds that participate in the reinvestment offer and for general corporate purposes.

The bonds are redeemable by the Company prior to their maturity date for certain 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 Series C and Series D Australian Unity Bonds, the Company 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 lease liabilities and the Company's unencumbered cash and cash equivalents. 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 Series C and Series D Australian Unity Bonds. The Covenant Gearing Ratio is determined by reference to the accounts prepared on the basis of the Australian Accounting Standards in place as at the date of the Base Prospectus. As at 31 December 2022, the Covenant Gearing Ratio was 28% (30 June 2022: 25%).

(b) Bank loan

Bank loan reported under non-current borrowings of $9,200,000 as at 30 June 2022 represented a loan facility for general corporate purposes. The amount was repaid during the half year reporting period.

(c) Development finance loan

Development finance loan reported under non-current borrowings of $28,593,000 (30 June 2022: $18,601,000) represented a loan facility for the development of retirement and aged care facilities in Victoria. This loan is secured by the first ranking securities over the respective properties and the refundable accommodation deposits relating to the aged care facilities. The loan bears interest at BBSY rate plus margin. As at 31 December 2022, the interest rate was 5.00% per annum (30 June 2022: 1.80%).

(d) RBA term funding facilities

In the 2021 financial year, the Reserve Bank of Australia (RBA) offered three-year term funding facilities to authorised deposit-taking institutions (ADI) to reinforce the benefits to the economy with lower cash rates and encourage ADI to support home loan customers during a difficult period of COVID-19 pandemic. These facilities were provided during the period from April 2020 to June 2021. The total amount of funding the Group had received from the RBA as at 31 December 2022 was $43,582,000 (30 June 2022: $43,582,000) with average interest at 0.19% per annum (2022: 0.19% per annum). These facilities are secured by transfers of financial assets under repurchase agreements.

9 Financial liabilities - Borrowings (continued)

(d) RBA term funding facilities (continued)

The carrying amounts of the financial assets transferred under repurchase agreements and the associated liabilities are set out below:

	31 December 2022 $'000	30 June 2022 $'000
Carrying amount of transferred assets under repurchase agreement	**50,360**	50,360
Carrying amount of associated liabilities	**43,582**	43,582
Net position	**6,778**	6,778

(e) Retirement Village Investment Notes (RVIN)

RVIN are debt instruments issued by a subsidiary of the Group. The proceeds from RVIN issues were utilised by the Group for expanding the Independent & Assisted Living business and general corporate purposes. The RVIN are secured by a registered first ranking 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.

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. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1 or other subsidiary entities of the Group.

As at 31 December 2022, the total amount of RVIN on issue reported as interest bearing liabilities was $51,611,000 (30 June 2022: $51,611,000).

10 Other current liabilities

	31 December 2022 $'000	30 June 2022 $'000
Financial liabilities		
Refundable accommodation deposits	**444,954**	433,181
Resident loan liabilities	**1,264,490**	1,215,661
	1,709,444	1,648,842
Non-financial liabilities		
Unearned income	**158,953**	194,638
Other	**9,281**	10,637
	168,234	205,275
Total other current liabilities	**1,877,678**	1,854,117

(a) Unearned income

Unearned income represents mainly health insurance premium revenue and government subsidies 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.

10 Other current liabilities (continued)

(c) Resident loan liabilities

Resident loan liabilities relate to residents who occupy the retirement villages (refer to investment properties 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

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value.

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 31 December 2022.

(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).

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2022 and 30 June 2022 on a recurring basis:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2022				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	**8,614**	**1,418,185**	**-**	**1,426,799**
Fixed interest and other debt security trusts	**-**	**686,983**	**-**	**686,983**
Mortgage trusts	**-**	**15,765**	**-**	**15,765**
Property syndicates and trusts	**16,145**	**145,040**	**-**	**161,185**
Interest rate swaps	**-**	**31,213**	**-**	**31,213**
Other financial assets	**-**	**-**	**6,933**	**6,933**
Total financial assets	**24,759**	**2,297,186**	**6,933**	**2,328,878**
Non-financial assets				
Investment properties	**-**	**-**	**1,958,574**	**1,958,574**
Total non-financial assets	**-**	**-**	**1,958,574**	**1,958,574**
Financial liabilities				
Life investment contract policy liabilities	**-**	**1,622,002**	**-**	**1,622,002**
Resident loan liabilities	**-**	**-**	**1,264,490**	**1,264,490**
Total financial liabilities	**-**	**1,622,002**	**1,264,490**	**2,886,492**

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2022				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	8,694	1,321,953	-	1,330,647
Fixed interest and other debt security trusts	-	626,747	-	626,747
Mortgage trusts	-	18,044	-	18,044
Property syndicates and trusts	22,111	149,436	-	171,547
Interest rate swaps	-	30,946	-	30,946
Other financial assets	-	-	6,964	6,964
Total financial assets	30,805	2,147,126	6,964	2,184,895
Non-financial assets				
Investment properties	-	-	1,903,226	1,903,226
Total non-financial assets	-	-	1,903,226	1,903,226
Financial liabilities				
Life investment contract policy liabilities	-	1,555,007	-	1,555,007
Resident loan liabilities	-	-	1,215,661	1,215,661
Total financial liabilities	-	1,555,007	1,215,661	2,770,668

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 financial period. 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.

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

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. Where the fair value of the development sites cannot be reliably measured, they 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 assets for the half-year ended 31 December 2022:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2022	**6,964**	**1,904,376**	**1,911,340**
Additions	**-**	**69,896**	**69,896**
Commercial property rent received in advance movements	**-**	**533**	**533**
Retirement living properties sold	**-**	**(25,860)**	**(25,860)**
Fair value gains/(losses) recognised in other income*	**(31)**	**9,629**	**9,598**
Closing balance 31 December 2022	**6,933**	**1,958,574**	**1,965,507**

*Included in the gains/(losses) recognised in other income:			
Unrealised gains/(losses) recognised in the profit or loss attributable to assets held at the end of the financial period	**(31)**	**9,629**	**9,598**

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 key inputs used in fair value measurements and the impact of changes in each input:

Description	Fair value at 31 December 2022 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties, excluding non-retirement village development sites	1,824,135	Discount rate	12.75% - 14.0%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -$22.7 million/+$25.0 million (2022: -$22.0 million/+$24.3 million).
		Property growth rate	2.0% - 4.0%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +$40.1 million/ -$36.5 million (2022: +$39.4 million/ -$35.7 million).
		Average length of residents' stay	5-8 years for serviced apartments, 8-16 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 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 responsible Executives, the Chief Financial Officer and the Audit Committee. Discussions of valuation processes and results are held between the valuation team, the Audit Committee, the Chief Financial Officer and the responsible Executives 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. The results of the actuarial property valuation model are monitored via a regular cycle of periodic external valuations by independent accredited valuers.

11 Fair value measurements (continued)

(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:

	31 December 2022		30 June 2022	
	Amortised cost $'000	**Fair value $'000**	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**1,144,662**	**1,145,461**	1,101,740	1,102,696
Advances	**1,252**	**1,117**	1,262	1,170
	1,145,914	**1,146,578**	1,103,002	1,103,866
Current and non-current liabilities				
Australian Unity Bonds	**319,192**	**322,019**	318,696	306,782
Bank loans	**28,593**	**27,548**	27,801	27,193
RBA funding facilities	**43,582**	**42,969**	43,582	43,061
Retirement Village Investment Notes	**51,611**	**50,877**	51,611	52,655
Term deposits	**458,831**	**456,354**	384,168	382,119
	901,809	**899,767**	825,858	811,810

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 and development sites 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.

	31 December 2022 $'000	30 June 2022 $'000
Retirement village independent living units	**1,674,772**	1,637,640
Development sites - retirement village independent living units	**149,363**	147,638
Development sites - Herston Quarter	**132,824**	118,016
Commercial property	**40,897**	40,897
Commercial property rent received in advance*	**(39,282)**	(39,815)
	1,958,574	1,904,376

* Commercial property rent received in advance relates to receipts in the 2021 financial year for the full term of a lease expiring in 2059. The unwinding of the balance is recorded over the term of the lease.

12 Non-financial assets - Investment properties (continued)

(a) Movements of investment properties

	31 December 2022 $'000	30 June 2022 $'000
At fair value		
Balance at the beginning of the period	**1,904,376**	1,646,704
Acquisition of subsidiaries	**-**	231,840
Additions	**69,896**	162,845
Commercial property rent received in advance movements	**533**	1,082
Retirement living properties sold	**(25,860)**	(158,660)
Net fair value movements	**9,629**	26,088
Impairment loss	**-**	(5,523)
Balance at the end of the period	**1,958,574**	1,904,376

During the year to 30 June 2022, a decision was made to not proceed with a development opportunity and consequently an impairment of $5,523,000 in relation to the costs of the development has been recognised.

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

	Half-year	
	2022 $'000	2021 $'000
Revenue	**30,306**	39,420
Expenses	**(19,615)**	(24,043)
Changes in fair value recognised in profit or loss	**9,629**	4,370
	20,320	19,747

13 Non-financial liabilities - Provisions

	31 December 2022 $'000	30 June 2022 $'000
Current provisions		
Employee benefits provision	**60,688**	59,536
Health insurance claims provision	**104,559**	122,406
Other provisions	**10,655**	7,646
	175,902	189,588

Health insurance claims provision

Health insurance claims provision represents provision made for outstanding claims and deferred claims. Provision is made for claims outstanding at the end of the reporting period, being claims for services incurred but not yet reported or reported but not yet processed, the economic cost of which will arise in a later period. Since 30 June 2020, a specific claims liability has also been recorded for deferred claims that were a result of surgeries and other health services being restricted for policyholders as the impact of the COVID-19 pandemic. There is a general expectation that as these restrictions are lifted there will be a catch up of procedures and benefits claimed in the future. As the restrictions were ceased, there was no additional deferred claims provision raised during the half-year period ended 31 December 2022. During this reporting period the Group recorded the unwinding of deferred claims provision of $29,975,000 (2021: $19,175,000).

The risk margin of 7.7% (30 June 2022: 7.7%) combined with the central estimate is estimated to equate to a probability of adequacy of at least 95% (30 June 2022: at least 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.

13 Non-financial liabilities - Provisions (continued)

The weighted average expected term to settlement of claims from the balance date is estimated to be 1.8 months (30 June 2022: 1.8 months). The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments of $9.19 million (30 June 2022: $7.28 million).

The Group will continue to assess its deferred claims provision valuation approach in light of the changing environment and emergence of claims catch-up data as restrictions ease.

The amounts of outstanding claims and deferred claims as at the end of the reporting period are as follows:

	31 December 2022 $'000	30 June 2022 $'000
Outstanding claims - central estimate including risk equalisation	**57,342**	46,180
Risk margin	**4,569**	3,661
Claims handling costs	**2,000**	1,600
Outstanding claims provision	**63,911**	51,441
Deferred claims - central estimate including risk equalisation	**34,481**	60,200
Risk margin	**4,961**	8,660
Claims handling costs	**1,206**	2,105
Deferred claims provision	**40,648**	70,965
Total claims provision	**104,559**	122,406

Movements in the outstanding claims provision during the period are as follows:

	31 December 2022 $'000	30 June 2022 $'000
Balance at the beginning of the period	**51,441**	51,745
Claims incurred during the period	**311,509**	570,495
Claims paid during the period	**(302,429)**	(574,026)
Movements in other components	**3,390**	3,227
Balance at the end of the period	**63,911**	51,441

Movements in the deferred claims provision during the period are as follows:

	31 December 2022 $'000	30 June 2022 $'000
Balance at the beginning of the period	**70,965**	51,322
Deferred claims provision incurred during the period	**-**	38,818
Unwinding of provision during the period	**(29,975)**	(17,871)
Movements in other components	**(342)**	(1,304)
Balance at the end of the period	**40,648**	70,965

14 Mutual Capital Instruments

Mutual Capital Instruments (MCI) are financial instruments created exclusively for Australian mutual entities, such as Australian Unity Limited, to access permanent capital without compromising their mutual entity status and to decrease their sole reliance on retained profits as a source of new capital. The opportunity to issue mutual capital instruments was created by the Treasury Laws Amendment (Mutual Reforms) Act 2019 which came into effect in April 2019 with the intention of improving growth, innovation and competition in sectors where mutual entities operate. In accordance with the requirements of AASB 132 *Financial Instruments: Presentation*, MCIs are presented on the balance sheet at their carrying amount after deducting directly attributable transaction issuance costs, net of any income tax benefit.

On 24 December 2020, the Company issued 1,200,000 Australian Unity Mutual Capital Instruments (Australian Unity MCI) at an issue price equal to its face value of $100 each pursuant to the prospectus dated 7 December 2020, raising $120,000,000 in total. On 3 November 2021, the Company issued a further 2,234,000 MCIs with a face value of $100 at an issue price of $103 each pursuant to the prospectus dated 11 October 2021 (as supplemented by the supplementary prospectus dated 15 October 2021), raising $230,102,000 in total.

The issue of the Australian Unity MCIs forms part of the Company's ongoing capital management strategy with the proceeds to be used for a range of opportunities across the Group. These opportunities include pursuing near-term growth opportunities within the individual businesses as well as investing capital across the Group where third-party funding has historically been utilised. A portion of the proceeds were also used to repay debt facilities that were utilised for a number of strategic investments in social infrastructure. The use of proceeds may also extend to merger and acquisition opportunities across the Group's operating platforms, including to increase investment in social infrastructure and to help support business consolidations in important mutual sectors such as private health insurance, banking and friendly societies.

Australian Unity MCIs are perpetual, fully paid mutual capital instruments that are listed on the Australian Securities Exchange (code: AYUPA). The holders of Australian Unity MCIs are expected to receive fixed rate dividend payments to be paid semi-annually in arrears. The dividends are discretionary and non-cumulative. The Company may determine to pay no dividend, a partial dividend or an optional dividend. Dividends that are not paid do not accrue and will not subsequently be paid. The dividend rate for Australian Unity MCIs is 5.00% per annum on their face value and are expected to be fully franked. Dividends are scheduled to be paid semi-annually in arrears on 15 April and 15 October each year.

During the first six months of the 2023 financial year, the Company paid a fully franked dividend of $2.5068 (2022: $2.5068) per Australian Unity MCI totaling to $8,608,352 (2022: $3,008,160).

In accordance with the terms of Australian Unity MCIs, the Company has the right to repurchase Australian Unity MCIs for certain reasons related to the occurrence of a tax event, a regulatory event or a demutualisation event. If a demutualisation event occurs, the Company will be required to repurchase Australian Unity MCIs before the demutualisation takes effect. A holder has no right to request or require repurchase of Australian Unity MCIs. On a winding-up, Australian Unity MCIs rank for payment behind all creditors, including holders of Australian Unity Bonds, but ahead of non-shareholder Members of Australian Unity Limited. On winding-up, Australian Unity MCI holders will be entitled to a cash payment equal to face value and the amount of any dividend due and unpaid.

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.

15 Business combination

Acquisition of Platypus Asset Management Pty Ltd

In the previous financial year, the Group obtained control over Platypus Asset Management Pty Ltd (PAM), a joint venture entity, through the purchase of an additional 49% of PAM shares for $20,684,000 from the other PAM shareholder. Prior to the acquisition, the Group owned 50% of PAM shares and reported the investment in the joint venture at a carrying amount of $777,000. The Group also entered into a put and call option agreement with the other PAM shareholder whereby the Group had an option to buy and the other shareholder had an option to sell the remaining 1% of PAM shares held by that shareholder for a consideration of approximately $422,000.The option was exercised on 30 September 2022.

15 Business combination (continued)

Acquisition of Platypus Asset Management Pty Ltd (continued)

Detail of the purchase consideration, revaluation of initial investment, the net assets acquired and goodwill recognised in the accounting for step acquisition are as follows:

	$'000
Purchase consideration and revaluation of initial investment	
Payments for acquiring 50% of the shares	21,106
Carrying amount of initial investment	777
Fair value adjustment to the carrying amount of initial investment	20,329
	42,212
The assets recognised and the liabilities assumed as a result of the acquisition:	
Cash and cash equivalents	1,215
Trade and other receivables	3,669
Right of use assets	1,624
Other assets	340
Intangible assets - Brand	5,669
Intangible assets - Customer relationship	9,534
Goodwill	36,861
Deferred Tax Liability	(3,824)
Trade and other payables	(1,627)
Dividend payable	(1,875)
Lease liability	(1,630)
Other liabilities	(939)
Share-based payment liability	(6,805)
	42,212

16 Reconciliation of profit attributable to members of Australian Unity Limited

	Half-year ended 31 December 2022		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	**791,272**	**63,960**	**855,232**
Expenses, excluding finance costs	**(750,338)**	**(56,139)**	**(806,477)**
Finance costs	**(24,472)**	**-**	**(24,472)**
Share of net losses of joint ventures	**(734)**	**-**	**(734)**
Profit before income tax	**15,728**	**7,821**	**23,549**
Income tax expense	**(1,550)**	**(7,821)**	**(9,371)**
Profit after income tax for the half-year	**14,178**	**-**	**14,178**

16 Reconciliation of profit attributable to members of Australian Unity Limited (continued)

	Half-year ended 31 December 2021		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	758,505	76,539	835,044
Expenses, excluding finance costs	(734,345)	(59,757)	(794,102)
Finance costs	(20,360)	-	(20,360)
Share of net profits of joint ventures	1,101	-	1,101
Profit before income tax	4,901	16,782	21,683
Income tax benefit/(expense)	10,567	(16,782)	(6,215)
Profit after income tax for the half-year	15,468	-	15,468

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.

17 Commitments

Capital commitments

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

	31 December 2022 $'000	30 June 2022 $'000
Financial assets at fair value through profit or loss		
Within one year	**3,792**	3,200
Later than one year but not later than five years	**1,600**	3,200
	5,392	6,400
Investment property		
Within one year	**58,683**	88,188
Later than one year but not later than five years	**20,896**	32,900
	79,579	121,088
Total capital commitments	**84,971**	127,488

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 the design and construction of Stage 7 Lady Norman. These milestones are anticipated to be completed within the next two years with capital expenditure in the range of $9 million.

18 Contingencies

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.

Guarantees

The Group has entered into bank guarantee arrangements totalling $85,222,000 as at 31 December 2022 (30 June 2022: $77,244,000) 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.

The Group had no other contingent assets or liabilities at 31 December 2022.

19 Events occurring after the reporting period

On 28 February 2023, the Board of Australian Unity Limited has determined an interim fully franked dividend of $2.4932 per Australian Unity Mutual Capital Instrument, totalling $8,561,479, to be paid on 17 April 2023. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2022 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 31 December 2022 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.

20 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2022 and 2021 were as follows:

- Property development management fees charged to related entities, $117,814 (2021: $351,413).
- Dividends received from joint ventures, $nil (2021 $2,955,304).
- Investment management fees charged to joint ventures, $1,554,745 (2021: charged to joint ventures $1,090,816).
- Commission, director fees and other costs charged to joint ventures, $163,956 (2021: charged to joint ventures $225,264).
- Investment income from related entities, $84,444 (2021: investment income $3,245,536).
- Performance fees charged by joint ventures, $nil (2021 $142,693).

20 Related party transactions (continued)

(a) Transactions and balances with related parties (continued)

Balances with related parties as at 31 December 2022 with comparative amounts as at 30 June 2022 were as follows:

	31 December 2022 $	30 June 2022 $
Assets		
Cash and cash equivalents	**705,488,683**	862,081,350
Trade and other receivables	**950,834**	661,614
Financial assets at fair value through profit or loss	**372,977,849**	353,684,358
	1,079,417,366	1,216,427,322
Liabilities		
Trade and other payables	**-**	256,419
Loans payable to related entities	**5,100,000**	5,100,000
	5,100,000	5,356,419

(b) Terms and conditions

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 40 are in accordance with the *Corporations Act 2001*, including:

 (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

 (ii) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and

(b) 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.

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

Lisa Chung
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
28 February 2023

Independent auditor's review report to the members of Australian Unity Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Australian Unity Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Australian Unity Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410). Our responsibilities are further described in the Auditor's responsibilities for the review of the half-year financial report section of our report.

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 & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the

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half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
28 February 2023