180 YEARS

Australian Unity

Real Wellbeing

Annual Report 2020

Group facts and statistics

700,000
Customers

260,000 Members

7,000
Employees

2,496 Independent retirement units

$40m
Raised for new Specialist Disability Accommodation Fund

$275m
Capital funds raised for Healthcare Property Trust

1,800
10Invest investment bond customers since launch in September 2019

$224m
Funds under management for education solutions

24,500 Banking customers

786 Aged care beds

1,800,000
Ancillary services funded for health insurance policyholders

~96%
Retirement community occupancy rate

21 years
Investing through the Healthcare Property Trust

$299m
In new loans written by Australian Unity Bank

21 Retirement communities

37.2%
Increase in Independent & Assisted Living adjusted EBITDA

$2.5m
Spent with Aboriginal and Torres Strait Islander suppliers

300+
Aboriginal & Torres Strait Islander employees in Aboriginal Home Care

$160,000
Australian Unity Foundation community grants

20 years Australian Unity Wellbeing Index

9.7%
Revenue increase for Remedy Healthcare

As at 30 June 2020

Contents

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

About Australian Unity

Established in 1840, Australian Unity is Australia's first member-owned wellbeing company, delivering health, wealth and care services.

Australian Unity was formed to support individuals and communities to thrive, and for 180 years we've remained true to our roots as a member-owned company, reinvesting our profits back into products, services and smart solutions that benefit our customers, members and the community. Today, while we've grown to a company of about 7,000 employees with hundreds of thousands of members and customers across Australia, our focus remains the same —to deliver Real Wellbeing.

We're for Real Wellbeing—not just health and wellness, but the holistic view of wellbeing that we've been researching with Deakin University for 20 years.

Our purpose

We're here to help people thrive

Strategy

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

Areas of operation

Health, Wealth & Care

What we work to deliver

Real Wellbeing

Our strategic pillars

Create a great place to work

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

Put our customers and members front and centre

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

Deliver sustainable performance

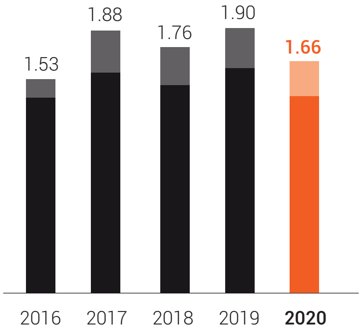
We've been here for 180 years and we want to be here for many more.

Make a difference in our community

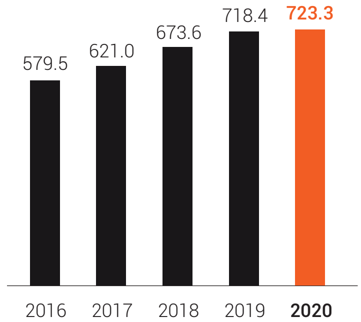
Community is at the heart of what we do.

2020 at a glance

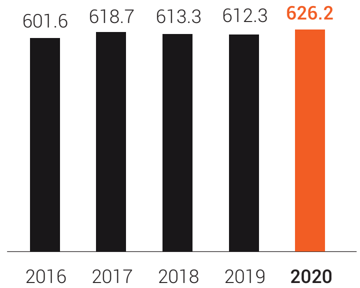
Revenues ($b)†Σ
$1.66 billion



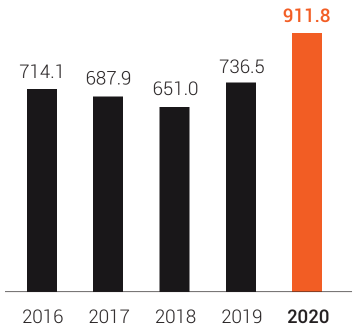
Members' funds ($m)‡
$723.3 million



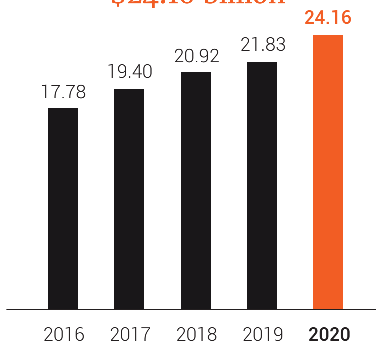
Private health insurance gross claims paid ($m)
$626.2 million



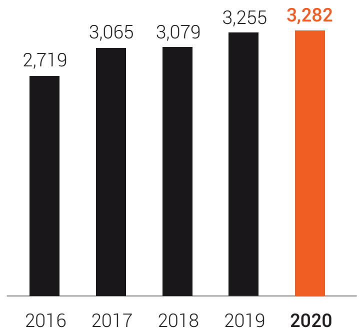
Australian Unity Bank loan book ($m)¥
$911.8 million



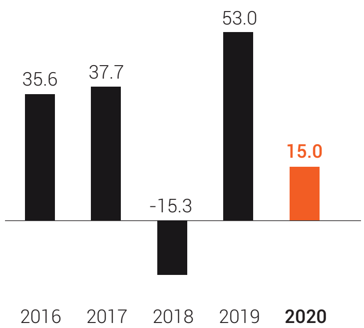
Assets & funds under management and advice ($b)*
$24.16 billion



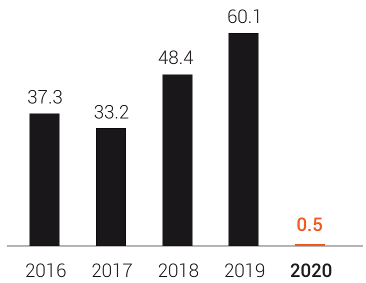
Retirement units and aged care beds
3,282



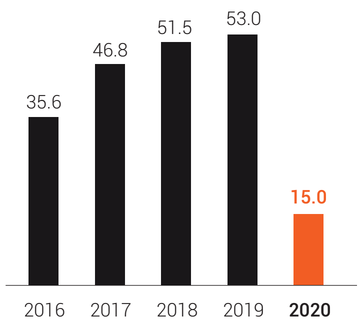
Profit from continuing operations ($m)¶
$15.0 million



Profit before income tax ($m)^
$0.5 million



Profit after income tax ($m)
$15.0 million



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

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

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

¥ Australian Unity Bank loan book: gross loans less Provision for doubtful debts.

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

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

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

Chair's report

Despite the emergence of a global pandemic that has wrought substantial economic damage and cultural harm in the second half of the year under review, the Australian Unity Group continued to progress its strategic agenda as an organisation providing products and services to meet the wellbeing needs of its members and customers, while delivering community and social value.

As the Group entered its 180th year in December 2019, there was little indication of the unprecedented challenges it would face in the months ahead with the emergence of the COVID-19 pandemic. The impact of COVID-19 has been felt in many ways across the Group's businesses—from the implementation of extraordinary measures to seek to protect our aged care residents, home care customers and the employees who support them, to the provision of hardship relief for health insurance and banking customers, and the effect of tightened economic circumstances and the equity market downturn on the financial position of many who invest with Australian Unity.

In addition to the other responses to the pandemic, the board considered the position of the board and senior staff. The board determined that it would forgo 10 percent of director fees from 1 July through to December 2020—at which time it will review the situation. In relation to senior staff, we determined that there would be no payments of variable remuneration in relation to the 2019–20 financial year.

Responding to the COVID-19 pandemic

Throughout our 180-year history, we have supported Australians through times of war, financial upheaval and natural disaster—as well as in the recovery and rebuilding efforts that followed those shattering events. With our current operations delivering a range of health, wealth and care services, the Group introduced a comprehensive COVID-19 response package to support the wellbeing of our members, customers, employees, supply chains, public and private healthcare capacity, and the broader community. Your board and its committees met on 38 occasions during the year as part of the governance response to the pandemic.

Our immediate focus in the emergence of COVID-19 was the health and wellbeing of the 50,000 plus Australians and more than 5,000 employees across our home care and disability business, aged care residential communities, and Aboriginal home care business. We put systems in place and trained our employees on how to protect from and respond to outbreaks, as well as working with health authorities to review and update infection control procedures. Our subsidiary, Remedy Healthcare, introduced telehealth services for rehabilitation, physiotherapy, occupational therapy, exercise physiology and nursing support to enable eligible patients to continue receiving vital health treatment, despite the restrictions created by COVID-19.

To help reduce the financial impact on customers, we postponed all private health insurance and overseas visitors cover premium increases for at least six months, while extending coverage for private health insurance policyholders for hospital admissions, irrespective of their level of cover, if that admission relates to COVID-19. We also introduced assistance options for our banking customers, including the ability to temporarily pause repayments on loans, including credit cards; temporary interest rate relief on lending; and early access to term deposits without incurring any fees.

To protect the health, safety and wellbeing of the Group's 7,000 employees, we introduced specific health and safety measures to protect our home and residential care workers, and supported most of our office-based employees to work from home. Recognising that COVID-19 affected the way we work and created new and sometimes challenging issues for our people, the Group adjusted its leave management guidelines and strengthened measures to support employee mental health and wellbeing.

Financial performance

The emergence of COVID-19 in the second half of the year caused substantial financial and operational shocks, including various revenue and cost impacts across the Group. These included delays to initiatives planned for the second half of the year, which needed to be paused or stopped to allow management to respond to immediate business continuity requirements. Notwithstanding, the Group's financial performance reflected a commitment to maintaining and where possible improving levels of service and responsiveness to the needs of our members and customers, while at the same time pursuing efficiency measures to mitigate risks and curtail expenditures. A priority for the Group in the year under review was the maintenance of a solid balance sheet position in support of operational resilience and agility. This was progressed with a bond issue initiative in October 2019 that spread the maturity of borrowings.

It should be noted that another option for raising funds—the issuing of Mutual Capital Instruments (MCIs)—was provided to the Group through a vote of members at the 2019 Annual General Meeting. The opportunity to issue these financial instruments resulted from legislative amendments that passed through the Australian Parliament in 2019, allowing mutual entities, subject to constitutional adjustment, to raise permanent capital without compromising their mutual status. While the Group did not exercise this option in the year under review, there is good potential in this capital-raising instrument for supporting our strategic agenda in the future.

Delivering value

Seeking to deliver value to members, customers, employees and the broader community has been a hallmark of the Group since its origins in 1840. Some 180 years later, that commitment is demonstrated not only in our portfolio of products and services that matter most to people's wellbeing, but also through our efforts in helping address Australia's social infrastructure challenge.

Significant progress was made in our headline social infrastructure project—the $1.1 billion Herston Quarter redevelopment in Brisbane. The first Herston building delivered through the partnership between Australian Unity and the Queensland Government—the $390 million Surgical, Treatment and Rehabilitation Service (STARS)—is scheduled for completion in the first half of the 2021 financial year. Solid progress was made across developments in our Residential Communities portfolio during the year. Three facilities opened during 2019—Sienna Grange Aged Care in Port Macquarie, NSW; Racecourse Grange Aged Care in Mornington, Victoria; and The Grace Albert Park in South Melbourne—continued to progress through the fill stages.

The Healthcare Property Trust (HPT) completed a successful capital raising of approximately $275 million during the year under review, while about $40 million in equity was raised for the Group's new Specialist Disability Accommodation Fund to provide accessible accommodation for Australians with disability.

In the year under review, the Group continued to progress its work on delivering greater recognition and shared value with the members of Australian Unity Limited, while continuing work on the development of a Community & Social Value framework to provide a meaningful and reportable measurement of the value that the Group's activities deliver to the community.

Advancing our strategic agenda

As the Group celebrates its 180th anniversary in the year under review, it is worth noting the significance of the past decade in terms of ensuring that our organisation is well placed to continue meeting the needs of its members, customers, employees and the communities in which we live and work for decades to come.

There have been several notable highlights, for example, the acquisition of Home Care NSW in 2016 and the Herston Quarter project discussed above. These highlights align with the strategic agenda that the Group has advanced for most of the past decade: to shape an organisation that provides products and services to meet the wellbeing needs of its members and customers, while delivering social infrastructure outcomes that benefit the broader community.

In the year ahead, the board plans to revise its 10-year strategic plan. While a marked departure from the current plan is not expected, the new plan will identify how we should improve and expand upon the actions we have taken over the past 10 years.

In conclusion, on behalf of the board I want to thank Group Managing Director Rohan Mead and his executive team for their hard work in an extremely challenging year. We also note the departure at the end of the year under review of two long-serving executives, David Bryant (Chief Executive Officer, Wealth & Capital Markets) and Matt Walsh (Chief Executive Officer, Retail); their contribution over many years was important in establishing the Group in its current form. We also pay tribute to the efforts of all our employees and thank them for their resilience, agility and determination in the face of extraordinary circumstances.

Peter Promnitz
Chair

Group Managing Director's report

The year under review was one of distinct and vastly differing halves for Australian Unity. We commenced the year progressing our strategic priorities in a strong market, but in the second half were tested operationally and financially by the global pandemic that brought substantial community and economic disruption.

Despite the unprecedented challenges presented by the COVID-19 pandemic, the Group maintained positive momentum with its strategic agenda as a provider of health, wealth and care products and services that meet the wellbeing needs of its members and customers—and deliver community and social value.

In this vein, we announced and then deferred a below-industry average health insurance premium increase, and then implemented a material set of hardship support provisions for our health insurance, banking and other services. We continued to grow our human services and social infrastructure activities, while making concerted efforts to protect the customers and staff of these activities from COVID-19. While the financial performance of the underlying business portfolio was resilient in many regards, there were nonetheless significant revenue and cost impacts on the financial results.

The Group delivered a profit after income tax of $15.0 million for the year under review, compared to $53.0 million in the prior year. Overall, we estimate that direct and indirect COVID-19 impacts reduced the year's net profit before income tax by approximately $26.0 million. These impacts included deferral of private health insurance premium increases; customer cancellations of home care, disability, dental and healthcare services; some additional government funding receipts; reduced funds under management, lending and property services activity fees; costs of additional personal protective equipment (PPE) and related consumables; increased expected credit loss (ECL) provisioning; and cost containment (including some restructuring costs) undertaken in response to these pandemic effects. This financial impact is an estimate and should not be regarded as definitive. Many of the factors assessed are relative, based on earnings reductions compared to pre-COVID-19 levels of activity or value, but if COVID-19 had not occurred, these levels of activity or value may still have declined.

In addition, the result was affected by costs associated with the relocation of the Group's head office premises, as well as some $5.4 million in additional timing-related costs due to the inception of the new accounting standard on leases. Also, in terms of year-on-year assessments, there was no equivalent in the year under review to the legal settlements received in the Life & Super business in the prior year.

Navigating a challenging operating environment

The onset of the COVID-19 pandemic in the second half of the year required a rapid and comprehensive response across the Group, particularly from our Independent & Assisted Living platform, which provides support and care to tens of thousands of vulnerable customers through its aged care, allied health, disability and Indigenous services. Our key priority was and continues to be the safety and wellbeing of our customers in our aged care residential communities and those receiving services in their homes, and our employees who care for them. It should be noted that many of these customers and employees had already endured anxiety, uncertainty and disruption caused by the catastrophic bushfires that ravaged the eastern states only months earlier.

While these human services were a priority in terms of the health and safety of our customers and employees, businesses across the Group were required to respond in ways that protected the health and wellbeing of our customers. For example, measures were introduced to support customers of our health insurance, banking and wealth management services—particularly those experiencing financial duress—while our Remedy Healthcare business quickly and effectively moved some aspects of its allied health and nursing services to a telehealth delivery mode.

The pandemic also required our people to adapt quickly and adopt new ways of working. Understandably, our frontline care workers needed to operate under more restrictive health and safety conditions, while our business technology capabilities were rapidly reshaped to allow most of our office-based employees to work remotely.

With COVID-19 and other challenges in our operating environment in the year under review, the Group undertook a prudent reshaping of its cost structure to increase financial resilience. This included the introduction of some staffing reductions, in conjunction with cost containment measures in recruitment, professional fees, marketing and other areas of discretionary expenditure.

Strengthening our operations

Another priority for the Group in the year under review was the maintenance of a solid balance sheet position. To this end, in October 2019 the Group took advantage of capital market and investor support, along with attractive market settings, and acted to spread the maturity of its borrowings through the issue of $322.0 million of Series C and D Australian Unity Bonds. Of this amount, $178.7 million was used to refinance previously issued Series B Australian Unity Bonds. This refinancing allowed the Group to continue to operate confidently and effectively despite the emergence of COVID-19.

Our operations were also strengthened in the year under review through the establishment of a workers compensation self-insurance program in NSW; delivery of technology solutions, including a new data centre; implementation of a new enterprise risk management framework and tools; and completion of important regulatory programs required of our private health insurance business.

Advancing our strategic ambitions

Despite the unprecedented challenges that emerged as the year under review unfolded, we continued to progress our strategic ambition of developing a portfolio of valued health, wealth and care services for members and customers. We delivered or progressed several initiatives aligned to this agenda, including the launch of Ramsay Connect—a joint venture through our subsidiary company Remedy Healthcare—and the ongoing development of Brisbane's Herston Quarter health precinct with the Queensland Government. We launched both the Australian Unity Green Bond Fund to invest in green, social and sustainable fixed interest securities, and a Specialist Disability Accommodation fund to invest in a portfolio of assets that will provide accessible accommodation for Australians with disability.

Strategic and financial performance of the three business platforms

Each of our three business platforms made a positive contribution to the result in the year under review.

Independent & Assisted Living (IAL) ended the year under review with an adjusted EBITDA[1] of $66.1 million, which was an increase of 37.2 percent ($17.9 million) on the prior year—or 64.8 percent ($23.6 million excluding the Development portfolio). This increase reflected a continued focus on improving the sustainability of IAL's Home Care Services business. IAL continued to focus on its development pipeline of aged care and retirement communities while acquiring The Heritage retirement village in Hunters Hill, NSW, in February 2020. At 30 June 2020, IAL owned and operated 21 retirement communities across Victoria and NSW, comprising 2,496 independent living units (June 2019: 2,469).

Retail had a challenging year in mixed operating conditions, with adjusted EBITDA of $61.2 million, a decrease of $13.2 million (17.7 percent) on the prior year. This result was driven principally by the growth in private health insurance claims expenses exceeding revenue growth for the year. The need for effective sector reform is demonstrated by the shared and common shape of the sector's experiences. The platform's banking business, Australian Unity Bank, generated strong lending growth that enabled the banking business to offset the impact of lower interest rates on its revenue.

Wealth & Capital Markets (W&CM) recorded an adjusted EBITDA of $32.8 million, which was a $17.7 million (35.0 percent) decrease on the prior year. The platform recorded a 5.8 percent decrease in total segment revenues compared to the previous period, however, after adjusting for one-off legal settlements in the Life & Super business in the prior period, the platform delivered revenue growth across most of its business segments, which was pleasing given the unfolding global health crisis. The decrease in adjusted EBITDA was also relatively affected by the legal settlements in the 2019 financial year. Platform highlights included continued progress of the Herston Quarter development, as well as the launch of the Green Bond Fund and Specialist Disability Accommodation Fund mentioned above—all initiatives that contribute to the Group's long-term sustainability, while delivering community and social value outcomes for members, customers and the broader Australian community.

In conclusion, strategic positioning over many years supported continued, if muted, positive momentum across the Group in the year under review. The Group remains well positioned for long-term sustainability and for growing its increasingly needed and valued services for burgeoning community needs, despite the continuing industry and broader market volatility driven by the COVID-19 pandemic. This positive forward momentum is in no small part due to the extraordinary efforts of our staff and management colleagues, who I thank and commend for their wonderful commitment, under the guidance of our leadership team and board.

Looking ahead, the Group will seek to maintain balance sheet resilience and operational agility as it pursues the development of its business portfolio and its contribution to the social infrastructure challenge, in support of Real Wellbeing.

Rohan Mead
Group Managing Director
& Chief Executive Officer

1 Adjusted EBITDA: adjusted earnings before tax, depreciation and amortisation, interest expense and investment income.

Business performance

Independent & Assisted Living

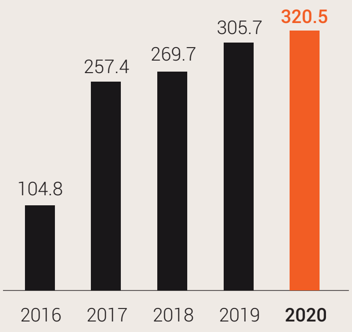
$496.4m

in total segment revenue
(2019: $469.4m)

$66.1m

in adjusted EBITDA^
(2019: $48.2m)

Home Care Services adjusted revenue ($m)
$320.5 million



Retail

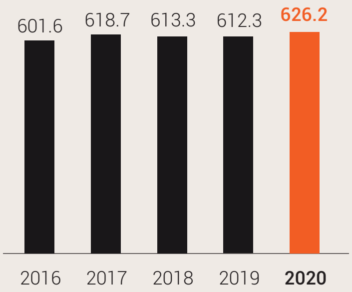
$709.5m

in total segment revenue
(2019: $722.1m)

$61.2m

in adjusted EBITDA^
(2019: $74.4m)

Private health insurance gross claims paid ($m)
$626.2 million



Wealth & Capital Markets

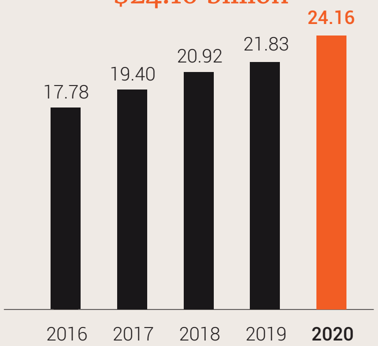
$170.5m

in total segment revenue
(2019: $180.9m)

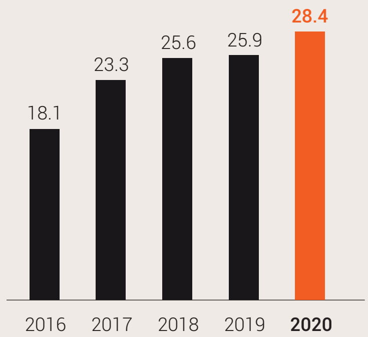
$32.8m

in adjusted EBITDA^
(2019: $50.5m)

Assets & funds under management and advice ($b)*
$24.16 billion



Remedy Health revenue ($m)
$28.4 million



Independent & Assisted Living development pipeline ($m)
Total $504.6 million

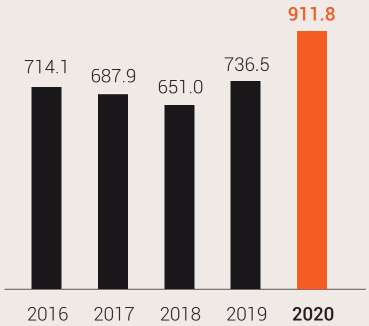
Albert Road
Aged Care
$122.9m

Lane Cove
Lane Cove Development
$167.4m

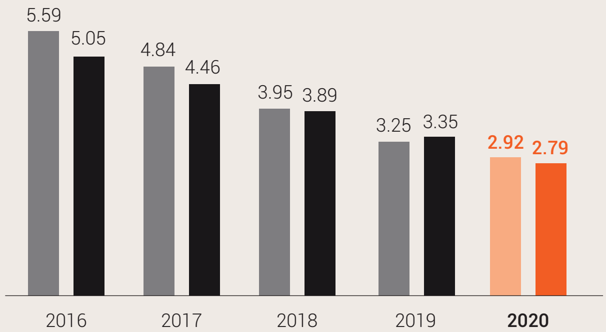
Herston Quarter
Wellbeing Precinct
$168.4m

Walmsley
Aged Care
$45.9m

Australian Unity Bank loan book ($m)¥
$911.8 million



Average private health insurance premium rate increase (%)
Total 2.79%



Industry

Australian Unity health insurance

Assets & funds under management, advice and developments (and associated debt facilities) ($b)
Total $24.16 billion

Investment funds under management and advice	$8.22b
Property under management	$3.52b
Property under development	$1.29b
Debt facilities under management	$1.37b
Funds under advice	$7.14b
Funds under trusteeship	$0.35b
Life & Super funds under management	$2.27b

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

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

¥ Australian Unity Bank loan book: gross loans less Provision for doubtful debts.

Community & social value

Environmental, Social and Governance

Environmental, social and governance (ESG) criteria have become increasingly important as a set of standards for assessing a company's activities and sustainability.

Environmental

The Group seeks to minimise any adverse environmental impact and achieve sustainability in everything we do. This is demonstrated through our strong record of considering environmental best practice in our built form, as shown with our headquarters in Spring Street, Melbourne, which was built to five-star Green Star and five-star NABERS standards—despite significant heritage constraints. It also guided our plans for adaptive reuse of heritage-listed buildings at the Herston Quarter development in Brisbane. Our approach is also evident in our work to meet the environmental objectives of our capital partners, and the ongoing work of our Investments business to address its sustainable investment principles through minimising negative impacts on communities, seeking opportunities to contribute to more sustainable communities, and investing in companies that provide solutions to sustainability challenges.

Social

Having a social impact is at the core of what we do and, accordingly, we see the 'S' in ESG as a way of measuring our performance as a wellbeing company. Consequently, we have developed the **Community & Social Value** framework outlined on these pages to help us understand, articulate and measure our social impact. This framework focuses our decision-making on delivering value, in the form of wellbeing, to our members, customers, employees and community.

Governance

We are proud to have a strong social focus and presence. We believe this is built on the foundations of good corporate governance and sound risk management practices that are a fundamental part of the culture and business of the Group. The key aspects of the Group's corporate governance framework and risk management practices are outlined in the *Governance statement* section of this annual report.

Community & Social Value

For 180 years, Australian Unity has delivered products and services that contribute to the real wellbeing of its members, customers, employees and the broader Australian community.

Beyond our products and services, we have advocated for and supported the development of public policy that benefits our society—from federation of an independent nation and mandatory seatbelts in cars, to a national disability insurance scheme. We have also lent a helping hand when and where needed, as demonstrated in the year under review through our support for those Australians affected by the devastating bushfires that ravaged parts of our country.

We made solid progress during the year in our ambition to develop a framework for understanding, articulating and measuring the community and social value of what we do. The Community & Social Value (CSV) framework will define and measure performance across three areas of impact: **Lifelong Wellness**, **Economic Empowerment**, and **Strong Communities**.

This work has been underpinned by our partnership with Deakin University on the Australian Unity Wellbeing Index. Celebrating its 20th annual survey in the year under review, the Australian Unity Wellbeing Index measures how satisfied Australians are with life across a range of areas—standard of living, health, achievement, personal relationships, safety, community connection and future security. As we move forward with our CSV framework, the Australian Unity Wellbeing Index methodology will be integrated into how we measure and report our community and social impact.

Lifelong Wellness

Australian Unity seeks to help its members and customers attain better levels of health and wellness, with greater control reflected in informed decision-making, self-reliance and access to care that is focused on their individual needs. We also advocate on behalf of our members and customers for well-resourced and efficient health and human services systems that deliver improved health outcomes and better standards of care.

In the year under review, our Remedy Healthcare business provided its MindStep® program to more than 300 participants. Built around low intensity cognitive behavioural therapy, MindStep® is a six-week phone and internet-based program that empowers participants to manage their depression and anxiety on their own terms and in the privacy of their own home. More than 60 percent of MindStep® participants recovered within three months, compared to a benchmark self-recovery rate over three months of 23 percent for untreated patients. Remedy Healthcare also expanded its telehealth and in-home services to enable participating health fund members to receive or continue treatment and care at home. Overall, Remedy Healthcare's telehealth and in-home health services prevented an estimated 50,000 days in hospital and an estimated $37 million in health costs relative to in-hospital provision.

During the year, our home services business started developing comprehensive goal-oriented wellbeing plans with its customers—to be evaluated and revised at least annually—to help them achieve their wellbeing goals. At 30 June 2020, about 70 percent of our customers in this area had been upgraded to wellbeing plans from their previous care plans.

Providing a safe workplace is vital to the wellbeing of our employees and requires a strong reporting culture, which was reflected in an increase in the number of hazards and incidents reported during the year under review. The number of medical treatment injuries decreased 30 percent and the number of days lost associated with a claim improved by 8 percent compared to the prior year—attributable to a decrease in severity, early intervention and proactive return to work management.

Economic Empowerment

Australian Unity's products and services help its members and customers build financial security and resilience, giving them a greater sense of confidence about their future and more protection from the challenges of life.

In the year under review, almost 2,000 Australians started saving for their future via the Group's new 10Invest product. More than 80 percent of these investments include a regular savings plan which is five times the savings rate of the Australian population. Similarly, over the past 21 years, many Australians have invested in social infrastructure through the Group's Healthcare Property Trust. In addition to the strong returns generated for investors, this trust has delivered substantial healthcare infrastructure, including 14 hospitals, 20 medical centres and seven aged care facilities.

Our Trustees service has focused on helping Australians manage their financial affairs, including many considered as disadvantaged. During the year under review, Trustees managed $6.8 million for resident trust funds to enable 4,055 disadvantaged people to live independently, prepared 577 wills, and protected the financial affairs of 467 people with a disability.

Consistent with our commitment to Reconciliation, in recent years Australian Unity has sought to develop meaningful and impactful relationships with Aboriginal and Torres Strait Islander peoples, their communities and Indigenous businesses. This includes building a standalone Aboriginal Home Care business that employs more than 300 people—most of whom identify as Aboriginal or Torres Strait Islander—making it one of the largest employers of Aboriginal women in NSW. Our commitment is also demonstrated through our Reconciliation Action Plan which, in the year under review, guided expenditure of $2.5 million on goods and services supplied by 35 Indigenous enterprises. Through direct employment and contracting with suppliers that employ Indigenous peoples, we have created approximately $8.2 million of total social benefit for Indigenous communities.

Strong Communities

Australian Unity supports the development of strong communities that provide their people with a sense of purpose through meaningful engagement and social connectedness. We recognise that strong communities deliver access to services, foster social innovation that addresses changing community needs, and seek to reduce the social infrastructure gap.

Our work in social infrastructure development continued in the year under review, most notably through the further progression of the $1.1 billion Herston Quarter health precinct in Brisbane in partnership with the Queensland Government. We also successfully launched a Specialist Disability Accommodation Fund, raising approximately $40 million to invest in accessible accommodation for more than 100 people with disability over the next two years. It is anticipated this will lead to greater lifelong wellness for residents and their families, with support centred around needs, self-reliance and improved health outcomes.

About 70 percent of Australian Unity's aged care homes—and all new residential communities—are designed and operated under our Better Together® model. To improve resident wellbeing, the guidelines for this model of care includes higher staff-to-resident ratios, consistency of staff rostered to each household of residents, short distances to living spaces, and meals prepared within the household. Research (Dyer et al, 2018) has shown that this type of model can improve the quality of life for residents, with outcomes including a 73 percent lower chance of an emergency department presentation, a 52 percent lower chance of being prescribed a potentially inappropriate medication, and a 68 percent lower rate of hospital admission.

Consistent with our 180-year history of helping Australians in times of war, economic depression, drought and other emergencies, in the year under review, Australian Unity supported its members, customers and employees and communities affected by the summer bushfires. Similarly, we have supported members, customers and employees affected by the COVID-19 pandemic.

Governance

Australian Unity Board of Directors

Peter Promnitz
BSc (Hons), AIAA, FAICD
Chair

Rohan Mead
Group Managing Director & Chief Executive Officer

Lisa Chung
AM, LLB, FIML, FAICD

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

Paul Kirk
BEc, ACA, RITA, MAICD

Su McCluskey
BCom, FCPA, MAICD

Julien Playoust
BSc (Arch), BArch (Hons), MBA, FAICD

Gregory Willcock
BCom, FCPA, FAICD, MAIM, FFin

Australian Unity Group Executives

Rohan Mead
Group Managing Director &
Chief Executive Officer

Prue Bowden
BA, MEmpLabRelLaw
Group Executive—People & Culture

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

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

Esther Kerr-Smith
BEc, BAsianStudies, GAICD
Chief Executive Officer—Wealth & Capital Markets

Darren Mann
BCom, CA
Group Executive—Finance & Strategy and Chief Financial Officer

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

Christine Yates
BEc, CA, FFin, GAICD
Chief Executive Officer—Retail
(from August 2020)

Ms Kerr-Smith was previously the Group Executive–Finance & Strategy and was appointed as Chief Executive Officer–Wealth & Capital Markets in July 2020.
Mr Mann was previously Deputy Head of Finance and Chief Financial Officer and was appointed as Group Executive–Finance & Strategy in July 2020.

Governance statement

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

Good corporate governance and sound risk management practices are a fundamental part of the culture and business of the Group, of which Australian Unity Limited (the Company) is the parent. The Company is a mutual-entity, which has been trusted to deliver wellbeing services since 1840. While the Group operates on commercial principles, its primary aim is to reinvest profits back into its businesses to deliver services and initiatives that foster wellbeing and community value. Additionally, the Group uses its profits to further strengthen its governance frameworks and to carefully monitor the positive impact that its products, services and other initiatives have on members, customers and the community.

The key aspects of the Group's corporate governance framework and risk management practices are set out below.

COVID-19

The Group has not been immune to the effects of COVID-19, in both revenues and expenses. As a result, the Group has taken the following steps to manage the challenges presented by COVID-19:

- increasing Group Leadership Team meetings to discuss and manage the impacts of COVID-19;
- increasing board briefings; and
- making revisions to the annual operating plan to take into account the impacts of COVID-19.

From a strategic perspective, the Group has placed more emphasis on balance sheet strength to ensure the sustainability of the business despite some earnings trade-offs that were required. The Group has focused on tactical operational decisions as it responds to COVID-19; however, it is in a position to review the longer term strategic implications and opportunities that arose from the external environment in the year under review.

Regulatory Framework

ASX listing rules

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

Regulators

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

Board of Directors

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

Board composition and expertise

As at 30 June 2020, there were eight directors on the board. Julien Playoust joined the board on 1 February 2020, bringing a wealth of experience across multiple sectors. The board comprises a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members. The average tenure of non-executive directors at the end of the year in review was five years.

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

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

Directors must also possess particular skills or experience relevant to the business operations of the Group and be 'fit and proper' within the meaning of Australian legislation and regulatory regimes applicable to the Group's business operations.

The board, led by the Chair, regularly considers the skills represented by the directors to ensure the mix of skills remains appropriate for achieving the Group's objectives. The board consists of directors with a broad range of experience, expertise and diversity in background and gender.

The board ensures that it continuously identifies opportunities to improve its own performance.

The board's current skills-matrix includes:

Specific Skills

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

General Skills

- ✓ Management
- ✓ People and culture
- ✓ Finance and accounting
- ✓ Law
- ✓ Governance
- ✓ Risk and compliance
- ✓ Regulatory and public policy
- ✓ Marketing and communications

Board role and responsibilities

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

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

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

Role of Chair

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

Meetings of the board

The board met on 18 occasions during the year under review, including a meeting to consider the revised annual operating plan and its application to the year ahead.

Avoidance of conflicts of interest

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

Retirement and re-election of directors

Directors (other than the Group Managing Director) serve for a term of not more than three years from the conclusion of the annual general meeting at which they are elected. Non-executive directors will generally serve no more than four terms. However, if a non-executive director is appointed as Chair, then such non-executive director (subject to re-election), may serve a minimum of two further terms from the date that they have been appointed Chair.

Committees

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

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

Audit Committee

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

Risk & Compliance Committee

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

Investment Committee

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

People, Culture & Remuneration Committee

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

The PC&R Committee oversees the frameworks that enable the desired values, culture, workforce engagement, workplace diversity, talent management and succession across the Group Executives and financial control and reporting personnel as defined by the APRA standards.

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

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

Remuneration

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

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

Audit

External auditor

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

A representative from PwC attended the October 2019 annual general meeting to answer any questions from members on the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted in the preparation of the financial statements and PwC's independence in relation to the conduct of the audit of the Group's financial statements. A representative from PwC will attend the October 2020 annual general meeting of the Company to fulfil a similar role.

Internal audit

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

Risk Management

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

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

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

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

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

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

Tax Transparency

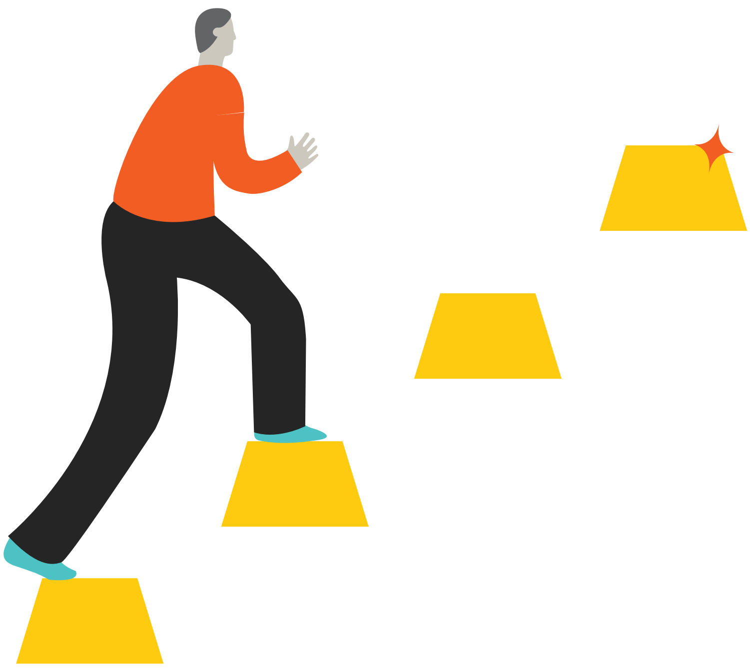
The Company (as the head company of the Australian Unity tax consolidated group) is a signatory to the Board of Taxation's Register in respect of the Voluntary Tax Transparency Code (the Tax Transparency Code). The Tax Transparency Code supports greater tax disclosure in Australia and reflects the Company's commitment to compliance and governance.

Each financial year end the Company publishes details of the taxes paid or payable by the Australian Unity tax consolidated group, and the Australian Unity Tax Transparency Report is released annually through the Company's website at australianunity.com.au/companyperformance.

Compliance

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

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



Financial overview

In writing this report, I am acutely aware of the significant changes in circumstances from when I wrote my report last year, and for that matter, in considering the Group results at the half-year.

At the half year, the Group was well advanced in progressing its strategic objectives, with adjusted EBITDA of $42.6 million being $12.3 million higher than the previous corresponding period. The Group reported on material and continued earnings growth, particularly from our home care business. We had executed the successful, prudent early refinancing of the Group's listed bonds, with $322.0 million of Series C and Series D bonds issued in October 2019—an increase of $72.0 million from the previous amount issued in December 2015.

However, the second half of the year proved extremely challenging. The Group's home care business had to navigate the impacts of bushfires and regional floods throughout much of Australia, and then the entire Group operations had to respond to the multi-faceted challenges from the impact of the COVID-19 pandemic.

I was humbled by the resilience and adaptability that was displayed by our employees, members and customers during these unprecedented times. Our frontline workers were, and indeed continue to be, relentless in their efforts to service our members and customers, while our office-based staff were highly adaptive in responding to new working from home arrangements and all the associated challenges that environment created.

Notwithstanding the challenges the external environment imposed on the Group, it continued to make positive progress across components of the portfolio while advancing its social infrastructure and human services agenda. The Herston Quarter project in Queensland continued to progress as a market-leading offering, and our Home Care Services business further refined the business insights and operating efficiencies programs that were commenced in previous years.

The financial statements contained in this report were prepared in accordance with the Corporations Act and relevant accounting standards and provide numerical insight into how the Group performed financially over the year. Importantly, in the year under review, the new accounting standard AASB 16 *Leases* was introduced and the appropriate accounting treatments are represented in the financial statements and accompanying notes. This standard impacts Australian Unity predominantly due to its recent corporate office move from South Melbourne to 271 Spring Street, Melbourne, and through the number of leased properties within the home care business. For reporting purposes, the Group has recognised a right of use asset on the balance sheet, and items that would previously be recognised as an expense impacting EBITDA are reported as depreciation and finance costs.

I encourage members to read the financial statements in detail to gain further insight into how the Group has performed, and to understand how we are executing our strategy. In particular, given the current year external impacts, it is important that members understand the sub-componentry of the Group results that are explained in part below and in more detail within the Operating and Financial Review that forms part of the *Directors' report* in this annual report.

A year with positive progress in elements of the portfolio, impacted by broader external settings

Across the three business platforms, the Group made progress on its strategic objectives in the first half but was financially impacted by regulatory and macro challenges in the second half. Pleasingly for the largest of our newer businesses, Home Care Services, ongoing investment in technology and business insights and an enhanced operating model resulted in a material improvement in its financial position, which saw it finish the period on track for sustainable customer growth.

For our Retail platform, conditions were challenging, with continued pressure on the health insurance industry in relation to affordability, an underestimation across the sector in the prior year of the net claims position, and in the current year, the net claims expense movement exceeding revenue growth. The scheduled April premium round increase was delayed, further impacting revenues. Within the Banking business, we saw a continuation of the strong lending growth it has experienced in recent years.

Our Wealth & Capital Markets (W&CM) platform continued to make significant progress with the Herston Quarter project in Queensland. In the previous year, this platform benefitted from a financial settlement within its Life & Super business following the unanimous decision by the High Court against Ancient Order of Foresters in Victoria Friendly Society. This was non-recurring and partly explains the movement from the previous year.

In addition, the Group made appropriately cautious decisions regarding investments and components of the property portfolio that led to the lower adjusted EBITDA recognised in the year under review compared to the prior year.

The Independent & Assisted Living (IAL) platform made a positive improvement on the prior year's result with adjusted EBITDA growing by $17.9 million. As explained above, the year under review coincided with the introduction of AASB 16 *Leases*, which had a positive impact on the year on year adjusted EBITDA movement. The Home Care Services business, which continues to deliver on its priority growth and efficiency initiatives, achieved a $13.0 million adjusted EBITDA improvement in comparison to the prior year. Across the asset base, the Group continued to report well above market average levels of occupancy in both its Aged Care and Residential Communities portfolio.

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

Financial results

The overall profit after income tax for the year was $15.0 million, which was $38.0 million, or 71.8 percent lower than the previous corresponding period.

Total revenue and other income from continuing operations was $1.41 billion (2019: $1.61 billion). The Explanatory Notes (note 26) highlight that $1.36 billion of this revenue was attributable to members and $0.05 billion was attributable to benefit fund policyholders—with revenue attributable to members down $8.5 million, or 0.6 percent, from the prior year. This comparative result was mainly driven by a current year loss on investment in financial instruments, a consequence of year on year diminution in investment markets, partly offset by a prior year negative property development distribution that was non-recurring (see note 2).

Expenses, excluding finance costs, of $1.38 billion were $111.6 million (7.5 percent) lower than the prior year. Gross claims paid by our retail health insurance business of $626.2 million were 2.3 percent higher than in the prior corresponding period. Expenses in relation to benefit funds of $57.2 million, were $140.2 million lower (71.0 percent) than the prior year.

As detailed in note 3, depreciation and amortisation costs of $49.0 million were $19.2 million, or 64.6 percent, higher than the prior year. This was predominantly due to the adoption of AASB 16, which resulted in a $14.6 million increase from the prior year.

Finance costs, excluding the impact of AASB 16, were $3.6 million higher than the prior year due to increased corporate debt following the issue of the Australian Unity Bonds Series C and D as noted above.

The group focused on liquidity and balance sheet resilience

The Consolidated balance sheet details the Group's assets and liabilities, along with equity. The 2020 financial year closed with members' funds of $723.3 million, up 0.7 percent.

At 30 June 2020, the Group gearing ratio was 32 percent (see note 9(a)), compared with 21.9 percent at 30 June 2019. This remains positive for the Group as it provides greater balance sheet capacity for future strategic initiatives. It also reflects significant headroom from the covenant gearing ratio of 50 percent on our issued debt. As noted above, the Group refinanced its listed bonds in October 2019 and the earliest bond debt maturity is now in October 2024—the $71.3 million of Series B Bonds due to mature in December 2020 having been effectively refinanced in October 2019.

Corporate interest-bearing debt at 30 June 2020 totalled $468.5 million, compared to $296.4 million in the prior year, which mainly reflected the issuance of the Series C and Series D Australian Unity Bonds (see note 9). Interest cover, or the proportion of earnings before interest, tax, depreciation and amortisation needed to make interest payments, was 2.32 times, compared to 6.58 times the previous year. Interest cover ratio is not a covenant of the listed bonds.

Intangible assets (see note 15) reduced in the current year to $313.5 million, from $323.8 million.

The Group continues to maintain strong liquidity and ended the year with $1.04 billion in cash and cash equivalents.

I hope this report provides a greater understanding of the key financial activities the Group undertook during this extraordinary year. While the year ahead will remain challenging as a result of continuing socio-economic impacts of COVID-19, the Group will remain focused on the safety of its employees, members and customers, its liquidity, and ensuring it remains well-placed to continue to advance its strategic objectives and capitalise on future opportunities.

Darren Mann
Group Executive—Finance & Strategy and Chief Financial Officer

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as Australian Unity or the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

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

Peter Promnitz, Chair

Rohan Mead, Group Managing Director & CEO

Lisa Chung, Non-executive Director

Melinda Cilento, Non-executive Director

Paul Kirk, Non-executive Director

Su McCluskey, Non-executive Director

Julien Playoust, Non-executive Director (appointed 1 February 2020)

Gregory Willcock, Non-executive Director

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2020.

Principal activities

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

Dividends

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

Operating and financial review for the year ended 30 June 2020

The year to 30 June 2020 was one of distinct and vastly differing halves for Australian Unity: a first half in which the Group continued to make strong progress on its strategic priorities and achieved overall underlying earnings growth—and a second half in which the emergence of the COVID-19 pandemic took it into uncharted waters.

The impact of COVID-19 has been felt in many ways across the Group's businesses—from the implementation of extraordinary measures to seek to protect its aged care residents, home care customers and the employees who support them, to the provision of hardship relief for its health insurance and banking customers, and the effect of tightened economic circumstances and the equity market downturn on the financial position of many who invest with Australian Unity.

Australian Unity has responded to COVID-19 by maintaining, and where possible improving, levels of service and responsiveness to the needs of members and customers, while at the same time pursuing efficiency measures to mitigate risks and curtail expenditures. During this time, Australian Unity has also focused on the welfare and impact on its employees.

Despite COVID-19—and the impact of the summer bushfires on aged care operations in the eastern states—Australian Unity continued its strategy of building a commercially sustainable portfolio of businesses that provide member, customer and community value and is supportive of personal and community wellbeing.

Significant improvements made in the Group's Home Care Services business continued to show results during the year, as did the Group's work in developing improved and sustainable patient and outcome-focused healthcare services, even though its ability to deliver these was impacted by COVID-19 in the latter part of the year.

Another priority for the Group in the year under review was the maintenance of a solid balance sheet position in support of operational resilience and agility. To this end, in October 2019 the Group took advantage of capital market and investor support, along with attractive market settings, and acted to spread the maturity of its borrowings through the issue of $322.0 million of Series C and D Australian Unity Bonds. Of this amount, $178.7 million was used to refinance previously issued Series B Australian Unity Bonds. This allowed the Group to continue to operate decisively and effectively despite the emergence of COVID-19. Importantly, following this refinancing, the earliest Bond maturity is in 2024. The remaining Series B bonds on issue mature on 15 December 2020.

The Group continued to advance its social infrastructure agenda, with the Herston Quarter project in Brisbane progressing positively.

Nevertheless, COVID-19 affected the Group's results. Overall, it was estimated that the direct and indirect COVID-19 impacts reduced the year's net profit before income tax by approximately $26 million. These impacts included deferment of private health insurance premium increases; cancellations of home care, disability, dental and health care servicing; some additional government funding receipts; lowered funds under management, reduced lending and property services activity fees; increased cost of additional personal protective equipment (PPE) and related consumables; increased expected credit loss (ECL) provisioning; lower earnings from investment markets; and cost containment undertaken in response to these pandemic effects. It should be noted that the above impact is an estimate and should not be regarded as definitive. Many of the factors assessed are based on earnings reductions compared to pre-COVID-19 levels of activity or value; however, if COVID-19 had not occurred, these levels of activity or value may still have declined.

In the year under review, the Group's total revenue and other income decreased to $1,412.7 million (2019: $1,608.7 million). Despite the pressures of COVID-19, the Group's operating businesses generated overall revenue growth, up $10.4 million on the prior year. This was offset by lower investment returns, down $18.9 million, and a $187.5 million decrease in benefit fund revenue, principally due to reduced benefit fund investment earnings.

Total expenses, excluding financing costs, were $1,382.1 million (2019: $1,493.7 million). A 2.2 percent or $28.7 million increase in overall operating expenses included higher health insurance net claims (up $4.6 million), increased debt provisioning (up $6.5 million) and higher client care costs (up $7.1 million), while benefit fund expenses were $140.2 million lower than in 2019.

The Group delivered a profit after tax of $15.0 million for the year under review, compared to $53.0 million in the prior year. On a normalised basis, each of the business platforms made a positive contribution to the result. In addition to the estimated COVID-19 impact discussed above, the result was impacted by costs associated with the Group's head office moving to leased premises ($7.0 million) as well as some $5.4 million in additional timing-related costs due to the inception of the new accounting standard on leases. Further, there was no equivalent to the legal settlements received in the Life & Super business in the prior year.

Operating and financial review for the year ended 30 June 2020 *continued*

The overall outcome represented a decline in the aggregate trading position, with operating earnings for the year of $38.4 million representing a decrease of $23.4 million over 2019.

Notwithstanding, at 30 June 2020, the Group remained in a sound position to realise the opportunities and respond to challenges expected to arise from an external environment that presents considerable uncertainty and market disruption.

Acknowledging the pressure arising in the context of individual businesses, the Group plans to develop continuing, sustainable financial returns from its diversified but thematically linked portfolio. In addition, the Group will also continue to focus on member, customer and employee value. It is progressing work on the implementation of meaningful and reportable measurement to this end.

Significantly, at the 2019 Annual General Meeting, Australian Unity's members voted to extend the Group's strategic options for raising funds through the issue of Mutual Capital Instruments. The opportunity to issue these financial instruments was provided by legislative amendments that passed through the Australian Parliament in 2019, which allow mutual organisations, subject to constitutional adjustment, to raise permanent capital without compromising their mutual status.

In the context of continuing industry and broader market volatility in key sectors of the Group's operations, the Group will seek to maintain balance sheet resilience and operational flexibility as it continues to pursue the development of the business portfolio and the realisation of strategic ambitions.

The Group's operations are conducted through three business platforms: Independent & Assisted Living; Retail; and Wealth & Capital Markets. Key aspects of the operating, financial and strategic performance of each platform during the year to 30 June 2020 are set out below. 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

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

Financial performance — Independent & Assisted Living

	Full year to 30 June 2020 $million	Full year to 30 June 2019 $million	Variance
Total segment revenue	**$496.4**	$469.4	5.8%
Operating expenses	**$430.2**	$421.2	(2.2%)
Adjusted EBITDA	**$66.1**	$48.2	37.2%

The IAL platform recorded total segment revenue of $496.4 million for the full-year, representing an increase of 5.8 percent compared to the prior corresponding period (30 June 2019: $469.4 million). This was a positive result given significant disruption across the IAL business due to bushfires in the eastern states during the summer period, and the COVID-19 pandemic during the second half of the year.

Home Care Services experienced a 4.9 percent increase in revenue to $320.5 million; Health Services improved by 1.8 percent over the prior corresponding period at $37.8 million, with growth in Remedy Healthcare negatively affected by Dental due to COVID-19 restrictions; and Residential Communities increased 21.3 percent to $121.8 million, while Developments decreased 37.8 percent to $16.3 million. Within Home Care Services, the Aboriginal Home Care business unit increased revenue by 8.1 percent to $29.9 million.

IAL's adjusted EBITDA of $66.1 million represented an increase of $17.9 million, or 37.2 percent, on the prior corresponding period—or $23.6 million, or 64.8 percent, excluding Developments. This increase reflected a continued focus on improving the sustainability of the Home & Disability Services business.

Home Care Services (HCS)

HCS delivered an adjusted EBITDA gain of $13.0 million over the prior corresponding period to $27.5 million. This was achieved through a material change in both customer and service delivery mix, as well as mitigation initiatives associated with cost and revenue leakage. Approximately 2.9 million hours of care were delivered to more than 46,000 customers by 3,451 care workers.

The business was successful in securing additional funding for Meals Delivery and Allied Health services through the Commonwealth Home Support Package program, while also benefitting from pricing and working capital initiatives taken up in Home Care Packages and the National Disability Insurance Scheme (NDIS).

The business continued to transition some of its disability (predominantly NDIS) customers to alternate service providers during the year to 30 June 2020 under a program initiated in the previous year to ensure the sustainability of the business.

In the Home Care Package category, HCS saw a 27 percent increase in its customer base and a 90 percent increase in additional service hours provided. Total Home Care Packages under management reached 6,675 at June 2020, which was an increase of 2,514 package customers in the year to 30 June 2020.

The business continued to focus on improving its safety performance throughout the year under review, with a material reduction in the severity of claims and a positive trend in safety performance lead indicators. This led to an improvement in employee experience (+17 points employee NPS) and customer sentiment (customer compliments outweighing customer complaints for the first time since the acquisition of Home Care NSW in February 2016).

Within HCS, the Aboriginal Home Care business unit delivered a sound result for the period, with adjusted EBITDA of $2.7 million. Approximately 223,000 hours of care were delivered to 2,634 clients by 253 care workers. There were 602 Home Care Packages under management, which was an increase of 243 packages on the prior year.

The flagship event for the business was the annual Customer Gathering held in mid-February in Wollongong, NSW, which was attended by 289 Elders and their care workers and delivered both commercial and customer outcomes.

The business continued to focus on the delivery of the entirety of the Group's products and services to Aboriginal and Torres Strait Islander Australians through connecting the communities and cultures serviced by the Group.

Remedy Healthcare (Remedy)

Remedy increased revenue by 9.7 percent to $28.4 million, driven predominantly by Allied Health Services (2019: $25.9 million). More than 345,000 episodes of care were delivered across 14 treatment programs, and more than 19,000 hours of allied services were delivered to NSW Home Care Package clients of Australian Unity.

Significant challenges were presented by the COVID-19 pandemic, which disrupted service offerings notably due to the cancellation of most elective surgery in private hospitals during April. Despite this, Remedy still delivered more than 4,500 'hospital substitution' programs in the period, an increase of 15.5 percent on the prior corresponding period (2019: 3,911).

In March 2020, Remedy entered into a joint venture with Ramsay Healthcare called 'Ramsay Connect', which is designed to deliver a seamless integrated healthcare pathway for patients, during and post hospitalisation.

Dental

Australian Unity continued to operate six dental clinics during the year under review. The clinics are located at two Melbourne CBD locations, Hughesdale, Moonee Ponds, Rowville and Box Hill.

The dental industry was significantly affected by government restrictions associated with COVID-19 in the second half of the year under review, which saw patient visits decline by 18.2 percent from 54,887 in the prior year, to 44,915. During this period, all surplus workforce in the Dental business were redeployed into the residential aged care business. This helped deliver continued support for the aged care business, as well as retention of frontline dental employees during restrictions.

Residential Communities

Residential Communities owns and operates 21 retirement communities across Victoria and NSW, comprising 2,496 independent living units (June 2019: 2,469). The business acquired The Heritage retirement village in Hunters Hill, NSW, in February 2020.

The resurgent property market in both NSW and Victoria, most notably in the first half of the year (before COVID-19), resulted in sales growth of more than 33 percent on the prior year.

Occupancy levels across the portfolio's mature retirement villages remained high at about 96 percent in the year under review.

Residential Communities owns and operates seven aged care facilities in Victoria and NSW, incorporating 786 aged care beds (June 2019: 786). The mature-aged care portfolio continued to achieve top-quartile occupancy at above 96 percent for the year to 30 June 2020.

Despite the material threats arising from high community transmission levels of COVID-19, particularly in Victorian aged care facilities, we restricted major outbreaks during the year.

Development

IAL continued to focus on its development pipeline of aged care and retirement communities during the year under review. Three facilities opened during 2019—Sienna Grange Aged Care in Port Macquarie, NSW; Racecourse Grange Aged Care in Mornington, Victoria; and The Grace Albert Park in South Melbourne—and continued to progress through the fill stages.

In addition to developments underway, IAL is reviewing acquisition opportunities that would provide an immediate growth avenue for both retirement community and aged care portfolios.

Outlook

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

While COVID-19 is expected to present significant ongoing challenges and disruption throughout the coming financial year, the platform is well positioned to continue to deliver essential services to its customers. IAL plans to continue to grow strongly in Home Care Packages and community-based health care services, as well as successfully trade-up its recently opened residential communities and progress its existing development sites. Focus will also remain on continuing to improve safety performance and operating efficiency.

Aged care will continue to operate in a manner designed to restrict major outbreaks of COVID-19, while acknowledging external dependencies in this regard, including the absolute levels of community transmission occurring around our facilities and communities from where they draw their workforce.

Remedy Healthcare will continue to expand its operations through Home Care Services and Ramsay Connect.

IAL will continue to actively and constructively participate in the royal commissions into 'Aged Care Quality and Safety' and 'Violence, Abuse, Neglect and Exploitation of People with Disability'. In addition, IAL remain committed to the ongoing development of addressing the sector workforce issues through its involvement with the Aged Care Industry Workforce Council.

Retail

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

Financial performance — Retail

	Full year to 30 June 2020 $million	Full year to 30 June 2019 $million	Variance
Total segment revenue	**$709.5**	$722.1	(1.7%)
Operating expenses	**$648.3**	$647.7	(0.1%)
Adjusted EBITDA	**$61.2**	$74.4	(17.7%)

The Retail business had a challenging year in mixed operating conditions, with adjusted EBITDA down by $13.2 million, or 17.7 percent, to $61.2 million compared to the previous year. This result was driven principally by the growth in private health insurance claims expenses exceeding revenue growth for the year. Revenue was impacted by a decrease in the number of policyholders and the postponement of the April 2020 premium increase. Higher claims expenses were partly due to an underestimation of claims in the prior year and reflected similar experience across the sector. Strong lending growth enabled the banking business to offset the impact of lower interest rates on banking revenue.

Total operating expenses were $648.3 million, which was largely in line with the previous year. This reflects a $3.5 million increase in health insurance claims net of risk equalisation and a $2.9 million decrease in operating expenses across the Retail platform.

Operating and financial review for the year ended 30 June 2020 *continued*

During the year the Retail platform sold its general insurance broking and mortgage broking businesses to focus on its retail direct-to-consumer products and services. These broking businesses were separate to the operations of both Australian Unity Bank and Australian Unity Health. Net profit after tax from the gain on sale was $2.1 million, which is not included in the adjusted EBITDA results above.

The Retail platform implemented a range of financial assistance measures to support vulnerable customers impacted by bushfires and the COVID-19 pandemic during the year. The private health insurance business postponed the 1 April 2020 premium increase for six months and made available a range of hardship concessions and the banking business offered repayment deferral to customers who were unemployed or under-employed.

Australian Unity Health Limited (retail health insurance)

During the year under review, Australian Unity Health Limited completed a series of projects sharpening the customer value proposition in line with its chosen niche customer segments. These projects included initiatives to further engage with customers through more direct and deeper digital channels, rationalisation of legacy products, selection of new direct distribution partners, and increased automation of hospital claiming processes.

The private health insurance business paid $626 million for more than 1.8 million ancillary services and more than 155,000 hospital treatments, with over 100 members having individual episode claims valued over $60,000—a demonstration of the complex and ongoing inflationary nature of healthcare. Furthermore, more than 25,000 out-of-hospital care episodes were paid for and provided to members through the Group’s wholly owned subsidiary Remedy Healthcare.

Australian Unity Health Limited also responded rapidly and effectively to the challenges of COVID-19 on behalf of members. In addition to deferral of the April 2020 premium increase, a range of measures were enacted, including a dedicated and personalised health support line for members to access health management support, coverage for COVID-19 hospital admissions regardless of product type held, extending policy suspensions, and premium waivers for financial hardship. This package of initiatives totalled more than $12.5 million and remains in place into the 2021 financial year.

Retail health fund policyholders (including overseas visitor cover policyholders) decreased by 5.0 percent to 176,578 at 30 June 2020 (2019: 185,936). Ongoing affordability challenges, COVID-19 effects on health insurance value proposition, emerging economic uncertainty and the closure of international borders all affected resident and overseas policyholder growth.

Australian Unity Bank

As at 30 June 2020, Australian Unity Bank had approximately 24,500 customers and its total assets had grown by $247.9 million to $1,133.9 million (2019: $886.0 million).

Despite challenging conditions within the retail banking sector and a competitive market, Australian Unity Bank achieved market leading lending growth throughout the year, with $299.1 million in new loans written. In combination with maintaining strong retention rates, this growth lifted the gross loan book by a net $177.1 million. This represented a 23.6 percent increase in the loan book year-on-year, which was around eight times the industry credit growth for the financial year.

Australian Unity Bank’s strong growth can be attributed to delivering on the ‘banking that’s good for you’ customer value proposition—a program of work that identified the benefits to the customer beyond the product itself. Over the next three years, this program will be progressively extended through all areas of the banking business, including product, marketing, sales and servicing.

During the year under review, Australian Unity Bank progressed its strategic partnership with Allianz and successfully consolidated its general insurance offerings. Australian Unity Bank customers can now access a broader range of insurance products and services through this one provider.

Standard & Poor’s (S&P) Ratings reconfirmed Australian Unity Bank’s issuer credit rating as ‘BBB+’.

Outlook

The outlook for the Retail platform remains cautiously positive, but in the short term will be influenced by the duration and severity of the COVID-19 pandemic and its flow-on effects to Australia’s health system and the economy.

For private health insurance, supporting policyholders during the pandemic and maintaining private health insurance participation is a key priority for the sector. With longer term affordability pressures and changing demography still key challenges, the focus for the private health insurance business remains on increasing direct distribution channels, targeted partnering with healthcare providers and increasing access for out of hospital programs for members.

Similarly for banking, continuation of government support and the speed of the economic recovery will be key factors to stemming the impact of potential credit losses and lower system credit growth. Australian Unity Bank will continue to build selective relationships in the third party (mortgage broking) channel and concurrently target chosen segments via direct channels, while also growing its general insurance market presence.

The Retail platform remains well-positioned to deliver its strategy in the medium term by building on the strength in its businesses and continuing to adapt to changing market conditions.

Wealth & Capital Markets

The Wealth & Capital Markets (W&CM) platform comprises business units encompassing advice, investments, life & super, property and trustee services.

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

W&CM’s expertise in property, particularly social infrastructure assets such as healthcare, retirement villages and aged care facilities, combined with its long experience in sourcing funds in equity and debt capital markets, means it is well placed to play a meaningful role in addressing Australia’s social infrastructure challenge.

The platform has investment expertise in cash, fixed interest securities, listed property securities and Australian shares, coupled with market-leading products in investment bonds, funeral bonds, and education savings plans. In addition, the business works with advisers and industry partners to provide professional advice and trustee services that support clients’ financial wellbeing.

Financial performance — Wealth & Capital Markets

	Full year to 30 June 2020 $million	Full year to 30 June 2019 $million	Variance
Total segment revenue	**$170.5**	$180.9	(5.8%)
Operating expenses	**$137.7**	$130.4	(5.6%)
Adjusted EBITDA	**$32.8**	$50.5	(35.0%)

The W&CM platform manages investments, property assets and developments (and associated debt facilities), and provides advice and trustee services, with an aggregate value of $24.16 billion (2019: $21.83 billion). The platform recorded a 5.8 percent decrease in total segment revenues compared to the previous period. However, after adjusting for one-off legal settlements received in the Life & Super business in the prior period, the platform delivered revenue growth across most of its business segments, which was positive given the unfolding global health crisis. The decrease in adjusted EBITDA was also affected by the legal settlements in the 2019 financial year. On an adjusted basis, the platform recorded an overall decrease of approximately 8.0 percent. The business has closely monitored the external environment and undertaken scenario planning to understand the impacts of the unfolding health crisis. The economic impacts of the crisis have been front of mind and have resulted in the resequencing of growth initiatives over the past six months.

Investments

Investments, including its joint venture partners, manages funds under management and advice (FUMA) of $8.22 billion as at 30 June 2020 (2019: $7.12 billion). During the year under review, the business experienced positive net flows from retail, middle and institutional markets. Joint venture partner Platypus was awarded further institutional mandates, while another joint venture partner, Acorn, secured an institutional mandate in its listed/unlisted venture capital strategy.

The Investments business successfully launched a new Green Bond Fund in June 2020 with cornerstone investments from Clean Energy Finance Corporation and Crestone. The fund targets investments that will contribute to lower carbon emissions and will include social bonds and green bonds.

Continuing the focus on social investing, the Investments business made significant steps towards the launch of the Future of Healthcare Fund.

The Investments team also manages the investment portfolio of the Group, amounting to $811.7 million (2019: $679.9 million), including its capital stable and highly liquid insurance reserves. In the year to 30 June 2020, the weighted average investment returns were 0.98 percent, which reflected the adverse impact of the COVID-19 pandemic on the Group's investment portfolio.

Property

Notwithstanding the impacts of the unfolding health crisis, the Property business delivered solid results, with assets under management increasing to $3.52 billion as at 30 June 2020 (2019: $2.99 billion). Its multi-year development pipeline stands at $1.29 billion (2019: $1.26 billion), and lending and debt facilities on behalf of investors (through property funds and its commercial property lending activities) of $1.37 billion (2019: $1.59 billion).

Key examples of the Group's involvement in social infrastructure are the Herston Quarter development, the Healthcare Property Trust and the Specialist Disability Accommodation Fund. Progress continues at the landmark $1.1 billion Herston Quarter health precinct in Brisbane, with construction of the $390 million Surgical, Treatment and Rehabilitation Service (STARS) by the Healthcare Property Trust on track for practical completion in the second quarter of the 2021 financial year. Significant progress was also made on the wider precinct works, including the public realm assets adjacent to STARS and the restoration of heritage sites.

The Healthcare Property Trust (HPT) continued to draw significant support from investors and is positioned for ongoing future growth, having completed a successful capital raising of approximately $275 million during the financial year to support its future growth. This activity saw the value of HPT grow to approximately $2.20 billion at 30 June 2020 (2019: $1.63 billion).

During the year, the property team achieved the successful seeding of the first capital raising for the Specialist Disability Accommodation Fund with approximately $40 million in initial equity. The first round provides a solid platform for future activity in this sector and has triggered strong deal and equity interest. Leveraging the initial equity raised, it is anticipated that the fund will deliver approximately 100 places of appropriate accommodation over the next two years that will provide residents with a level of independence and self-reliance not readily available previously. In line with the Group's Community & Social Value framework, it is anticipated this will lead to a greater level of lifelong wellness for residents, with support that is centred around needs, self-reliance and improved health outcomes. The fund will also contribute to another of the framework's aims by building strong communities that provide a greater sense of purpose and social connection.

Strong engagement from investors in the underlying value of the Australian Unity Office Fund (AOF) resulted in the successful defence against both the Charter Hall Abacus scheme proposal and the Starwood takeover offer. The business entered into a joint venture arrangement with Keppel Capital that introduced a material strategic growth opportunity with a like-minded investor.

Support for the Australian Unity Select Income Fund continued to grow, with strong annual inflows of $86.0 million (2019: $74.3 million), with the value of the lending portfolio $254.7 million at 30 June 2020 (2019: $212.7 million). Management continues to work on expanded sources of capital and the identification of investment opportunities.

The Property business worked closely during the year with the Group's Independent & Assisted Living (IAL) platform on the review of the Retirement Living and Aged Care portfolio. Refer to the Developments section under IAL for information on properties in the portfolio.

Life & Super

Australian Unity's Life & Super business continued as Australia's largest investment, education and funeral bonds provider, with $2.27 billion in funds under management and administration as at 30 June 2020 (2019: $2.34 billion). During the year to 30 June 2020, sales across Life & Super's products reached $217.5 million (2019: $221.5 million) —a significant outcome in an extremely low interest rate environment and the COVID-19 pandemic.

Support for Life & Super's products continued to increase 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.

The business successfully established the direct-to-consumer distribution channel with the launch of 10Invest—a simple, online, low cost investment bond that offers tax effectiveness not available through traditional savings or investment products. Over the nine months since launch, 10Invest attained over 1,800 customers with more than 80 percent of customers opting into a regular savings plan.

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 $672.8 million (2019: $699.5 million) across more than 90,000 clients.

Operating and financial review for the year ended 30 June 2020 *continued*

Trustees

Trustees experienced a year of sustainable growth, achieving a 25.8 percent increase in revenue when compared to the prior year, while continuing to add to the business' latent value through the expansion of its Estate Planning presence and national will bank.

During the year under review, significant work was completed to strengthen relationships with existing clients and referral partners and to provide a strong foundation from which to continue to scale services. Key initiatives included the embedding of a core operating system for the business, enhancement of management information for all key business areas, and linkages with business units such as Advice and Independent & Assisted Living.

Although the current health crisis slowed the operations of Courts, Tribunals and referral partners nationally during the final quarter of the year, an established pipeline of estates, trusts and protected persons opportunities enabled continued inflows of new clients and associated revenue. In addition, some services such as Estate Planning experienced an uplift as clients saw additional value in structuring their affairs during this period.

Advice

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

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

During the year under review, the business focused on building the foundations for sustainable growth and operational scale, supported by enhanced supervision, investment and technical functions. The Advice Continuous Improvement Program (CIP) has delivered significant streams of work that enhance supervision and monitoring capability in areas such as audit framework and capacity; adviser due diligence and onboarding; an enhanced compliance manual; enhanced advice documentation and ongoing service agreements; data analytics to monitor FDS, Opt-In and ongoing service delivery; and management information and reporting.

During the year to 30 June 2020, the number of advisers (including limited authorised representatives) decreased to 176 (2019: 184), with FUA growth over the year to $7.14 billion (2019: $6.20 billion), and personal life insurance premiums in-force up to $69 million (up from $61 million). Pleasingly, revenue increased 3.6 percent to $60.4 million for the year ended 30 June 2020 (2019: $58.3 million). In addition, separately managed (SMA) investment accounts constructed by the Advice business grew in FUM to $392 million (2019: $201 million).

Outlook

The W&CM platform continues to seek to deliver differentiated products and services designed to preserve and improve the financial wellbeing and economic empowerment of customers.

The widespread disruption to economic and financial markets caused by COVID-19, and continuing volatility and uncertainty arising from attempts to manage the health crisis, present strategic risks to W&CM's businesses, in particular growth in the short term. To best manage these risks as they arise, and indeed to convert the opportunities as they also present, the platform has an established and broad range of businesses, and a material and growing presence in the funding, development and management of Australia's social infrastructure. The period ahead should continue to provide opportunities for the platform to offer customers valuable investment and financial opportunities, and to deliver increased community and social value. The Herston Quarter project continues to be a key focus of the platform as it transforms Australian Unity's response to Australia's social infrastructure challenge. The expansion of funding to the Specialist Disability Accommodation sector is another example of the value that Australian Unity can bring to community groups to improve real wellbeing outcomes.

The W&CM platform is well positioned to benefit from the collective impact of rising and better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, the changing regulatory landscape and community expectations. The platform is focused on identifying and increasing collaboration with other parts of the Group where synergies exist to improve the wellbeing and economic empowerment of the community.

Matters subsequent to the end of the financial year

On 1 August 2020, the Group issued Series 6 Retirement Village Investment Notes (RVIN) amounting to $33,227,000 which have a three-year term and interest at a fixed rate of 5% per annum. This RVIN issue included early redemptions of Series 1 and Series 2 RVIN totalling $11,235,000 which were rolled over into Series 6 RVIN. The net proceeds of $21,992,000 from this RVIN issue will be used for general corporate purposes.

The board is not aware of any other matter or circumstance arising since 30 June 2020 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

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

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

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 21 contains an explanation of the Group's approach to market risk management.

Environmental regulation

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

Key business risks

Australian Unity recognises that sound management of the Group's risks within an effective risk management framework and an established risk culture underpins the success of the business. The Group's risk management framework, and associated risk culture, is continually reviewed and improved.

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

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

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

The Group's key material risks and how they are managed are summarised below. The Group continually reviews, and seeks to improve, the way in which key risks are managed.

The below risks are not addressed in any particular order.

(i) Strategic risks

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

Risk	Risk Description	Managing the Risk
Over reliance on certain businesses or funding sources	A significant portion of our revenue and cashflow is from private health insurance or businesses supported by government funding, such as aged care or in home care services. Adverse changes to the business conditions in the private health insurance industry or aged care or in home care services including changes to government policy, laws, regulations, regulatory expectations, economic activity and the demand our products and services could impact the Group's financial performance.	We manage this risk by seeking opportunities to grow businesses within our portfolio that diversify our revenue and cashflow. We participate in private health sector advocacy for policies that sustain the sector. We actively manage costs against revenue expectations.
Investment in property and social infrastructure	A part of the Group's strategy is to invest in the development of social infrastructure. Property developments have a number of inherent risks including planning and development approvals, increases in development costs, non-performance of contractors or sub-contractors, project and construction delays, occupational health & safety issues and any change in the market conditions.	We manage these risks by conducting a detailed site analysis for prospective development sites; conducting due diligence for property developments which includes a competitor and amenity analysis; conducting a competitive process when appointing contractors; working with specialist teams to engage contractors and manage projects; and engaging regularly with contractors to ensure that projects are being delivered in accordance with the required specifications and timetables in a manner that minimise health and safety issues.
Strategic and operational disruption due to the COVID-19 pandemic	We face a variety of risks as a result of the COVID-19 pandemic. These range from significantly changed economic conditions which could impact the value of our property portfolio and investment income, to a potential reduction in demand for, and profitability of, our products and services. There are also heightened health and safety risks to our employees and customers, particularly in our Independent & Assisted Living businesses.	We manage the impacts of the pandemic with regular and in-depth analysis of the risks and opportunities posed by the crisis. This includes ongoing board and management monitoring and realignment of our strategic objectives; close and continual management of revenues and costs; and scenario modelling to proactively plan for potential changes to the strategic and operating landscape. We seek to ensure the health and safety of our employees and customers by taking all recommended precautions and strictly adhering to the latest medical advice.
Failure of strategic and/or business decisions or external events	We consider and implement a range of initiatives to meet our strategic ambitions. Failure of strategic and/or business decisions or the impact of external events may have an adverse impact on the operating and financial performance of the Group.	We manage this risk by actively considering the risks and rewards associated with implementing an initiative before it is implemented. We also regularly monitor external events, such as legislative and regulatory amendments, that may have an impact on our strategic and/or business decisions.

Key business risks *continued*

(ii) Operational risks

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

Risk	Risk Description	Managing the Risk
Inability to respond to change	We operate in industries where customer product demands are rapidly changing and preferences have been shifting to digital channels. If we are not successful in adapting our products and services to meet changing customer preferences, we may lose customers to our competition which would adversely impact our financial performance.	We manage this risk by regularly assessing the external environment and allocating business investment to understand our customers' preferences and develop our digital capability.
Increased competition and poor and inconsistent member or customer experience	We operate in a competitive environment and it is becoming easier for customers to move to our competitors. If we are unable to compete effectively in our various businesses and markets by ensuring a strong and consistent offer to our members and customers, we may lose market share to our competitors.	We manage this risk by maintaining and enhancing our customer and member value proposition and experience, including activating new channels and incorporating effective feedback loops. We have increased our focus, capability and investment across all levels of the Group.
Member or customer harm	We provide high trust services such as aged care and operate in highly regulated industries. An event such as customer harm could result in sanctions from relevant regulators, reduced government funding, reputational damage and remediation costs.	We manage this risk by having effective frameworks, policies and procedures in place to prevent, monitor and manage the risk of harm.
Occupancy levels in residential aged care	There is no assurance that occupancy levels at aged care facilities will follow historical occupancy trends at the Group's aged care facilities. In addition, a downturn in the residential property market may affect the ability of potential incoming residents to sell their home at the cost required to pay the 'Refundable Accommodation Deposit' required to enter a facility.	We manage this risk by a strong customer-orientated focus through our Better Together® model and ongoing investment in our care services and physical infrastructure. We also offer a continuum of care whereby our aged care facilities are co-located with retirement communities whose residents provide a level of demand for our aged care facilities.
Private Health Insurance risks such as rising medical costs, rejection of application for change in premium rates and mispricing premiums	There are inherent risks associated with operating a private health insurance business such as rising medical costs, having an application for a change in premium rates rejected and mispricing premiums.	We manage these risks by constructively lobbying for policies and reforms regarding the rise of medical costs; investing in our Remedy Healthcare business that seeks to provide various health services outside of a hospital environment; and closely monitoring product design and distribution to ensure that prices remain sustainable.
Errors arising from the failure of internal controls.	We operate in a complex financial and regulatory environment and maintain a diverse range of products and services. There is a risk that our internal controls may be inadequate or not operate as intended, exposing us to errors and financial loss.	We manage this risk by regularly training our employees and by fostering a strong risk culture underpinned by a robust and comprehensive risk and compliance framework. The risk management framework requires the regular review of our control environment.

(iii) Conduct risks

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

Risk	Risk Description	Managing the Risk
Inappropriate or illegal behaviour	Conduct risk could arise from the sale of our products or provision of services that do not meet the needs of our customers through poor sales practices or failing to provide the product or service as agreed.	We manage this risk by having a Code of Conduct that applies to and guides all employees, having a Whistleblower Policy to support and protect employees to raise concerns; we monitor and analyse customer complaints and operational incidents; and we have established compliance monitoring and consequence management frameworks and ongoing employee training programs.

(iv) Information and system risks

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

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

(v) Financial risks

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

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

(vi) Credit risks

Risk of loss from inappropriate lending or failure of counterparties.

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

(vii) People risks

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

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

(viii) Regulatory and legal risks

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

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

Information on directors

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

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

ROHAN MEAD, Group Managing Director & CEO

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is chairman of the Business Council of Australia's Healthy Australia task force and a member of its Indigenous Engagement task force. He is also a director of Platypus Asset Management, the Business Council of Co-Operatives and Mutuals Limited (BCCM) and the Centre for Independent Studies. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996-2003) in a range of senior roles. He has not held any directorships of listed entities in addition to those set out above during the last three years.

LISA CHUNG, AM, LLB, FIML, FAICD

Ms Chung was appointed to the board of Australian Unity Limited on 30 June 2017. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the People, Culture & Remuneration Committee and a member of the Audit Committee, Investment Committee and Risk & Compliance Committee. Ms Chung is currently Chair of The Front Project and a non-executive director of Artspace/Visual Arts Centre Limited. Prior to this, Ms Chung was a partner specialising in commercial property and infrastructure at Maddocks Lawyers and at Blake Dawson (now Ashurst) where she also held various senior management roles, including Sydney Managing Partner and was an elected member of the firm's board. Ms Chung completed the Advanced Management Program at INSEAD in France in 2004. She was previously the chairman of Urbis Pty Limited and The Benevolent Society, a non-executive director of APN Outdoor Group Limited and Deputy President of Trustees of the Museum of Applied Arts and Sciences. Ms Chung has not held any directorships of listed entities in addition to those set out above during the last three years. Ms Chung is a member of Chief Executive Women and was appointed a Member of the Order of Australia in 2020 for significant service to the community through charitable and cultural organisations. She has not held any directorships of listed entities in addition to those set out above during the last three years.

MELINDA CILENTO, BA, BEc (Hons), MEc, GAICD

Ms Cilento was appointed to the board of Australian Unity Limited on 1 May 2014. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Investment Committee and a member of the People, Culture & Remuneration Committee and the Risk & Compliance Committee. She is also Co-Chair of Reconciliation Australia, and until 1 May 2019 was a director of Woodside Petroleum. In addition to her directorships, Ms Cilento is the Chief Executive Officer of the Committee for Economic Development of Australia and a member of Chief Executive Women. Ms Cilento has previously been a Commissioner with the Productivity Commission, and worked for eight years with Australia's leading CEOs at the Business Council of Australia, including four years as Deputy Chief Executive. Prior to joining the Business Council she was Head of Economics at Invesco Australia. Ms Cilento has also worked with the Federal Treasury and International Monetary Fund in Washington D.C. Ms Cilento was a director of Wesfarmers General Insurance until June 2014. Ms Cilento has not held any directorships of listed entities in addition to those set out above during the last three years.

PAUL KIRK, BEc, ACA, RITA, MAICD

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

SU McCLUSKEY, BCom, FCPA, MAICD

Ms McCluskey was appointed to the board of Australian Unity Limited on 1 September 2015. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Risk & Compliance Committee and a member of the Audit Committee, the Investment Committee and the People, Culture & Remuneration Committee. Ms McCluskey is also a director of The Foundation for Young Australians, the Australasian Pork Research Institute, the NSW Rice Marketing Board and the Energy Renaissance. Ms McCluskey is a Commissioner for the National COVID-19 Coordination Commission and the Commission for International Agricultural Research, and was a member of the Ministerial Advisory Council of Skilled Migration. She was a member of the Charities Review, the Harper Review of Competition Policy and the Regional Telecommunications Review. Ms McCluskey was previously the CEO of the Regional Australia Institute and the Executive Director of the Office of Best Practice Regulation. Ms McCluskey has held senior positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is also a beef cattle farmer. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

JULIEN PLAYOUST, BSc (Arch), BArch (Hons), MBA, FAICD
Mr Playoust was appointed to the board of Australian Unity Limited on 1 February 2020. Mr Playoust has more than 25 years' experience as a director in public and private companies, including ASX-100, SME and not-for-profit organisations. He is passionate about sustainable business models for economic and social good, and Art. He is a proponent of design thinking, diversity and cross-disciplinary skills. He has worked across multiple sectors including property, professional and financial services, media, agriculture, consumer discretionary, energy, technology and The Arts, focusing on business transformation, mergers and acquisitions, capital raising and portfolio management. He has been CEO and Managing Director of AEH Group since 2003. Past appointments include non-executive director at ASX-listed Tatts Group Limited, MCM Entertainment Group Limited, and Australian Renewable Fuels Limited; Director of Time Out Australia and Ventura Health; and a member of the UNSW Art & Design Advisory Board and the National Gallery of Australia Foundation Board. He has worked with AMP, NAB and Accenture. He is currently Deputy Chairman at Art Gallery NSW Foundation and Chairman Finance Committee, Chairman of the Investment Committee of The Nature Conservancy, and member of the Alumni Leaders Group UNSW Business School. He is Fellow Australian Institute of Company Directors and Member Australian Institute of Managers and Leaders. He holds a Master of Business Administration UNSW (AGSM), Bachelor of Architecture (First Class Honours) and Bachelor of Science Sydney University, and Company Director Course Diploma AICD. Mr Playoust and his family live in Manly, by the sea and the bush. Mr Playoust travels frequently to central western NSW where he oversees a merino sheep property. He has not held any directorships of listed entities in addition to those set out above during the last three years.

GREGORY WILLCOCK, BCom, FCPA, FAICD, MAIM, FFin
Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Risk & Compliance Committee and the Audit Committee. Mr Willcock is also a director of Australian Unity Investments Real Estate Limited which is the responsible entity for the listed Australian Unity Office Fund. Mr Willcock has over 36 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Australia Bank in the areas of risk management, strategy and change management. Mr Willcock was previously a director of the Customer Owned Banking Association (COBA). Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

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

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

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Board		Audit Committee		Risk & Compliance Committee		Investment Committee		People, Culture & Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
Peter Promnitz	18	18	5	5	4	4	5	5	6	6
Rohan Mead	18	18	5	5	4	4	5	5	6	6
Lisa Chung	18	18	5	5	4	4	5	5	6	6
Melinda Cilento	18	18	4	5	4	4	5	5	6	6
Paul Kirk	18	18	5	5	-	-	-	-	6	6
Su McCluskey	18	18	4	5	4	4	5	5	6	6
Julien Playoust	12	12	3	3	2	2	-	-	-	-
Gregory Willcock	18	18	5	5	4	4	-	-	-	-

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

Remuneration report

Details of the Group's remuneration policy in respect of the directors and other key management personnel are included in the Remuneration report on pages 32 to 37. Details of the remuneration paid to directors and other key management personnel are also detailed in the Remuneration report. The Remuneration report is incorporated in and forms part of this Directors' report.

Directors' interests and benefits

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

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

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

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

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

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

	2020 $	2019 $
PWC Australia		
Audit of regulatory returns	**393,379**	294,652
Tax compliance services	**168,597**	167,712
Tax consulting services	**50,000**	52,500
Other services	**224,690**	30,400
Total remuneration for non-audit services	**836,666**	545,264

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 31.

Rounding of amounts

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

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director
& Chief Executive Officer

Melbourne
8 September 2020

Auditor’s independence declaration

Auditor’s Independence Declaration

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

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

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

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

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
8 September 2020

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

Remuneration report

Dear Member

On behalf of the board, I am pleased to present Australian Unity's Remuneration report for the year ended 30 June 2020.

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

Australian Unity's compensation arrangements play an important role in our ability to attract, reward and retain the very best people and, in so doing, maximise our performance for the benefit of our members and customers.

Last year we informed members of important changes to our compensation framework that simplify and better align reward with longer-term performance. These changes included:

1. Assessment of performance equally against financial and non-financial indicators aligned to board approved strategic and operating plans.
2. Assessment of individual performance against a balanced set of goals aligned to strategy, behaviours consistent with our values and leadership in terms of managing risk and conduct.
3. Awarding of variable compensation at the judgement of the board, with consideration to the long-term financial soundness and appropriate management of risk at Australian Unity.
4. Changes to deferral arrangements to support long term sustainable performance and value creation and in accordance with new regulatory requirements.

FY20 could be described as a year of two halves noting the significant complexities and challenges (anticipated and not) that we faced. We commenced the year progressing our strategic priorities capitalising on a strong market, and then were tested operationally and financially as we faced strong headwinds, particularly with COVID-19, which caused substantial community and economic upheaval.

It has certainly been a year of disruption during which we focused on the safety and wellbeing of our employees and customers, financial resilience and the long-term sustainability of our operations.

The board recognises the dedication of our people who have admirably faced into the challenges of a deadly bushfire season and COVID-19. However, after careful consideration and, in particular, with regard to safeguarding Australian Unity's long-term financial soundness, the board elected not to award variable compensation for any employee in FY20.

In addition, the fees for non-executive directors will be reduced by 10% for the period 1 July 2020 to 31 December 2020, and except due to a change in role, senior executive compensation arrangements will not change.

The board will continue to assess the effectiveness of its compensation arrangements to ensure they are consistent with the long-term interests of Australian Unity and its members, while providing market competitive reward to ensure we continue to attract, motivate and retain talent across our diverse businesses.

I offer my sincere thanks to every one of our people for their commitment and many contributions, so often above and beyond, during what has been a trying and difficult year in so many respects. It has been a privilege to observe the way our people have come together at different times and in different ways to continue to serve our members and customers, despite the many challenges.

Yours sincerely

Lisa Chung
Chair—People, Culture & Remuneration Committee

Key Management Personnel (KMP)

This Remuneration report outlines the compensation arrangements in place and outcomes achieved for Australian Unity's KMP during 2020.

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

The names and positions of the individuals who were KMP during 2020 are set out in Table 1.

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

Table 1 – KMP

Non-executive director	Position
Peter Promnitz	Chair
Lisa Chung	Non-executive Director
Melinda Cilento	Non-executive Director
Paul Kirk	Non-executive Director
Su McCluskey	Non-executive Director
Julien Playoust[1]	Non-executive Director
Gregory Willcock	Non-executive Director
Key Management Personnel	
Rohan Mead	Group Managing Director & CEO
David Bryant[2]	CEO Wealth & Capital Markets
Kevin McCoy	CEO Independent & Assisted Living
Matthew Walsh[3]	CEO Retail
Esther Kerr-Smith[4]	Group Executive, Finance & Strategy
Amanda Hagan	Group Executive, Customer, Digital & Technology

1. Julien Playoust appointed 1 February 2020.
2. David Bryant resigned from employment at Australian Unity Limited 3 July 2020.
3. Matthew Walsh resigned from employment at Australian Unity Limited 31 July 2020.
4. Esther Kerr-Smith commenced in the position of CEO Wealth & Capital Markets 13 July 2020.

Remuneration Policy

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

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

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

The Remuneration Framework & Link to Performance

Australian Unity's strategic objectives and performance indicators for the Group and senior executives are set annually by reference to both financial and non-financial objectives aligned to board approved strategic and operating plans.

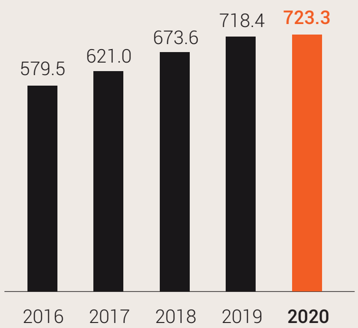
After each performance year the board determines available variable compensation funding. Funding is determined based on Group performance assessed equally on financial and non-financial performance indicators over both the short and long-term horizons.

Performance indicators are not formulaic in the determination of Group performance. Group performance and variable compensation funding is informed by these indicators while ultimately being an exercise of judgement by the board.

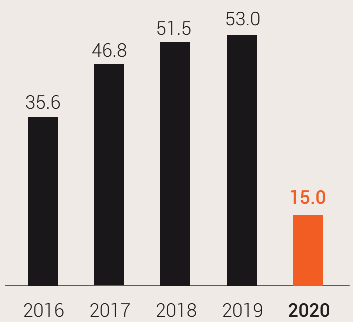
In addition, financial affordability checks apply to ensure the Group meets minimum financial performance requirements prior to any variable compensation funding being made available taking relevant matters to safeguard Australian Unity's long-term financial soundness into account.

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

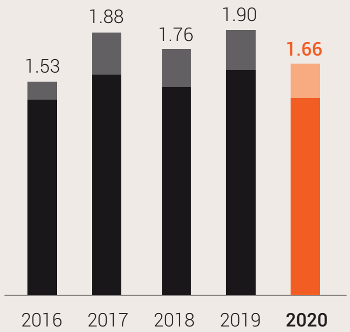
Members' funds ($m)‡
$723.3 million



Profit after income tax ($m)
$15.0 million



Revenues ($b)†Σ
$1.66 billion



Σ FY2018 includes the sale of the Group's corporate health insurance business, Grand United Corporate Health Limited (GUCH), affecting the comparative results for FY2017.
† Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the Consolidated statement of comprehensive income in the Annual Report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.
‡ Members' funds: net assets of the Group attributable to members.

The Remuneration Framework & Link to Performance *continued*

In conjunction with the Risk & Compliance Committee, consideration is also given to risk and compliance matters including, but not limited to, conduct in accordance with our desired risk culture, consequence management and effective management of financial and non-financial risks that could materially impact Australian Unity's risk profile, performance and long-term soundness. The board may make appropriate adjustment to variable compensation outcomes commensurate with the management of those risks.

Senior executive remuneration

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

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

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

The **variable component** (referred to as the Senior Leader Variable Compensation Program) is structured to align and reward performance against the achievement of a balance of financial and non-financial outcomes including long term financial performance and appropriate risk management in the interests of members and customers.

In reviewing the performance of each senior executive, progress against the following is considered:

- senior executive's behaviours and values in action;
- appropriate management of risk;
- strategic and commercial priority delivery at a Group level;
- strategic and commercial priority delivery at a platform/function or role level; and
- personal contribution to community, diversity and inclusion.

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

The variable compensation scheme for senior executives, aligns with longer term sustainability by deferring a portion of variable compensation aligned with the requirements of the Banking Executive Accountability Regime (BEAR) in Part IIAA Div 4 of the *Banking Act 1958* (Cth). Deferred amounts are equal to the lesser of 10% of total compensation (fixed plus variable compensation) or 40% of variable compensation. Payment of such amounts is deferred for 4 years.

In addition, senior executive variable compensation is capped in any one year at one times fixed compensation. If a senior executive is awarded higher variable compensation in a year, the amount eligible for payment is capped at the level of their fixed compensation, with any surplus deferred to future years (these arrangements may vary in the case of retirement or cessation of employment by a senior executive).

The board, at its discretion (whether on recommendation of the People, Culture & Remuneration Committee, any other person or Committee, or on its own motion), may determine that variable compensation for a senior executive be:

a. Reduced (including to zero) for the current year or prior year's deferred amounts (malus); or

b. Recovered for the benefit of Australian Unity subject to applicable legal limitations if the amount has already been paid (clawback).

All compensation, both fixed and variable, is cash based. As a mutual, Australian Unity has no shares on issue.

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

Table 3 – Overview of Senior Leader Variable Compensation Program

Individual non-financial performance multiplied by	Each senior executive is assessed against individual target performance and given a rating of either not delivering; delivering; exceeding or inspiring. Individual assessment considers: • behaviours and values in action; • appropriate management of risk; • strategic and commercial priority delivery at a Group level; • strategic and commercial priority delivery at a platform/function or role level; and • personal contribution to community, diversity and inclusion.
Group performance multiplied by	Group performance assessed equally on financial and non-financial performance indicators over both the short and long-term horizons. Quality overlay applied taking into consideration risks, member and community expectations and financial affordability.
Senior Leader Variable Compensation Opportunity equals	In the year under review, Senior Leader Variable Compensation opportunity is a percentage ranging from 50.0 - 75.0% of the senior executive's fixed compensation consistent with individual contracts of employment.
Variable compensation declared	Individual performance and variable compensation outcomes are approved by the board for each senior executive.
Variable compensation payment	In the year under review, all senior executives are subject to deferral aligned with the requirements of the Banking Executive Accountability Regime. Deferred amounts are equal to the lesser of 10% of total compensation (fixed plus variable compensation) or 40% of variable compensation. Payment of such amounts is deferred for 4 years. Deferred amounts are subject to ongoing performance conditions. Variable compensation payable in any one year cannot exceed 1x a senior executive's fixed compensation. Any amount more than this limit is deferred and can be paid in future years.

Non-executive director remuneration

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

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

Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 1 November 2017. At that meeting members approved the sum of up to $1.485 million in aggregate fees per financial year. This increase in the sum approved took effect from 1 January 2018 and the total spend on director's fees for the year ended 30 June 2020 was $1.259 million.

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

Remuneration tables

Remuneration for the year ended 30 June 2020

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

		Fixed			Variable				
Name	**Year**	**Cash salary and fees[1] $**	**Non-monetary benefits[1,4] $**	**Superannuation contributions[2] $**	**Cash payable (Current year variable compensation)[1] $**	**Cash payable (Deferred variable compensation)[3] $**	**Total remuneration $**	**Variable proportion of the current year's total remuneration**	**Increase in long service leave provision[3] $**
NON-EXECUTIVE DIRECTORS									
Peter Promnitz, Chair	**2020**	**309,015**	**1,000**	**21,003**	**-**	**-**	**331,018**	**-**	**-**
	2019	309,469	1,000	20,531	-	-	331,010	-	-
Lisa Chung	**2020**	**150,685**		**14,315**	**-**	**-**	**165,000**	**-**	**-**
	2019	150,685	-	14,315	-	-	165,000	-	-
Melinda Cilento	**2020**	**150,685**	**-**	**14,315**	**-**	**-**	**165,000**	**-**	**-**
	2019	150,685	-	14,315	-	-	165,000	-	-
Paul Kirk	**2020**	**186,073**	**-**	**17,677**	**-**	**-**	**203,750**	**-**	**-**
	2019	176,545	**-**	16,772	-	-	193,317	-	-
Su McCluskey	**2020**	**152,941**	**-**	**12,059**	**-**	**-**	**165,000**	**-**	**-**
	2019	152,941	**-**	12,059	-	-	165,000	-	-
Julien Playoust	**2020**	**57,956**	**- -**	**5,506**	**-**	**-**	**63,462**	**-**	**-**
(appointed 1 February 2020)									
Gregory Willcock	**2020**	**150,685**	**1,039**	**14,315**	**-**	**-**	**166,039**	**-**	**-**
	2019	150,685	1,000	14,315	-	-	166,000		
Sub-total non-executive directors	**2020**	**1,158,040**	**2,039**	**99,190**	**-**	**-**	**1,259,269**		
	2019	1,091,010	2,000	92,307	-	-	1,185,317		
EXECUTIVES			-						
Rohan Mead,	**2020**	**1,193,703**	**4,048**	**21,003**	**-**	**210,922**	**1,429,676**	**15%**	**56,468**
Group Managing Director	2019	1,142,410	1,000	24,911	641,054	73,553	1,882,928	38%	41,209
David Bryant	**2020**	**812,532**	**1,000**	**20,984**	**-**	**-**	**834,516**	**0%**	**(41,011)**
	2019	794,819	1,000	20,531	395,368	422,683	1,634,401	50%	(133,131)
Amanda Hagan	**2020**	**730,332**	**1,000**	**21,002**	**-**	**139,498**	**891,832**	**16%**	**(16,566)**
	2019	725,684	1,000	20,531	362,981	61,718	1,171,914	36%	18,312
Esther Kerr-Smith	**2020**	**594,190**	**1,000**	**21,002**	**-**	**74,487**	**690,679**	**11%**	**7,364**
	2019	521,769	1,000	20,531	288,808	12,600	844,708	36%	2,285
Kevin McCoy	**2020**	**708,764**	**4,997**	**21,002**	**-**	**118,701**	**853,464**	**14%**	**32,619**
	2019	639,469	1,000	20,531	379,429	65,289	1,105,718	40%	24,092
Matthew Walsh	**2020**	**582,617**	**5,879**	**20,984**	**-**	**-**	**609,480**	**0%**	**38,713**
	2019	525,123	5,364	23,532	302,545	194,608	1,051,172	47%	(16,383)
Total	**2020**	**5,780,178**	**19,963**	**225,167**	**-**	**543,608**	**6,568,916**		**77,587**
	2019	5,440,284	12,364	222,874	2,370,185	830,451	8,876,158		(63,616)

1 Short-term benefits, noting the board exercised its discretion not to award variable compensation for the FY20 performance year.
2 Post-employment benefits.
3 Long-term benefits.
4 Non-monetary benefits refers to salary packaged benefits such as motor vehicles, and some health insurance and car parking deductions.

Non-executive director remuneration *continued*

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

		Fixed		
Name	Year	Cash salary and fees[1] $	Superannuation contributions[2] $	Total remuneration $
Non-executive directors	**2020**	**88,225**	**6,665**	**94,890**
Gregory Willcock	2019	83,784	6,216	90,000
Total Non-executive directors	**2020**	**88,225**	**6,665**	**94,890**
	2019	83,784	6,216	90,000

1 Short-term benefits.
2 Post-employment benefits.

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

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

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

	Variable compensation opportunity amount	Variable compensation amount awarded based on performance		Variable compensation amount payable	Maximum 2020 deferred variable compensation amount (payable subject to ongoing performance)
Name	$	%	$	$	$
Rohan Mead	924,597	0%	-	-	-
David Bryant	599,529	0%	-	-	-
Amanda Hagan	524,842	0%	-	-	-
Esther Kerr-Smith	441,000	0%	-	-	-
Kevin McCoy	525,000	0%	-	-	-
Matthew Walsh	441,000	0%	-	-	-

Details of remuneration – deferred variable compensation for relevant executives

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

	Deferred Variable Remuneration				
Name	**Date when deferred variable compensation was awarded**	**Financial year for which the deferred variable compensation will be fully payable**	**Maximum total value of deferred variable compensation $**	**Proportion of deferred variable compensation payable %**	**Proportion of deferred variable compensation not earned %**
Rohan Mead	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2020	137,368	100%	-
		2021	137,369	-	-
	29 August 2018	2020	73,554	100%	-
David Bryant	28 August 2019	2020	186,321	-	100%
		2021	102,652	-	100%
	29 August 2018	2020	55,595	-	100%
Amanda Hagan	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2020	77,781	100%	-
		2021	77,782	-	-
	29 August 2018	2020	61,717	100%	-
Esther Kerr-Smith	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2020	61,887	100%	-
		2021	61,887	-	-
	29 August 2018	2020	12,600	100%	-
Kevin McCoy	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2020	81,306	100%	-
		2021	81,307	-	-
	29 August 2018	2020	37,395	100%	-
Matthew Walsh	28 August 2019	2020	64,831	-	100%
		2021	64,831	-	100%
	29 August 2018	2020	33,357	-	100%

Contract terms for relevant executives

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

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

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

Use of Remuneration Consultants

With the exception of a review supporting the letter attached to this report from KPMG, confirming that compensation paid to KMP is appropriate, the board did not use remuneration consultants during 2020.

Independent remuneration adviser's report

KPMG

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

Contact Ben Travers 03 9288 5279
Andrew Holland 03 9288 6612

14 August 2020

Dear Ms Chung

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

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

Our view is that the FY20 remuneration for Australian Unity's KMP is reasonable and appropriate in comparison with Australian market practice.

In the current environment, changes made to variable compensation and reductions to cash fees and salaries are welcomed.

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

We confirm that all advice was:

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

Please contact me if you would like to discuss.

Yours sincerely

Ben Travers
Partner

Financial statements

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

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

271 Spring Street Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 19 to 30 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 8 September 2020.

Contents

Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Revenue and other income	2	**1,412,662**	1,608,670
Expenses, excluding finance costs	3	**(1,382,063)**	(1,493,658)
Operating profit		**30,599**	115,012
Finance costs	3	**(41,105)**	(17,739)
Share of net profit/(loss) of joint ventures		**906**	(44)
Profit/(loss) before income tax		**(9,600)**	97,229
Income tax benefit/(expense)	4	**24,564**	(44,228)
Profit after income tax		**14,964**	53,001
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	18(a)	**(7,644)**	(4,202)
Income tax relating to this item	18(a)	**2,293**	1,522
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	18(a)	**677**	202
Other comprehensive income for the year, net of tax		**(4,674)**	(2,478)
Total comprehensive income for the year		**10,290**	50,523
Profit for the year is attributable to:			
Members of Australian Unity Limited		**14,964**	53,001
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**10,290**	50,523

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 26.

Consolidated balance sheet

As at 30 June 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	1,036,703	944,767
Trade and other receivables		102,685	111,821
Current tax assets		3,761	-
Loans and advances	6	21,950	14,977
Financial assets at fair value through profit or loss	7	2,070,692	1,982,707
Other financial assets at amortised cost	8	47,012	56,904
Other current assets		33,437	31,316
Total current assets		3,316,240	3,142,492
Non-current assets			
Loans and advances	6	893,843	725,820
Financial assets at fair value through profit or loss	7	13,128	21,446
Investments in associates and joint ventures		17,425	15,409
Investment properties	12	1,489,160	1,327,551
Property, plant and equipment	13	305,608	250,568
Right-of-use assets	14	115,879	-
Intangible assets	15	313,466	323,764
Other non-current assets		11,732	9,566
Total non-current assets		3,160,241	2,674,124
Total assets		6,476,481	5,816,616
LIABILITIES			
Current liabilities			
Trade and other payables		175,388	190,409
Borrowings	9	1,141,578	815,568
Lease liabilities	14	16,813	-
Current tax liabilities		-	19,457
Provisions	16	148,896	119,929
Other current liabilities	10	1,403,212	1,275,843
Benefit fund policy liabilities	33	268,229	364,276
Total current liabilities		3,154,116	2,785,482
Non-current liabilities			
Borrowings	9	373,870	303,285
Lease liabilities	14	111,795	-
Deferred tax liabilities	17	72,130	86,048
Provisions		5,698	4,825
Other non-current liabilities		12,878	6,042
Benefit fund policy liabilities	33	2,022,715	1,912,541
Total non-current liabilities		2,599,086	2,312,741
Total liabilities		5,753,202	5,098,223
Net assets		723,279	718,393
EQUITY			
Members' balances		255,919	255,919
Reserves	18(a)	(1,743)	2,931
Retained earnings	18(b)	469,103	459,543
Equity attributable to members of Australian Unity Limited		723,279	718,393
Total equity		723,279	718,393

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2018		255,919	5,409	412,229	673,557
Adjustment on adoption of AASB 15, net of tax		-	-	(5,687)	(5,687)
Profit for the year		-	-	53,001	53,001
Other comprehensive income					
- Cash flow hedges	18(a)	-	(2,680)	-	(2,680)
- Post-employment benefits	18(a)	-	202	-	202
Total comprehensive income		-	(2,478)	47,314	44,836
Balance at 30 June 2019		255,919	2,931	459,543	718,393
Balance at 1 July 2019		**255,919**	**2,931**	**459,543**	**718,393**
Adjustment on adoption of AASB 16, net of tax	36	**-**	**-**	**(5,404)**	**(5,404)**
Profit for the year		**-**	**-**	**14,964**	**14,964**
Other comprehensive income					
- Cash flow hedges	18(a)	**-**	**(5,351)**	**-**	**(5,351)**
- Post-employment benefits	18(a)	**-**	**677**	**-**	**677**
Total comprehensive income		**-**	**(4,674)**	**9,560**	**4,886**
Balance at 30 June 2020		**255,919**	**(1,743)**	**469,103**	**723,279**

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

Consolidated statement of cash flows

For the year ending 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,353,609	1,324,918
Payments to suppliers and employees (inclusive of goods and services tax)		(780,384)	(710,458)
Health insurance claims and benefits paid		(519,166)	(543,268)
Life investment contracts - Contributions received		284,642	343,957
Life investment contracts - Withdrawals		(267,278)	(363,348)
Life insurance - Premiums received		155	258
Life insurance - Policy claims paid		(949)	(1,061)
Net payments of loans asset		(177,655)	(85,989)
Net receipts of deposits liability		240,838	99,611
Interest received		37,471	39,599
Dividends and distributions received		12,862	12,616
Interest and finance charges paid		(37,147)	(29,135)
Income tax payments		(5,058)	(26,453)
Net cash inflow from operating activities	19	141,940	61,247
Cash flows from investing activities			
Payments for business combination, net of cash receipt		-	(9,310)
Payments for investments		(925,190)	(934,433)
Payments for investment properties		(131,501)	(118,480)
Payments for property, plant and equipment		(78,691)	(29,157)
Payments for intangible assets		(19,240)	(17,179)
Payments for investments in associates and joint ventures		(1,848)	(2,850)
Receipts from investments		834,984	928,156
Dividends received from joint ventures		1,139	767
Proceeds from sale of a joint venture investment		50	-
Receipts from joint venture's capital returns		-	7,436
Proceeds from disposal of intangible assets		10,096	-
Net cash outflow from investing activities		(310,201)	(175,050)
Cash flows from financing activities			
Receipts from borrowings		181,433	11,058
Payments of borrowings		(21,743)	(32,022)
Net receipts from refundable lease deposits and resident liabilities		100,507	68,510
Net cash inflow from financing activities		260,197	47,546
Net increase/(decrease) in cash and cash equivalents		91,936	(66,257)
Cash and cash equivalents at the beginning of the year		944,767	1,011,024
Cash and cash equivalents at the end of the year	5	1,036,703	944,767

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

Notes to the consolidated financial statements

How numbers are calculated

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

1 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Executive Committee that are used to make strategic decisions including the allocation of resources and to assess the performance of an operating segment. For management reporting purposes, the Group is organised into three customer-facing business platforms which are Independent & Assisted Living, Retail and Wealth & Capital Markets; and the Corporate functions.

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 year ended 30 June 2020 is as follows:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2020					
Total segment revenue	496,369	709,516	170,465	(15,829)	1,360,521
Inter-segment revenue	(8,837)	-	-	8,837	-
Revenue from external customers	487,532	709,516	170,465	(6,992)	1,360,521
Adjusted EBITDA	66,125	61,245	32,819	(75,703)	84,486
Depreciation and amortisation					(46,073)
Interest expense					(41,486)
Investment income					3,580
Income tax benefit					14,457
Profit from operations					14,964
Share of gain after tax from joint ventures (included in adjusted EBITDA)					906
Total segment assets include:					
Income producing assets	95,551	1,467,719	61,927	209,170	1,834,367
Working capital assets	(1,073)	63,022	53,738	18,289	133,976
Non-interest bearing assets	669,640	8,870	212,385	207,452	1,098,347
Total segment assets	764,118	1,539,611	328,050	434,911	3,066,690
Total segment liabilities include:					
Borrowings and net inter-segment lending	140,033	1,055,989	74,377	378,944	1,649,343
Working capital liabilities	153,294	222,965	37,106	86,413	499,778
Non-interest bearing liabilities	133,346	13,688	25,797	21,459	194,290
Total segment liabilities	426,673	1,292,642	137,280	486,816	2,343,411

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

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

(c) Other segment information

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

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

(i) Segment revenue

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

How numbers are calculated *continued*

1 Segment information *continued*

(c) Other segment information *continued*

Segment revenue reconciles to total revenue as follows:

	2020 $'000	2019 $'000
Total segment revenue	**1,360,521**	1,356,471
Dividends and distributions (note 2)	**7,348**	13,202
Distributions from property development included in adjusted EBITDA	**-**	(6,354)
Fund manager and administration fees reclassification	**-**	4,310
Gain/(loss) on investments in financial instruments (note 2)	**(9,731)**	2,043
Other interest income (note 2)	**5,123**	7,199
Other	**2,326**	(2,742)
Revenue and other income attributable to members of Australian Unity Limited (note 26)	**1,365,587**	1,374,129
Revenue from benefit funds (note 26)	**47,075**	234,541
Total revenue and other income	**1,412,662**	1,608,670

(ii) Adjusted EBITDA

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

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

	2020 $'000	2019 $'000
Adjusted EBITDA	**84,486**	93,030
Depreciation and amortisation expense		
Depreciation and amortisation expense (note 3)	**(49,025)**	(29,786)
Gain/(loss) on disposal of assets	**4,334**	(405)
Merger and acquisition expenses	**(1,101)**	(923
Other	**(281)**	(153)
	(46,073)	(31,267)
Interest expense		
Finance costs (note 3)	**(41,105)**	(17,739)
Other	**(381)**	(14)
	(41,486)	(17,753)
Investment income		
Dividends and distributions (note 2)	**7,348**	13,202
Distributions from property development included in adjusted EBITDA	**-**	(6,354)
Gain/(loss) on investments in financial instruments (note 2)	**(9,731)**	2,043
Other interest income (note 2)	**5,123**	7,199
Other	**840**	17
	3,580	16,107
Profit before income tax attributable to members of Australian Unity Limited (note 26)	**507**	60,117
Profit/(loss) before income tax of benefit funds (note 26)	**(10,107)**	37,112
Profit/(loss) before income tax	**(9,600)**	97,229

(iii) Segment assets

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

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

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

	2020 $'000	2019 $'000
Segment assets	**3,066,690**	2,490,254
Resident liabilities and refundable lease deposits	**1,153,729**	1,060,253
Retirement Village Property Fund consolidation	**71,169**	64,136
Netting of eligible deferred tax balances	**(122,809)**	(114,643)
Other reclassifications between assets and liabilities	**3,521**	29,438
Total assets attributable to members of Australian Unity Limited	**4,172,300**	3,529,438
Benefit fund assets (note 34)	**2,311,199**	2,313,108
Netting of eligible deferred tax balances	**(7,018)**	(25,930)
Total assets	**6,476,481**	5,816,616

(iv) Segment liabilities

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

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

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

	2020 $'000	2019 $'000
Segment liabilities	**2,343,411**	1,771,861
Resident liabilities and refundable lease deposits	**1,153,729**	1,060,253
Retirement Village Property Fund consolidation	**71,169**	64,136
Netting of eligible deferred tax balances	**(122,809)**	(114,643)
Other reclassifications between assets and liabilities	**3,521**	29,438
Total liabilities attributable to members of Australian Unity Limited	**3,449,021**	2,811,045
Benefit fund policy liabilities (note 33)	**2,290,944**	2,276,817
Benefit fund other liabilities (note 34)	**20,255**	36,291
Netting of eligible deferred tax balances	**(7,018)**	(25,930)
Total liabilities	**5,753,202**	5,098,223

How numbers are calculated *continued*

2 Revenue and other income

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

The following is revenue and other income from operations:

	2020 $'000	2019 $'000
Health insurance net premium revenue	**673,427**	683,456
Revenue from services		
Government grants and subsidies funding aged care, home and disability services	**193,592**	182,818
Independent and assisted living services and other fees	**231,740**	215,789
Management and performance fees revenue	**84,485**	84,411
Brokerage and commission	**64,820**	63,268
Healthcare services revenue	**28,558**	27,725
	603,195	574,011
Interest income of bank	**32,384**	32,296
Investment earnings		
Other interest income	**5,123**	7,199
Dividends and distributions	**7,348**	13,202
Gain/(loss) on investments in financial instruments	**(9,731)**	2,043
Fair value gains on investment property	**30,108**	29,340
	32,848	51,784
Benefit funds income	**47,075**	234,541
Other income	**23,733**	32,582
	1,412,662	1,608,670

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

Disaggregation of revenue from services for each business segment for the year ended 30 June 2020 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2020					
Health insurance net premium revenue	-	673,427	-	-	673,427
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	193,592	-	-	-	193,592
Independent & assisted living services and other fees	234,060	-	(2)	(2,318)	231,740
Management and performance fees revenue	(21)	-	89,843	(5,337)	84,485
Brokerage and commission	3,086	3,084	58,650	-	64,820
Healthcare services revenue	28,762	-	-	(204)	28,558
	459,479	3,084	148,491	(7,859)	603,195
Interest income of bank	-	32,384	-	-	32,384
Investment earnings					
Other interest income	1,260	577	210	3,076	5,123
Dividends and distributions	-	5,794	1,543	11	7,348
Gain/(loss) on investments in financial instruments	(3,002)	(4,579)	(1,403)	(747)	(9,731)
Fair value gains on investment property	25,408	-	4,700	-	30,108
	23,666	1,792	5,050	2,340	32,848
Benefit funds income	-	-	47,075	-	47,075
Other income	3,224	4,039	15,359	1,111	23,733
Revenue and other income	486,369	714,726	215,975	(4,408)	1,412,662
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividends and distributions	-	(5,794)	(1,543)	(11)	(7,348)
Other investment income	1,742	4,002	1,193	(2,329)	4,608
Other	(579)	(3,418)	1,915	(244)	(2,326)
Revenue from benefit funds	-	-	(47,075)	-	(47,075)
	1,163	(5,210)	(45,510)	(2,584)	(52,141)
Revenue from external customers in segment reporting	487,532	709,516	170,465	(6,992)	1,360,521

How numbers are calculated *continued*

2 Revenue and other income *continued*

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2019					
Health insurance net premium revenue	-	683,456	-	-	683,456
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	182,818	-	-	-	182,818
Independent & assisted living services and other fees	216,612	-	150	(973)	215,789
Management and performance fees revenue	-	-	90,284	(5,873)	84,411
Brokerage and commission	2,002	4,695	56,571	-	63,268
Healthcare services revenue	27,725	-	-	-	27,725
	429,157	4,695	147,005	(6,846)	574,011
Interest income of bank	-	32,296	-	-	32,296
Investment earnings					
Other interest income	1,923	1,245	345	3,686	7,199
Dividends and distributions	597	8,838	3,755	12	13,202
Gain/(loss) on investments in financial instruments	(1,759)	3,036	735	31	2,043
Fair value gains on investment property	21,340	-	8,000	-	29,340
	22,101	13,119	12,835	3,729	51,784
Benefit funds income	-	-	234,541	-	234,541
Other income	3,444	1,484	27,200	454	32,582
Revenue and other income	454,702	735,050	421,581	(2,663)	1,608,670
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividends and distributions	(597)	(8,838)	(3,755)	(12)	(13,202)
Fund manager and administration fees reclassification	-	-	(4,310)	-	(4,310)
Other investment income	(164)	(4,281)	(1,080)	(3,717)	(9,242)
Property development distributions included in adjusted EBITDA	6,354	-	-	-	6,354
Other	(273)	143	2,973	(101)	2,742
Revenue from benefit funds	-	-	(234,541)	-	(234,541)
	5,320	(12,976)	(240,713)	(3,830)	(252,199)
Revenue from external customers in segment reporting	460,022	722,074	180,868	(6,493)	1,356,471

3 Expenses

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

	2020 $'000	2019 $'000
Bank charges	**2,922**	4,235
Commission expense	**57,109**	56,536
Communication costs	**6,765**	8,488
Computer and equipment costs	**34,371**	29,892
Depreciation and amortisation expense	**49,025**	29,786
Employee benefits expense	**483,353**	488,824
Expenses in relation to benefit funds (note 33)	**57,182**	197,429
Financial and insurance costs	**7,769**	514
Fund manager and administration fees	**20,383**	20,743
Health insurance claims expense	**620,528**	605,621
Health insurance claims recoveries - Net Risk Equalisation Special Account	**(74,259)**	(63,937)
Interest expense of bank	**11,904**	12,711
Legal and professional fees	**19,319**	20,098
Marketing expenses	**13,130**	13,472
Occupancy costs	**20,613**	23,917
Other direct expenses	**4,949**	5,329
Other expenses	**47,000**	40,000
	1,382,063	1,493,658
Depreciation and amortisation		
Depreciation of property, plant and equipment	**12,843**	6,960
Depreciation of right-of-use assets	**14,561**	-
Amortisation of intangible assets	**21,621**	22,826
	49,025	29,786
Finance costs		
Interest and finance charges on borrowings	**23,041**	18,413
Notional interest on leases and related accounts	**19,770**	-
Total interest and finance charges	**42,811**	18,413
Capitalisation of borrowing interest	**(1,706)**	(674)
Finance costs expensed	**41,105**	17,739

4 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	2020 $'000	2019 $'000
Current tax	**(25,604)**	1,554
Current tax - benefit funds	**21,325**	20,578
Deferred tax	**23,341**	12,119
Deferred tax - benefit funds	**(28,637)**	17,758
Adjustments for current tax of prior periods	**(11,404)**	(6,557)
Adjustments for current tax of prior periods - benefit funds	**(2,795)**	(1,224)
Other	**(790)**	-
Income tax expense/(benefit)	**(24,564)**	44,228
Deferred income tax (revenue)/(benefit) expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**211**	(2,630)
Increase/(decrease) in deferred tax liabilities	**(5,507)**	32,507
	(5,296)	29,877

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

	2020 $'000	2019 $'000
Profit/(loss) before income tax	**(9,600)**	97,229
Less: Loss/(profit) in benefit funds	**10,107**	(37,112)
Profit before income tax for the year	**507**	60,117
Tax at the Australian tax rate of 30% (2019: 30%)	**152**	18,035
Non-assessable income	**(9,034)**	(5,695)
Other assessable amounts	**385**	-
Non-deductible expenditures	**1,236**	1,660
Other deductible expenditures	**(2,001)**	(1,497)
Other deferred tax adjustments	**52**	(433)
Under/(over) provision in prior years	**(6,315)**	(4,006)
Tax offsets/(credits)	**1,068**	(948)
Tax in benefit funds	**(10,107)**	37,112
Income tax expense/(benefit)	**(24,564)**	44,228

The income tax results for the financial year to 30 June 2020 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

Tax Transparency Code

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

Financial assets and liabilities

5 Financial assets - Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and on hand	**26**	66
Bank balances	**41,503**	67,694
Deposits at call	**995,174**	877,007
	1,036,703	944,767

The balance of cash and cash equivalents as at 30 June 2020 included the Parent Entity's accounts totalling $217,187,000 (30 June 2019: $151,757,000) and amounts held by benefit funds totalling $375,087,000 (30 June 2019: $411,724,000).

Fair value and risk exposures

The carrying amount of cash and cash equivalents equals their fair value. Information about the Group's exposure to interest rate risk is provided in note 21.

6 Financial assets - Loans and advances

	2020 $'000	2019 $'000
Current		
Mortgage loans	**24,940**	19,442
Personal loans	**4,066**	6,053
Provision for impairment	**(11,056)**	(10,518)
Advances	**4,000**	-
Total — current	**21,950**	14,977
Non-current		
Mortgage loans	**894,222**	724,004
Personal loans	**5,016**	1,996
Provision for impairment	**(5,395)**	(4,180)
Advances	**-**	4,000
Total — non-current	**893,843**	725,820
Total loans and advances	**915,793**	740,797

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

(a) Mortgage loans

The mortgage loans are secured on real property. These loans mature at various dates up to 30 June 2050 and earn interest at annual interest rates between 2.54% and 6.98% (2019: between 3.59% and 7.00%).

(b) Personal loans

The personal loans mature at various dates up to 30 November 2025 and earn interest at annual rates between 4.57% and 15.18% (2019: between 4.57% and 15.19%).

Financial assets and liabilities *continued*

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans above which are provided by the Group's authorised deposit-taking institution. It is calculated based on an expected credit loss (ECL) model. The amount as at 30 June 2020 consisted of $6.1 million loans in the Stage 1 twelve-month ECL category (2019: $5.3 million), $7.7 million loans in the Stage 2 lifetime ECL not credit impaired category (2019: $6.0 million), and $2.7 million loans in the Stage 3 lifetime ECL credit impaired category (2019: $3.4 million).

In March 2020, the World Health Organisation declared COVID-19 a world-wide pandemic. COVID-19 and the measures to mitigate the spread of the virus have significantly impacted the economy and financial markets. In response to this, the Group undertook a review of its loan portfolios and the impairment provision, taking into consideration the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. In measuring the impairment provision, methodology and threshold in determining significant increase in credit risk and the definition of default remained consistent with prior periods. However, the model inputs, including forward-looking information, scenarios and associated weightings, as well as the determination of the staging of exposures were adjusted.

These resulted in several customers being downgraded due to the increasing risk of default following the weakening macroeconomic environment due to the impact of COVID-19, and consequently the impairment provision increased.

The Group introduced a number of measures to support the customers impacted by the adverse economic conditions arising from COVID-19. These measures included loan deferrals totalling to $76.9 million.

(d) Past due but not impaired

At 30 June 2020, the current portion of loans and advances that were past due but not impaired amounted to $40,241,000 (2019: $26,935,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value and risk exposures

The fair value of current and non-current loans and advances are provided in note 11. Information about the Group's exposure to credit risk and interest rate risk is provided in note 21.

7 Financial assets at fair value through profit or loss

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

	2020 $'000	2019 $'000
Securities held by benefit funds	**1,864,486**	1,837,874
Securities held by subsidiaries	**219,334**	166,279
	2,083,820	2,004,153

Changes in fair value 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:

	2020 $'000	2019 $'000
Equity trusts	**1,291,630**	1,242,599
Fixed interest and other debt security trusts	**493,872**	506,747
Mortgage trusts	**23,249**	25,743
Property syndicates and trusts	**55,735**	62,785
	1,864,486	1,837,874

(b) Securities held by subsidiaries comprise the following:

	2020 $'000	2019 $'000
Equity trusts	**18,011**	22,425
Fixed interest and other debt security trusts	**190,931**	123,931
Mortgage trusts	**3,165**	3,283
Property syndicates and trusts	**7,227**	16,640
	219,334	166,279

(c) Current and non-current split

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

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

	2020 $'000	2019 $'000
Current	**2,070,692**	1,982,707
Non-current	**13,128**	21,446
	2,083,820	2,004,153

(d) Fair value and risk exposures

Information on the fair value measurement basis is provided in note 11 while information about the Group's exposure to market risk is provided in note 21.

8 Financial assets - Other financial assets at amortised cost

	2020 $'000	2019 $'000
Other financial assets at amortised cost - Bank bills and term deposits	**47,012**	56,904

Fair value and risk exposures

Information on the fair value measurement basis is provided in note 11 while information about the Group's exposure to market risk is provided in note 21.

9 Financial liabilities - Borrowings

	2020 $'000	2019 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**128,798**	95,494
Retirement Village Investment Notes	**19,961**	5,423
	148,759	100,917
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**-**	16,320
Unsecured interest bearing liabilities		
Series B Australian Unity Bonds		
Face value	**71,326**	-
Valuation at amortised cost	**(194)**	-
At amortised cost	**71,132**	-
Call deposits	**494,553**	419,173
Term deposits	**384,388**	274,058
Development finance loans	**37,646**	-
Loan payable to related entity	**5,100**	5,100
Total unsecured interest bearing liabilities	**992,819**	698,331
Total current borrowings	**1,141,578**	815,568

Financial assets and liabilities *continued*

9 Financial liabilities - Borrowings *continued*

	2020 $'000	2019 $'000
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	18,401	19,961
Unsecured interest bearing liabilities		
Series B Australian Unity Bonds		
Face value	-	250,000
Valuation at amortised cost	-	(2,036)
At amortised cost	-	247,964
Series C Australian Unity Bonds		
Face value	115,019	-
Valuation at amortised cost	(2,295)	-
At amortised cost	112,724	-
Series D Australian Unity Bonds		
Face value	207,000	-
Valuation at amortised cost	(3,480)	-
At amortised cost	203,520	-
Term deposits	39,225	17,401
Development finance loans	-	17,959
Total unsecured interest bearing liabilities	355,469	283,324
Total non-current borrowings	373,870	303,285
Total borrowings	1,515,448	1,118,853

(a) Series B Australian Unity Bonds

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

As specified in the prospectus, the proceeds from the issue were used to refinance the $120,000,000 Australian Unity Notes previously issued, partly finance the acquisition of Home Care NSW 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 B 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 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 B 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. Therefore, the impact of the newly-adopted AASB 16 Leases in the 2019 financial year is excluded from the calculation of Covenant Gearing Ratio. As at 30 June 2020, the Covenant Gearing Ratio was 32% (30 June 2019: 22%).

In September 2019, a reinvestment offer was made to all eligible holders of Series B Australian Unity Bonds to subscribe for the Series C and Series D Australian Unity Bonds issued by the Company on 15 October 2019 (refer to the below note) and fund their subscriptions by selling their Series B Australian Unity Bonds to the Company. As a result of the reinvestment offer, 1,786,743 Series B Australian Unity Bonds were sold to the Company.

The remaining 713,257 Series B Australian Unity Bonds will be redeemed for cash on their maturity date of 15 December 2020.

(b) Series C and Series D 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 October 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 October 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 30 June 2020, the Covenant Gearing Ratio was 32%.

(c) Development finance loans

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

(d) Retirement Village Investment Notes (RVIN)

RVIN are debt instruments issued by the Group. The proceeds from RVIN issues were utilised by the Group for the purpose of expanding the Independent & Assisted Living business. The RVIN are secured by a first ranking registered security interest over intra-group loans in relation to the RVIN proceeds and the mortgages, granted as security for the loans, over allotments of units held in Australian Unity Retirement Village Trust #1 (in respect of Series 1, 2, 4 and 5 Notes) and Australian Unity Retirement Village Trust #2 (in respect of Series 3 and 4 Notes).

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

During the financial year, the Group repaid $21,728,000 of maturing RVIN. On 30 November 2019 the Group issued Series 5 RVIN totalling $18,401,000 with a five-year term maturing on 20 November 2024 and bearing interest at a fixed rate of 4.95% per annum.

As at 30 June 2020, the total amount of RVIN on issue reported as interest bearing liabilities was $38,362,000 (30 June 2019: $41,704,000 comprising $25,384,000 interest bearing liabilities and $16,320,000 non-interest bearing liabilities). Subsequent to the reporting period, Series 1 and 2 RVIN were refinanced using the proceeds from the issuance of Series 6 RVIN which have a three-year term with a fixed interest rate at 5% per annum as disclosed in note 29.

Financial assets and liabilities *continued*

9 Financial liabilities - Borrowings *continued*

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June 2020 $'000	30 June 2019 $'000
RVIN - Series 1	5	30 November 2019	7.50%	-	5,408
	8	30 November 2020	5.60%	**15,988**	-
RVIN - Series 2	5	31 December 2020	5.60%	**3,973**	-
RVIN - Series 3	8	31 December 2019	7.50%	-	15
Interest bearing RVIN - current				**19,961**	5,423
RVIN - Series 1	8	30 November 2020	5.60%	-	15,988
RVIN - Series 2	5	31 December 2020	5.60%	-	3,973
RVIN - Series 5	1	30 November 2024	4.95%	**18,401**	-
Interest bearing RVIN - non-current				**18,401**	19,961
Total interest bearing RVIN				**38,362**	25,384
RVIN - Series 3	11	30 June 2019		-	6,320
RVIN - Series 4	2	30 June 2019		-	10,000
Non-interest bearing RVIN - current				-	16,320
Total RVIN				**38,362**	41,704

(e) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2020, this rate amounted to between 0.01% and 1.65% (2019: between 0.01% and 2.45%).

(f) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2020 ranging between 0.25% and 3.25% (2019: between 1.25% and 4.10%).

During the financial year, the Reserve Bank of Australia (RBA) offered three-year funding facilities to authorised deposit-taking institutions (ADI) to reinforce the benefits to the economy of a lower cash rate and to encourage ADI to support businesses during a difficult period. The amount of this facility the Group had received as at 30 June 2020 was $25,193,000 with interest at 0.25% per annum.

(g) Mortgage offset savings accounts

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

(h) Loan payable to related entity

The loan from related entity is repayable on demand and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2%. At 30 June 2020 this rate amounted to 2.1% (2019: 3.20%).

(i) Fair value and risk exposures

The fair values of borrowings are set out in note 11. Information about the Group's exposure to risk arising from borrowings is set out in note 21.

10 Other current liabilities

	2020 $'000	2019 $'000
Financial liabilities		
Refundable accommodation deposits	**274,602**	242,694
Resident loan liabilities	**950,332**	881,733
	1,224,934	1,124,427
Non-financial liabilities		
Unearned income	**170,812**	140,564
Other	**7,466**	10,852
	178,278	151,416
Total other current liabilities	**1,403,212**	1,275,843

(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.

(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 and risk exposures

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value. Details of the Group's exposure to risk arising from other current liabilities are set out in note 21.

11 Fair value measurements

(a) Recognised fair value measurements

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

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

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

(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 30 June 2020 and 2019 on a recurring basis.

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

(i) Fair value hierarchy *continued*

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2020				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,466	1,307,175	-	1,309,641
Fixed interest and other debt security trusts	-	684,803	-	684,803
Mortgage trusts	-	26,414	-	26,414
Property syndicates and trusts	17,850	45,112	-	62,962
Other financial assets	-	-	6,997	6,997
Total financial assets	20,316	2,063,504	6,997	2,090,817
Non-financial assets				
Investment properties	-	-	1,489,160	1,489,160
Total non-financial assets	-	-	1,489,160	1,489,160
Financial liabilities				
Interest rate swaps	-	12,209	-	12,209
Life investment contract policy liabilities	-	1,303,943	-	1,303,943
Total financial liabilities	-	1,316,152	-	1,316,152

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

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

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

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

Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

Investment properties

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

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

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

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

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

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

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

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2020:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2018	7,065	1,169,437	1,176,502
Additions	-	128,787	128,787
Transfers	-	(13)	(13)
Gains/(losses) recognised in other income*	(9)	29,340	29,331
Closing balance 30 June 2019	7,056	1,327,551	1,334,607
Opening balance 1 July 2019	**7,056**	**1,327,551**	**1,334,607**
Additions	**-**	**131,501**	**131,501**
Transfers	**-**	**-**	**-**
Gains/(losses) recognised in other income*	**(59)**	**30,108**	**30,049**
Closing balance 30 June 2020	**6,997**	**1,489,160**	**1,496,157**
*Included in the gain recognised in other income: Unrealised gain recognised in the profit or loss attributable to assets held at the end of the financial year			
2020	**(59)**	**30,108**	**30,049**
2019	(9)	29,340	29,331

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

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

Investment properties valuation inputs and relationships to fair value

In the second half of 2020, the COVID-19 pandemic created a level of uncertainty in the inputs used in investment property valuation. While demand for retirement village properties may fluctuate in the short-term given the COVID-affected macroeconomic environment, the Group continues to expect long term demand to be strong commensurate with the growth in the ageing population. The valuation has been determined based on the available information at 30 June 2020 and other relevant information arising since then. The Group has a recent independent assessment on the key assumptions used in the valuation which incorporated COVID-19 impacts.

Given the current volatility in the market and uncertainty around economic recovery, it is possible that after the reporting date there will be movements in the key inputs and assumptions. A protracted economic recovery may cause a reduction in demand and market value. To assess the exposure of the carrying value to fair value movements as a result of changes in the economic environment, sensitivity analyses have been performed based on reasonably probable scenarios on the changes of key valuation inputs. While it is unlikely that these inputs would move in isolation, the sensitivities have been prepared to measure the impact of changes in each key valuation input independently.

The following table summarises the key inputs used in fair value measurements and the impact of changes in each input:

Description	Fair value at 30 June 2020 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties, excluding non-retirement village development sites	$ 1,374,901	Discount rate	13% - 14%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -$16.3 million/+$18.0 million (2019: -$13.3 million/+$14.6 million).
		Property growth rate	1% - 4%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +$28.1 million/-$25.5 million (2019: +$22.7 million/-$20.6 million)
		Average length of residents' stay	5-8 years for serviced apartments, 9-14 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 CEO Independent & Assisted Living, 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 CEO Independent & Assisted Living every six months in line with the Group's half-yearly reporting timelines. The results of the valuations are subject to audit or review every six months. The valuation method used in determining the fair value of these investment properties is drawn upon an actuarial model for property valuation. The main level 3 inputs used in measuring the fair value of investment properties, which include resident turnover rates, property growth rates and discount rates, are estimated by management based on comparable transactions and industry data. The key assumptions used in the valuation are reviewed by an independent qualified valuer on a yearly basis.

(b) Disclosed fair values

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

	2020		2019	
	Amortised cost $'000	Fair value $'000	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	902,710	902,974	728,748	729,093
Advances	4,000	4,000	4,000	3,859
	906,710	906,974	732,748	732,952
Current and non-current liabilities				
Australian Unity Bonds	387,376	390,275	247,964	258,000
Call deposits	494,553	494,553	-	-
Development finance loans	37,646	37,646	17,959	18,209
Mortgage offset savings accounts	128,798	128,798	-	-
Retirement Village Investment Notes	38,362	40,390	41,704	42,006
Term deposits	423,613	423,518	291,459	291,289
	1,510,348	1,515,180	599,086	609,504

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.

	2020 $'000	2019 $'000
Retirement village independent living units	981,025	929,571
Development sites - retirement village independent living units	393,876	348,381
Development sites - other	114,259	49,599
	1,489,160	1,327,551

(a) Movements of investment properties

	2020 $'000	2019 $'000
At fair value		
Balance at the beginning of the financial year	1,327,551	1,169,437
Additions	131,501	128,787
Transfers to property, plant and equipment	-	(13)
Net fair value movements	30,108	29,340
Balance at the end of the financial year	1,489,160	1,327,551

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

	2020 $'000	2019 $'000
Revenue	39,230	57,267
Expenses	(33,555)	(32,681)
Changes in fair value recognised in profit or loss	30,108	29,340
	35,783	53,926

Non-financial assets and liabilities *continued*

13 Non-financial assets - Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2018					
Cost	33,026	190,433	27,473	28,145	279,077
Accumulated depreciation	-	(21,433)	(18,168)	(22,196)	(61,797)
Net book amount	33,026	169,000	9,305	5,949	217,280
Year ended 30 June 2019					
Opening net book amount	33,026	169,000	9,305	5,949	217,280
Additions	-	22,883	3,102	12,618	38,603
Transfers from investment properties	-	13	-	-	13
Transfers from/(to) intangibles	-	-	(2,253)	3,954	1,701
Disposals	-	-	(37)	(32)	(69)
Depreciation charge	-	(3,439)	(1,749)	(1,772)	(6,960)
Closing net book amount	33,026	188,457	8,368	20,717	250,568
At 30 June 2019					
Cost	33,026	213,329	28,155	44,674	319,184
Accumulated depreciation	-	(24,872)	(19,787)	(23,957)	(68,616)
Net book amount	33,026	188,457	8,368	20,717	250,568

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 30 June 2020					
Opening net book amount	**33,026**	**188,457**	**8,368**	**20,717**	**250,568**
Additions	**-**	**58,913**	**5,498**	**3,472**	**67,883**
Transfers	**6,800**	**(6,800)**	**-**	**-**	**-**
Depreciation charge	**-**	**(4,706)**	**(2,551)**	**(5,586)**	**(12,843)**
Closing net book amount	**39,826**	**235,864**	**11,315**	**18,603**	**305,608**
At 30 June 2020					
Cost	**39,826**	**265,442**	**33,651**	**48,146**	**387,065**
Accumulated depreciation	**-**	**(29,578)**	**(22,336)**	**(29,543)**	**(81,457)**
Net book amount	**39,826**	**235,864**	**11,315**	**18,603**	**305,608**

14 Non-financial assets and liabilities - Leases

The Group has applied AASB 16 *Leases* for the first time from 1 July 2019. AASB 16 requires the recognition of lease assets and liabilities on balance sheet with the amortisation of the assets and finance costs of the liabilities to be charged to profit or loss. Short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss.

The Group has non-cancellable lease contracts, as lessee, for commercial buildings, computer equipment and motor vehicles which are used as part of the Group's operations. Computer equipment leases are categorised as leases of low-value assets and therefore no assets and liabilities are recognised. The Group's lease contracts do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group also has a few sublease contracts in relation to certain commercial buildings. Sublease transactions where the Group is an intermediate lessor are accounted for by reducing the right-of-use assets arising from the respective head leases and recognising sublease receivables. Other sublease contracts are accounted for as operating leases with income being recognised over the lease term. The value of sublease contracts as at 30 June 2020 was immaterial.

(a) Amounts recognised in the consolidated balance sheet

In previous year, the Group had operating leases recognised under AASB 117 *Leases*. The Group did not have any finance leases, and therefore did not recognise lease assets and liabilities.

The following are assets and liabilities recognised on the adoption of AASB 16 as at 1 July 2019 and the balances as at 30 June 2020:

	30 June 2020 $'000	1 July 2019 $'000
Right-of-use assets		
Buildings	112,862	124,515
Vehicles	3,017	2,693
	115,879	127,208
Other non-current assets - Sublease receivables	1,410	-
Total assets	117,289	127,208
Lease liabilities		
Current	16,813	17,620
Non-current	111,795	119,159
Total liabilities	128,608	136,779

Additions to the right-of-use assets during the financial year ended 30 June 2020 were $3,622,000.

(b) Amounts recognised in the consolidated statement of comprehensive income

	30 June 2020 $'000	1 July 2019 $'000
Depreciation charge of right-of-use assets	14,561	-
Interest expense (included in Finance costs)	6,496	-
Interest income on sublease receivable	(61)	-
Expenses relating to short-term leases or leases of low value assets (included in Other expenses)	6,262	-
Lease expenses charged to profit or loss on a straight line basis (included in Occupancy costs and Other expenses)	-	17,208
	27,258	17,208

Total cash outflow for leases in the financial year ended 30 June 2020 was $23,660,000 (2019: $17,208,000).

Non-financial assets and liabilities *continued*

15 Non-financial assets - Intangible assets

	Goodwill $'000	Computer software $'000	Bed and other licences $'000	Management rights and other intangible assets $'000	Total $'000
At 1 July 2018					
Cost	185,626	92,434	12,655	125,288	416,003
Accumulated amortisation and impairment	(6,000)	(51,883)	(1,915)	(27,201)	(86,999)
Adjustments on the adoption of AASB 15				(5,977)	(5,977)
Net book amount	179,626	40,551	10,740	92,110	323,027
Year ended 30 June 2019					
Opening net book amount	179,626	40,551	10,740	92,110	323,027
Acquisition of subsidiaries/businesses	767	-	-	3,837	4,604
Additions	1,853	22,425	-	(3,219)	21,059
Transfers to property, plant and equipment	-	(1,701)	-	-	(1,701)
Disposals	-	(399)	-	-	(399)
Amortisation charge	-	(10,638)	-	(12,188)	(22,826)
Closing net book amount	182,246	50,238	10,740	80,540	323,764
At 30 June 2019					
Costs	188,246	111,474	12,655	118,435	430,810
Accumulated amortisation and impairment	(6,000)	(61,236)	(1,915)	(37,895)	(107,046)
Net book amount	182,246	50,238	10,740	80,540	323,764

	Goodwill $'000	Computer software $'000	Bed and other licences $'000	Management rights and other intangible assets $'000	Total $'000
Year ended 30 June 2020					
Opening net book amount	**182,246**	**50,238**	**10,740**	**80,540**	**323,764**
Additions	**-**	**17,117**	**-**	**-**	**17,117**
Disposals	**-**	**(81)**	**-**	**(5,713)**	**(5,794)**
Amortisation charge	**-**	**(14,513)**	**-**	**(7,108)**	**(21,621)**
Closing net book amount	**182,246**	**52,761**	**10,740**	**67,719**	**313,466**
At 30 June 2020					
Cost	**188,246**	**128,381**	**12,655**	**112,722**	**442,004**
Accumulated amortisation and impairment	**(6,000)**	**(75,620)**	**(1,915)**	**(45,003)**	**(128,538)**
Net book amount	**182,246**	**52,761**	**10,740**	**67,719**	**313,466**

The management rights and other intangible assets include those with an indefinite life of $24,757,000 as at 30 June 2020 and 2019. The management rights are related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are profitable and expected to continue their operations on a going concern basis.

Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) initially granted to the Group by the Department of Health are not ascribed a value. Bed licences purchased from other approved providers are valued at cost. At 30 June 2020, the Group held 1,039 granted licences and 231 purchased licences (no change from 30 June 2019).

(a) Impairment tests for goodwill and management rights

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

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

	2020 $'000	2019 $'000
Home & Disability Services	**141,116**	141,116
Wealth Assets Management	**34,108**	34,108
Trustee Services	**8,399**	8,399
Wealth Advice Services	**9,362**	9,362
Residential Communities	**20,017**	20,017
Health Services	**4,741**	4,741
	217,743	217,743

The recoverable amount of a CGU is determined based on a value in use calculation using five-year cash flow projections. An indefinite terminal cash flow calculation is then applied for cash flows beyond year five, except for the Home & Disability Services CGU which terminal cash flow is applied to the period beyond year 10 (refer to section (d) below).

The Group normally prepares an annual strategic plan which includes financial forecasts with a four-year outlook with expectations of future events that are believed to be reasonable under the current circumstances. For the impairment test calculation, the Group sourced the four-year cash flow projections from these financial forecasts and extrapolated the cash flow for the fifth year using growth rates based on estimates of expected long-term operating conditions appropriate for each CGU. In March 2020, however, the COVID-19 pandemic impacted the economy and there was uncertainty in the outlook and the extent of the impacts to the businesses. In response to this, the Group developed an annual operating plan, including the 2021 financial forecast, and built its best estimates of the forecast for the subsequent four years; taking into consideration the macroeconomic outlook, the impacts of the COVID-19 pandemic to each business platform and the initiatives taken in response to the COVID-19 disruptions.

The approach assumes that the impacts of COVID-19 to each CGU are temporary. Under the going concern assumption and the value in use method implemented in the impairment test, it is assumed that there are reasonable grounds to believe that, despite the COVID-19 impacts in the current forecasts, the long-term values of the CGU hold. The extent of COVID-19 impacts across the CGU's varied and the Group does not foresee any shutdown impact to any CGU. The CGU financial projections have taken COVID-19 impacts into account and plotted the paths to recovery prior to the stabilised position. As reflected in the financial projections, generally any CGU with an immediately diminished outlook is projected to recover within the next 12-18 months and are restored to normal business value levels during the 2022 to 2024 financial periods.

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

Discount rates used in the value in use calculation represent the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. It takes into account the time value of money and inherent risks of the underlying assets.

Pre-tax discount rates of 10.0% to 12.9% were applied to cash flow projections of the relevant CGU (2019: 10.1% to 12.6%). The terminal value is determined based on an assumption of terminal growth rate of 2.5% to 3.0% which is within the target long term inflation rate of the Reserve Bank of Australia (2019: 2.5% to 3.0%).

(c) Impact of possible changes in key assumptions

The value in use calculations are sensitive to changes in discount rates, terminal growth rates, and key earning drivers varying from the assumptions and forecast data used in impairment testing. As such, sensitivity analyses were undertaken to examine the effect of an unfavourable change in a variable on each CGU based on the reasonably probable scenarios.

Based on this analysis it is concluded that, assuming the growth rate is at the level of the long-term inflation rate, any possible change in the pre-tax discount rate of up to 11.6% (2019: 13.5%) would not cause the recoverable amount of goodwill and intangible assets with an indefinite life to fall below its carrying amount. The following section describes the Home & Disability Services, Trustee Services and Wealth Advice Services CGUs that are prone to the changes in key assumptions.

Non-financial assets and liabilities *continued*

15 Non-financial assets - Intangible assets *continued*

(d) Home & Disability Services CGU

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

(i) The growth in the number of customer contracts – the CGU is predominantly operating in NSW, with aspirations to grow, particularly within Victoria and Queensland. Projected growth of customer numbers and business efficiencies are based on experience to date, business plans and changing demographic opportunities.

In determining the growth in customer contracts, consideration has been given to the environmental context in which the business operates, including the current political climate and government policy relating to the Home Care Packages (HCP) and the Commonwealth Home Support Programme (CHSP). There is a degree of uncertainty whether the government will extend the CHSP funding beyond 30 June 2022. Ongoing Royal Commission submissions and recommendations are expected to consider potential alternative future models of government funding.

Revenue growth assumptions for the CGU have been determined around 4%–5% per annum over the ten-year projection period. The key assumptions that underpin the recoverable amount are revenue growth across HCP, continuity of CHSP and achievement of forecast operating margins. The business has implemented a number of initiatives to improve operating margins and leverage high performing parts of the branch network.

The forecasts reflect commercial opportunities faced by the Home & Disability Services CGU, however, the Group acknowledges that there remains reasonable uncertainty around the pace and nature of growth and the time this can be realised in view of the potential regulatory changes following the Royal Commission's recommendations and the future impacts of the COVID-19 pandemic on the operations of the business.

(ii) Discount rates for the purpose of impairment testing – the pre-tax discount rate applied to cash flow projections is 9.9%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate – the terminal value has been calculated for this CGU on the extrapolated ten-year cash flows, with a terminal growth rate of 3.0%. A percentage point change in the terminal value rate would not alter the impact of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $108.6 million higher than its carrying amount.

(e) Trustee Services CGU

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

(i) Since receiving its trustee licence in February 2017, the Company has expanded its operations, investing in building capability, reviewed its growth strategy and portfolio, and implemented a new operating system. Each of these changes has supported strong revenue growth in the 2020 financial year and will support future business growth. The forecasts reflect commercial opportunities faced by the Trustee Services CGU, however, the Group acknowledges that there remains reasonable uncertainty around the pace and nature of growth and the time this can be realised.

(ii) Discount rates for the purpose of impairment testing – the pre-tax discount rate applied to the CGU's cash flow projections is 11.7%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate – the terminal value has been calculated for this CGU on the extrapolated five-year cash flows, with a terminal growth rate of 2.5%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $16.0 million higher than its carrying amount.

(f) Wealth Advice Services CGU

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

(i) The growth in the number of new clients for employed advisers, recruitment of self-employed practices and growth in Separately Managed Accounts – the Group has built its wealth advice business over a number of years, both organically and through acquisition. The business derives its income primarily from license fees and fees for services performed with grandfathered commissions ceasing in the 2021 financial year. The CGU's net revenue growth assumptions (excluding self-employed practices' share of revenue) average 9% over the five-year projection period and are underpinned by achievement of forecast operating margins. Projected growth of client and adviser numbers and margin efficiencies are based on experience, business plans and the changing demographic opportunity. It has taken into consideration the potential COVID-19 impacts which could delay the growth of new clients. Any development that has unfavourable impacts to these assumptions over a sustained period has the potential to result in an impairment of the CGU.

(ii) Discount rates for the purpose of impairment testing – the pre-tax discount rate applied to the CGU's cash flow projections is 10.4%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate – the terminal value has been calculated for this CGU on the extrapolated five-year cash flows, with a terminal growth rate of 2.5%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $10.0 million higher than its carrying amount.

16 Non-financial liabilities - Provisions

	2020 $'000	2019 $'000
Current provisions		
Employee benefits provision	55,396	52,005
Health insurance claims provision	89,052	63,584
Other provisions	4,448	4,340
	148,896	119,929

Health insurance claims provision

Health insurance claims provision represented provision made for outstanding claims and deferred claims. Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. As at 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 due to the impact of the COVID-19 pandemic. The Group has an obligation to settle these claims over future periods. Claims reported but not yet paid are included as payables. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit or loss. Refer to note 24 for further details.

17 Non-financial liabilities - Deferred tax balances

The balance comprises temporary differences attributable to:

	2020 $'000	2019 $'000
Deferred tax assets		
Accrued expenses	7,080	18,733
Fixed assets	13,181	13,676
Capitalised expenditure	2,467	2,562
Leases	4,224	-
Policy bonus credits	39,019	37,651
Provisions	32,974	32,162
Risk Equalisation Special Account	420	480
Tax losses	1,868	1,482
Trust distribution	14,185	2,607
Unrealised losses	4,078	1,429
Other assessable items	3,313	3,861
Total deferred tax assets	122,809	114,643
Deferred tax liabilities		
Fixed assets and investment properties	114,652	102,568
Intangible assets	19,783	22,715
Risk Equalisation Special Account	6,943	7,300
Tax deferred	5,532	4,255
Unrealised gains	35,230	51,406
Other deductible items	12,799	12,447
Total deferred tax liabilities	194,939	200,691
Net Deferred tax liabilities	72,130	86,048

Non-financial assets and liabilities *continued*

18 Equity

(a) Reserves

	2020 $'000	2019 $'000
Asset revaluation reserve	**2,462**	2,462
Post-employment benefit reserve	**4,341**	3,664
Cash flow hedges reserve	**(8,546)**	(3,195)
	(1,743)	2,931
Movements:		
Asset revaluation reserve		
Balance at the beginning of the year	**2,462**	2,462
Balance at the end of the year	**2,462**	2,462
Post-employment benefit reserve (i)		
Balance at the beginning of the year	**3,664**	3,462
Remeasurement of net defined benefit obligations	**677**	202
Balance at the end of the year	**4,341**	3,664
Cash flow hedges reserve (ii)		
Balance at the beginning of the year	**(3,195)**	(515)
Movements in hedging value during the year	**(7,644)**	(4,202)
Deferred tax	**2,293**	1,522
Balance at the end of the year	**(8,546)**	(3,195)

(i) Post-employment benefit reserve

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

(ii) Cash flow hedges reserve

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

(b) Retained earnings

Movements in retained earnings were as follows:

	2020 $'000	2019 $'000
Balance at the beginning of the financial year	**459,543**	412,229
Adjustment on adoption of AASB 16, net of tax	**(5,404)**	-
Adjustment on adoption of AASB 15, net of tax	**-**	(5,687)
Profit for the year	**14,964**	53,001
Balance at the end of the financial year	**469,103**	459,543

19 Cash flow information

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

	2020 $'000	2019 $'000
Profit after income tax for the year	**14,964**	53,001
Depreciation and amortisation expense	**34,464**	29,786
Impairment of assets	**(450)**	-
Loss/(gain) on investments	**9,731**	(2,043)
Fair value gains on investment property	**(30,108)**	(29,340)
Gain on disposal of assets	**(4,226)**	(92)
Business combination expenses	**-**	767
Share of net profit or loss of joint ventures	**(906)**	44
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**4,769**	(4,879)
Increase in loans and advances	**(174,996)**	(85,333)
Increase in current tax assets	**(3,761)**	-
Decrease/(increase) in other operating assets	**8,833**	(7,081)
Increase in trade and other payables	**365**	42,335
Increase in deposits liability	**240,838**	99,611
Decrease in current tax liabilities	**(17,141)**	(12,188)
Increase/(decrease) in deferred tax liabilities	**(11,756)**	22,170
Increase in provisions	**29,879**	2,100
Increase/(decrease) in benefit fund policy liabilities	**26,721**	(57,186)
Increase in other operating liabilities	**14,720**	9,575
Net cash inflow from operating activities	**141,940**	61,247

(b) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities $'000	Other liabilities $'000	Total $'000
Opening balance as at 1 July 2018	335,727	1,055,917	1,391,644
Cash flows			
Repayments of RVIN	(2,022)	-	(2,022)
Repayments of subordinated capital notes	(30,000)	-	(30,000)
Receipts from development finance loans	11,058	-	11,058
Receipts from resident loan liabilities	-	52,965	52,965
Receipts of refundable lease deposits	-	15,545	15,545
	(20,964)	68,510	47,546
Reclassification of RVIN due on 30 June 2019 to non-interest bearing liabilities	(16,320)	16,320	-
	298,443	1,140,747	1,439,190
Opening balance as at 1 July 2019	**298,443**	**1,140,747**	**1,439,190**
Cash flows			
Proceeds from AU Bonds issuance	**143,345**	**-**	**143,345**
Proceeds from RVIN 5 issue	**18,401**	**-**	**18,401**
Repayments of RVIN	**(5,423)**	**(16,320)**	**(21,743)**
Receipts from development finance loans	**19,687**	**-**	**19,687**
Receipts from resident loan liabilities	**-**	**68,599**	**68,599**
Receipts of refundable lease deposits	**-**	**31,908**	**31,908**
	176,010	**84,187**	**260,197**
Closing balance as at 30 June 2020	**474,453**	**1,224,934**	**1,699,387**

Risk management

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

20 Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

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

(a) Critical accounting estimates and assumptions

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

(i) Fair value of financial instruments

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

(ii) Estimated impairment of loans and advances

The accounting policy requires the Group to assess impairment of loan assets upon initial recognition of the assets and whether there has been a significant increase in credit risk as at the reporting date compared with the risk as at the date of initial recognition. A provision for expected credit loss is estimated based on the cash shortfalls over the expected life of the assets. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool.

The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

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

The Group tests annually whether goodwill or other intangibles have suffered any impairment. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The recoverable amounts of cash generating units have been determined based on value-in-use calculations using certain assumptions.

(iv) Retirement village investment property

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

(v) Right-of-use assets and lease liabilities

The initial values of right-of-use assets and lease liabilities are estimated based on the present value of lease payments. The lease payments are discounted using the Group's incremental borrowing rate which is determined using a three-month bank bill swap curve plus a margin that reflects the credit risk.

(vi) Insurance liabilities

The estimates, assumptions and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 24 and 33.

(vii) Income taxes

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

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

(i) Classification of life insurance liabilities

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

(ii) Interest in subsidiaries, associates and joint ventures

The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy, the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 22. For the interests in managed investment schemes, the Group considers its relationship with the majority of the schemes is that of an agent rather than a principal. Where the relationship is that of an agent, the Group does not have the power to control.

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

21 Financial risk management

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

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

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

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

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

In the second half of the 2020 financial year, the unprecedented economic challenges associated with the COVID-19 pandemic had wide-ranging impacts upon the financial markets. In response to this, the Group continues to strengthen its prudency in managing the risks and improving financial risk management to build resilience to future economic problems. In light of the current volatility in the financial markets, the sensitivity analyses discussed below are based on higher amounts of possible movements in currencies, securities' prices and interest rates.

Risk management *continued*

21 Financial risk management *continued*

(a) Market risk

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

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

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial investment will fluctuate as a result of movements in international exchange rates. The Group operates in Australia and the exposure to foreign exchange risk through its holding in investment funds is not significant.

(ii) Price risk

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

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

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

The table below summarises the impact of changes in securities prices assuming the prices had increased or decreased by 25% (2019: 10%) at the end of the reporting period with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Securities prices +25% (2019: +10%)	**8,616**	3,685	**8,616**	3,685
Securities prices -25% (2019: -10%)	**(8,616)**	(3,685)	**(8,616)**	(3,685)

The price risk for unlisted securities is immaterial and therefore it was not included in the sensitivity analysis. The assumptions used in the sensitivity analysis are based on an analysis of published economic data.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2020 and 2019, the Group's borrowings at variable rate were denominated in Australian Dollars.

	2020 $'000	**2019 $'000**
Financial assets		
Cash and cash equivalents	**661,616**	533,043
Financial assets at fair value through profit or loss	**204,812**	150,877
Loans and advances	**700,719**	555,714
	1,567,147	1,239,634
Financial liabilities		
Australian Unity Bonds (i)	**393,345**	250,000
Call deposits	**487,067**	414,848
Loan payable to related entity	**5,100**	5,100
Interest rate swap, at notional principal amounts	**(322,019)**	(250,000)
	563,493	419,948
Net position	**1,003,654**	819,686

(i) Australian Unity Bonds interest rate hedging

Australian Unity Bonds bear interest at the three-month BBSW rate plus a fixed margin. As at 30 June 2020, Series C and Series D Australian Unity Bonds carried a fixed margin of 2.00% and 2.15% respectively which resulted in total interest rates of 2.18% for Series C and 2.33% for Series D. The variable interest component of these bonds was hedged via interest rate swaps for the periods up to the maturity dates of the bonds. The Group has interest rate swap contracts for a total notional amount of $250 million to hedge variable interest rate at 2.2% per annum up to 15 December 2020 and subsequently at a range from 0.95% to 1.13% per annum up to the maturity dates of the bonds. The Group also has an interest rate swap contract for a notional amount of $72 million to hedge variable interest rate at 0.9% per annum for a period up to the maturity date of the bonds. As at 30 June 2019, Series B Australian Unity Bonds of $250 million carried a 2.80% fixed margin resulting in a total interest rate of 4.49% per annum. The variable interest component of the bonds was hedged via an interest rate swap at 2.20% per annum.

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

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

As at the end of the reporting period, if interest rates had increased or decreased by 1.00% (2019: 0.50%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Interest rates +1.00% (2019: +0.50%)	**4,175**	2,387	**4,175**	2,387
Interest rates -1.00% (2019: -0.50%)	**(4,175)**	(2,387)	**(4,175)**	(2,387)

(b) Credit risk

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

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

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

(i) Trade and other receivables

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

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

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

Risk management *continued*

21 Financial risk management *continued*

(b) Credit risk *continued*

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

(ii) Loans provided by the bank to customers

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

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

(iii) Other loans and advances

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

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

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but	Past due and	
	High grade $'000	Other grade $'000	not impaired $'000	impaired $'000	Total $'000
At 30 June 2020					
Cash and cash equivalents	**1,036,703**	**-**	**-**	**-**	**1,036,703**
Trade and other receivables	**480**	**58,735**	**40,241**	**3,229**	**102,685**
Financial assets at fair value through profit or loss	**684,803**	**1,399,017**	**-**	**-**	**2,083,820**
Other financial assets at amortised cost	**47,012**	**-**	**-**	**-**	**47,012**
Loans and advances	**812,354**	**103,281**	**10,174**	**6,435**	**932,244**
Other financial assets	**-**	**39,863**	**-**	**-**	**39,863**
	2,581,352	**1,600,896**	**50,415**	**9,664**	**4,242,327**

	Neither past due nor impaired		Past due but	Past due and	
	High grade $'000	Other grade $'000	not impaired $'000	impaired $'000	Total $'000
At 30 June 2019					
Cash and cash equivalents	944,767	-	-	-	944,767
Trade and other receivables	419	63,600	42,739	5,063	111,821
Financial assets at fair value through profit or loss	630,678	1,373,475	-	-	2,004,153
Other financial assets at amortised cost	56,904	-	-	-	56,904
Loans and advances	609,963	111,230	26,935	7,367	755,495
Other financial assets	-	37,769	-	-	37,769
	2,242,731	1,586,074	69,674	12,430	3,910,909

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

Credit risk further arises in relation to irrevocable loan commitments provided to the customers of the bank. The irrevocable loan commitments are binding contracts to extend credit to customers as long as no violation of any condition in the contracts occurs. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of $18,560,000 (2019: $12,426,000).

The Group provides financial guarantees to certain parties amounting to $52,823,000 (2019: $36,750,000). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum credit risk exposure of the financial guarantees is the maximum amount that could be paid if the guarantee is called on.

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

(c) Liquidity risk

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

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

Maturities of financial liabilities

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

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

For the financial guarantee and bank credit commitments as at 30 June 2020 (refer to notes 27 and 28), as the probability and value of the obligation that may be called on is unpredictable; it is not practical to state the timing of any potential payment.

However, there is a contractual obligation for the Group to provide the funds when they are called upon by the counterparties.

	Less than 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2020						
Trade and other payables	175,388	-	-	-	-	175,388
Current tax liabilities -	-	-	-	-	-	-
Interest bearing liabilities						
Australian Unity Bonds	78,004	5,066	153,867	217,164	-	454,101
Development finance loan	38,622	-	-	-	-	38,622
Call deposits	503,940	-	-	-	-	503,940
Term deposits	310,345	75,791	40,044	-	-	426,180
Mortgage offset savings accounts	128,798	-	-	-	-	128,798
Retirement Village Investment Notes	20,901	455	21,589	-	-	42,945
Loan payable to related entity	54	5,154	-	-	-	5,208
	1,080,664	86,466	215,500	217,164	-	1,599,794
Lease liabilities	9,268	7,875	51,653	107,252	-	176,048
Benefit fund policy liabilities	134,031	134,198	-	-	2,022,715	2,290,944
Other liabilities	413	-	-	-	1,231,987	1,232,400
Total liabilities	1,399,764	228,539	267,153	324,416	3,254,702	5,474,574

Risk management *continued*

21 Financial risk management *continued*

(c) Liquidity risk *continued*

	Less than 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2019						
Trade and other payables	190,409	-	-	-	-	190,409
Current tax liabilities	-	19,475	-	-	-	19,475
Interest bearing liabilities						
Australian Unity Bonds	6,247	6,247	255,726	-	-	268,220
Development finance loan	559	559	18,704	-	-	19,822
Call deposits	419,733	-	-	-	-	419,733
Term deposits	205,881	70,698	18,542	-	-	295,121
Mortgage offset savings accounts	95,494	-	-	-	-	95,494
Retirement Village Investment Notes	22,471	559	20,446	-	-	43,476
Loan payable to related entity	82	5,182	-	-	-	5,264
	750,467	83,245	313,418	-		1,147,130
Lease liabilities						
Benefit fund policy liabilities	115,346	248,930	-	-	1,912,541	2,276,817
Other liabilities	486	2,120	1,621	-	1,131,051	1,135,278
				-		
Total liabilities	1,056,708	353,770	315,039	-	3,043,592	4,769,109

(d) Capital risk management

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

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

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

The appropriate level of capital is determined by the board based on both regulatory and economic considerations.

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2020 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, and the economic, operational and capital needs of the business.

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

(e) Insurance risk

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

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

(i) Product design

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

(ii) Claims management

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

(iii) Insurance risk and experience monitoring

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

(iv) Prudential capital requirements

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

(v) Risk equalisation

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

(vi) Concentration of insurance risk

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

(vii) Ability to vary premium rates

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

(viii) Preventative health programs

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

(f) Operational risk management

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

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

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

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

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

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

Group structure

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

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

22 Subsidiaries

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

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

23 Parent entity financial information

(a) Summary financial information

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

	2020 $'000	2019 $'000
Balance sheet		
Cash and cash equivalents	217,187	151,757
Other current assets	156,990	30,019
Current assets	374,177	181,776
Non-current assets	851,332	901,662
Total assets	1,225,509	1,083,438
Current liabilities	125,204	69,831
Non-current liabilities	353,865	280,510
Total liabilities	479,069	350,341
Members' balances	255,625	255,625
Reserves	(8,546)	(3,195)
Retained earnings	499,361	480,667
Total equity	746,440	733,097
Profit for the year	18,694	30,253
Total comprehensive income for the year	18,694	30,253

(b) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2020 and 2019.

(c) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2020 and 2019.

Group structure *continued*

24 Health insurance financial information

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

(a) Details of income and expenses

	2020 $'000	2019 $'000
Revenue		
Premium revenue	673,427	683,456
Expenses		
Claims expense	(626,211)	(612,299)
Risk equalisation	74,259	63,937
State levies	(3,439)	(3,576)
Net claims expense	(555,391)	(551,938)
Gross underwriting result	118,036	131,518
Management expenses		
Commission	(13,078)	(14,915)
Employee benefit expense	(26,047)	(27,126)
Marketing	(3,712)	(4,825)
Technology	(10,213)	(8,713)
Other management expenses	(21,921)	(18,118)
Total management expenses	(74,971)	(73,697)
Net underwriting result	43,065	57,821
Investment income	2,183	12,990
Finance costs	(1,904)	(1,451)
Profit before income tax	43,344	69,360
Income tax expense	(12,605)	(21,452)
Profit after income tax	30,739	47,908

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

	2020 $'000	2019 $'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	16,535	14,848
Net RESA raised during the year	74,259	63,937
Net RESA received during the year	(74,559)	(62,250)
Balance at the end of the financial year	16,235	16,535

(c) Claims provision (current liabilities)

	2020 $'000	2019 $'000
Outstanding claims - central estimate including risk equalisation	**46,117**	57,438
Risk margin	**3,922**	4,546
Claims handling costs	**1,400**	1,600
Outstanding claims provision	**51,439**	63,584
Deferred claims - central estimate including risk equalisation	**32,002**	-
Risk margin	**4,603**	-
Claims handling costs	**1,008**	-
Deferred claims provision	**37,613**	-
Total claims provision	**89,052**	63,584

Movements in the claims provision are as follows:

	2020 $'000	2019 $'000
Balance at the beginning of the financial year	**63,584**	56,021
Claims incurred during the year	**581,324**	615,964
Claims paid during the year	**(600,743)**	(604,736)
Deferred claims	**37,613**	-
Movement in other components	**7,274**	(3,665)
Balance at the end of the financial year	**89,052**	63,584

(d) Outstanding claims

Provision is made for outstanding claims at the end of the financial year, 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. Claims processed but not yet paid are included as trade payables (and not in the outstanding claims provision). Claims provisions are determined using actuarial estimation methods and amounts paid or payable are recognised as part of expenses in the profit or loss.

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

The outstanding claims estimates are based on the hospital and ancillary valuation classes. Estimated outstanding claims for both hospital and ancillary classes are calculated using a chain ladder method. For hospital claims incurred in or prior to the service month of May 2020, adjustments are then applied to reflect changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

The risk margin of 8.7% (2019: 7.7%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2019: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The weighted average expected term to settlement of claims from the balance date is estimated to be 1.8 months (2019: 1.7 months). The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments of $6.91 million (2019: $7.80 million).

Impact of changes in key variables
The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A 10% increase/decrease in the central estimate would result in a $3.23 million decrease/increase to profit after tax and equity (2019: $4.02 million). A 10% movement in other key outstanding claims variables, including risk margin and claims handling costs, would result in an insignificant decrease/increase to profit after tax and equity.

Group structure *continued*

24 Health insurance financial information *continued*

(e) Deferred claims

In the current year, private health insurers experienced unusually low claims volumes in the period from March 2020 to June 2020 inclusive (the COVID-19 period) due to restrictions imposed on elective surgery and access to ancillary benefits in response to 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 a result, a specific deferred claims liability has been recorded representing management's estimate of claims that did not occur during the COVID-19 period.

The deferred claims liability as at 30 June 2020 has been estimated on the basis of actual claims versus expected claims during the COVID-19 period when health services were restricted and an estimate of the procedures and services deferred into the next financial period. The expected claims experience is based on the most recent claims forecast prior to the COVID-19 period. The Group will continue to reassess the extent of any deferred claims as a result of any ongoing or future restrictions.

The key judgements and inputs into this liability estimate include the following factors which were not applicable in the prior year:

- The most recent claims forecast prior to the COVID-19 period.
- The expected rate at which deferred insured surgeries and other procedures will be caught up, which is based on expert actuarial and clinical advice. The best estimate claims deferral rate is 82% for hospital claims and 73% for ancillary claims.
- This liability only includes insured surgeries and other health services that are ultimately expected to be performed for the policyholders.
- The risk margin of 13.9% is estimated to equate to a probability of adequacy of at least 95% and was derived based on the historical outstanding claims uncertainty and information from APRA.

The expected future payments for claims incurred are expected to be settled within one year and as such the undiscounted value approximates their present value. The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments of $3.99 million.

Impact of changes in key variables
The impacts of changes in key variables on the estimate of the deferred claims liability are as follows, noting that these were not applicable in the prior year:

- A 2% increase/decrease in the most recent claims forecast prior to the COVID-19 period would result in a $1.89 million decrease/increase to profit after tax and equity.
- A 10 percentage point increase/decrease in the estimated deferral rate for hospital deferred claims would result in a $2.42 million decrease/increase to profit after tax and equity.
- A 10 percentage point increase/decrease in the estimated deferral rate for ancillary deferred claims would result in a $0.90 million decrease/increase to profit after tax and equity.
- A 5 percentage point increase/decrease in the deferred claims liability risk margin would result in a $1.16 million decrease/increase to profit after tax and equity.

(f) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2020 (2019: $nil) at a 75% (2019: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

25 Bank financial information

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

(a) Financial performance summary

	2020 $'000	2019 $'000
Interest income		
Effective interest	**28,179**	28,196
Other	**2,950**	3,254
	31,129	31,450
Interest expense	**(11,680)**	(12,774)
Net interest income	**19,449**	18,676
Other banking income	**2,547**	2,779
Total income	**21,996**	21,455
Operating expenses	**(19,329)**	(17,853)
Profit before income tax	**2,667**	3,602
Income tax expense	**(810)**	(1,090)
Profit after income tax	**1,857**	2,512

(b) Financial position summary

	2020 $'000	2019 $'000
Cash and cash equivalents	**31,080**	11,439
Financial assets at fair value through profit or loss	**143,669**	78,489
Other financial assets at amortised cost	**39,246**	52,075
Loans and advances	**911,793**	736,465
Other assets	**8,075**	7,554
Total assets	**1,133,863**	886,022
Interest bearing liabilities	**1,055,989**	811,160
Other liabilities	**2,869**	9,714
Total liabilities	**1,058,858**	820,874
Net assets (Equity)	**75,005**	65,148

(c) Capital adequacy

	2020 $'000	2019 $'000
Reserves and retained earnings	**80,888**	76,447
Less regulatory prescribed adjustments	**(5,496)**	(5,559)
Regulatory capital base	**75,392**	70,888
Risk weighted exposures	**522,574**	441,230
Capital adequacy ratio	**14.43%**	16.07%

Group structure *continued*

26 Reconciliation of profit attributable to members of Australian Unity Limited

	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
For the year ended 30 June 2020			
Revenue and other income	1,365,587	-	1,365,587
Direct life insurance premium revenue	-	364	364
Outwards reinsurance expense	-	(209)	(209)
Deposits received - investment contracts with DPF*	-	34,099	34,099
Investment income	-	10,666	10,666
Other	-	2,155	2,155
Total revenue and other income	1,365,587	47,075	1,412,662
Life insurance claims expense	-	(949)	(949)
Benefits and withdrawals paid - investment contracts with DPF*	-	(77,096)	(77,096)
Movement in policyholder liabilities	-	46,234	46,234
Expenses, excluding finance costs	(1,324,881)	(25,371)	(1,350,252)
Total expenses, excluding finance costs	(1,324,881)	(57,182)	(1,382,063)
Finance costs	(41,105)	-	(41,105)
Share of net profits of joint ventures	906	-	906
Profit/(loss) before income tax	507	(10,107)	(9,600)
Income tax benefit	14,457	10,107	24,564
Profit after income tax	14,964	-	14,964
For the year ended 30 June 2019			
Revenue and other income	1,374,129	-	1,374,129
Direct life insurance premium revenue	-	471	471
Outwards reinsurance expense	-	(213)	(213)
Deposits received - investment contracts with DPF*	-	58,094	58,094
Investment income	-	176,252	176,252
Other	-	(63)	(63)
Total revenue and other income	1,374,129	234,541	1,608,670
Life insurance claims expense	-	(1,061)	(1,061)
Benefits and withdrawals paid - investment contracts with DPF*	-	(108,145)	(108,145)
Movement in policyholder liabilities	-	(63,660)	(63,660)
Expenses, excluding finance costs	(1,296,229)	(24,563)	(1,320,792)
Total expenses, excluding finance costs	(1,296,229)	(197,429)	(1,493,658)
Finance costs	(17,739)	-	(17,739)
Share of net profits of joint ventures	(44)	-	(44)
Profit/(loss) before income tax	60,117	37,112	97,229
Income tax benefit	(7,116)	(37,112)	(44,228)
Profit after income tax	53,001	-	53,001

*DPF = Discretionary Participation Feature

Unrecognised items

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

27 Commitments

(a) Capital commitments

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

	2020 $'000	2019 $'000
Investment property		
Within one year	**74,717**	30,717
Later than one year but not later than five years	**64,953**	38,590
Total capital commitments	**139,670**	69,307

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

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

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

	2020 $'000	2019 $'000
Within one year	**-**	21,877
Later than one year but not later than five years	**-**	60,379
Later than five years	-	119,478
	-	201,734

From 1 July 2019, the Group has adopted AASB 16 *Leases* and recognised right-of-use assets and the respective lease liabilities from operating leases. Operating leases with a period of less than 12 months or a value of less than $10,000 per item are expensed. Disclosures relating to the adoption of AASB 16 are set out in notes 14 and 36.

As at 30 June 2019, lease commitments comprise commitments in relation to operating leases of assets including property, motor vehicles, computer equipment and office equipment, with average outstanding lease term of 10.98 years.

(c) Credit related commitments

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

	2020 $'000	2019 $'000
Irrevocable approved but undrawn loans	**18,560**	12,426
Revocable loans with balances available for redraw	**45,612**	38,548
Revocable undrawn lines of credit, credit cards and overdrafts	**19,661**	19,992
	83,833	70,966

28 Contingencies

(a) Contingent liabilities

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

(b) Guarantees

The Group has entered into bank guarantee arrangements totalling $52,823,000 (2019: $36,750,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group. Partially offsetting this, the Group is the beneficiary of insurance bonds/guarantees totalling $1,718,000 (2019: $7,618,000).

The Group had no other contingent assets or liabilities at 30 June 2020.

Group structure *continued*

29 Events occurring after the reporting period

On 1 August 2020, the Group issued Series 6 Retirement Village Investment Notes (RVIN) amounting to $33,227,000 which have a three-year term and interest at a fixed rate of 5% per annum. This RVIN issue included early redemptions of Series 1 and Series 2 RVIN totalling $11,235,000 which were rolled over into Series 6 RVIN. The net proceeds of $21,992,000 from this RVIN issue will be used for general corporate purposes.

The board is not aware of any other matter or circumstance arising since 30 June 2020 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

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

30 Related party transactions

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key management personnel

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

(d) Related party transactions

Transactions between the Group and related parties for the financial years ended 30 June 2020 and 2019 were as follows:

- Property development management fees charged to related entities, $2,496,921 (2019: $1,982,803).
- Fees charged by related entities for the construction of aged care and retirement village properties, $69,106,498 (2019:
- $12,736,893).
- Dividends received from joint ventures, $1,138,809 (2019: $766,720).
- Investment management fees charged by joint ventures, $825,250 (2019: $1,157,751).
- Commission, director fees and other costs charged by/(charged to) joint ventures, $349,376 (2019: $1,071,151).
- Performance fees charged by joint ventures, $2,716,627 (2019: $231,654).
- Donations to a related charity organisation, $nil (2019: $618,573).
- Investment income from related entities, $4,607,669 (2019: $9,241,901).
- Capital returns from joint venture entities, $nil (2019: $7,436,000).

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

(e) Balances with related parties

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

	2020 $	2019 $
Assets		
Cash and cash equivalents	**722,637,737**	650,808,452
Trade and other receivables	**4,119,699**	4,233,766
Financial assets at fair value through profit or loss	**553,931,228**	542,571,554
	1,280,688,664	1,197,613,772
Liabilities		
Trade and other payables	**2,784,543**	743,688
Loans payable to related entities	**42,745,747**	23,059,231
	45,530,290	23,802,919

31 Key management personnel disclosures

(a) Key management personnel compensation

	2020 $	2019 $
Short term employee benefits	**5,800,141**	7,822,833
Post employment benefits	**225,167**	222,874
Long term benefits	**621,195**	766,835
	6,646,503	8,812,542

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

(b) Other transactions with key management personnel

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

32 Remuneration of auditors

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

(a) Audit and other assurance services

	2020 $	2019 $
PwC Australia		
Audit and review of financial statements	**1,532,530**	1,477,720
Audit of regulatory returns	**393,379**	294,652
Total remuneration for audit and other assurance services	**1,925,909**	1,772,372

(b) Taxation and other services

	2020 $	2019 $
PwC Australia		
Tax compliance services	**168,597**	167,712
Tax consulting services	**50,000**	52,500
Other services	**224,690**	30,400
Total remuneration for audit and other assurance services	**443,287**	250,612
Total auditors' remuneration	**2,369,196**	2,022,984

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

Other information *continued*

33 Benefit fund policy liabilities

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

(a) Analysis of policy liabilities

	2020 $'000	2019 $'000
Life investment contract liabilities	**1,303,943**	1,259,311
Life insurance contract liabilities - guaranteed element	**889,032**	912,191
Life insurance contract liabilities - other	**578**	660
Unvested policyholder liabilities	**97,391**	104,655
Total policy liabilities	**2,290,944**	2,276,817
Expected to be realised within 12 months	**268,229**	364,276
Expected to be realised in more than 12 months	**2,022,715**	1,912,541
	2,290,944	2,276,817

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

(b) Reconciliation of changes in policy liabilities

	2020 $'000	2019 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**1,259,311**	1,179,421
Increase/(decrease) recognised in the profit or loss	**(15,729)**	49,097
Premiums recognised as a change in contract liabilities	**250,543**	285,863
Claims recognised as a change in contract liabilities	**(190,182)**	(255,070)
Balance at the end of the financial year	**1,303,943**	1,259,311
Life insurance contract liabilities		
Balance at the beginning of the financial year	**912,851**	902,663
Increase/(decrease) recognised in the profit or loss	**(23,241)**	10,188
Balance at the end of the financial year	**889,610**	912,851
Unvested policyholder liabilities		
Balance at the beginning of the financial year	**104,655**	100,280
Decrease recognised in the profit or loss	**(7,264)**	4,375
Balance at the end of the financial year	**97,391**	104,655
Net policy liabilities at the end of the financial year	**2,290,944**	2,276,817

(c) Analysis of policy liability revenue and expenses

	2020 $'000	2019 $'000
Revenue and other income		
Total life insurance contract premium revenue	**34,463**	58,565
Reinsurance expense	**(209)**	(213)
Life insurance contract claims revenue	**34,254**	58,352
Interest income	**7,161**	6,661
Distribution income	**74,497**	69,643
Realised gains	**6,660**	3,357
Unrealised gains/(losses)	**(77,652)**	96,591
Other income	**2,155**	(63)
Total revenue from life insurance business	**47,075**	234,541
Expenses		
Total life insurance and participating contract claims expense	**78,045**	109,206
Life insurance contract claims expense	**78,045**	109,206
Management fees	**24,847**	23,970
Other expenses	**524**	593
Movement in life insurance contract liabilities	**(23,241)**	10,188
Movement in unvested policyholder liabilities	**(7,264)**	4,375
Movement in life investment contract liabilities	**(15,729)**	49,097
Total expenses from life insurance business	**57,182**	197,429

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2020. The actuarial report was prepared by the appointed actuary Mr Sean McGing FIA, FIAA, FAICD, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence #411770. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

Policy liability valuations for defined benefit funds (Life insurance contracts)

The defined benefit funds comprise the following:

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

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

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

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

Other information *continued*

33 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2020 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2015-17)[2]
Funeral Fund	**16.0**	**1.70%**	**0.86%**	**0%**	**0.84%**	**70%**
Life Assurance Benefit Fund	**9.5**	**0.91%**	**2.25%**	**30%**	**-0.94%**	**75%**
Central Sick and Funeral Fund	**11.0**	**1.02%**	**2.00%**	**0%**	**-0.98%**	**60%**
Funeral and Ancillary Benefit Fund	**14.5**	**1.27%**	**2.00%**	**0%**	**-0.73%**	**100%**
Travel Protection Fund	**14.5**	**1.27%**	**2.00%**	**30%**	**-0.51%**	**100%**
Whole of Life Funeral Fund	**12.0**	**1.09%**	**1.50%**	**0%**	**-0.41%**	**100%**

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

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

Notes:

1 A single zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term has been used to discount cash flows, with the exception of the Funeral Fund.

2 ALT 2015-17 refers to Australian Life Tables (Male and Female) 2015-2017.

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

The following additional assumptions apply:

- For the Funeral and Ancillary Benefit Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Benefit Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2019: 2.5 percent) per annum; and
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 5.0 percent (2019: 4.0 percent) of deaths will result in claims and the average claim amount is $900 (2019: $900) inflating at 2.5 percent (2019: 2.5 percent) per annum.
- In addition, policy liabilities are held in the management fund in relation to non-contactable members of the Assurance Benefit Fund and the Funeral Fund for which insufficient data exists to accurately calculate a member level liability.

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

Policy Liability Valuation for Defined Contribution Funds (Life investment contracts with DPF)

The defined contribution funds comprise the following:

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

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

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

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

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

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds but using a yield curve rather than a risk-free rate for the average liability duration.

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2020 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2015-17)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	8.5	0%	3.00%	0%	0%	105%
Capital Guaranteed Funeral Fund (Taxable)	10.0	0%	3.00%	30%	0%	110%
Capital Secured Funeral Fund	7.0	0%	3.00%	0%	0%	120%
Funeral Bond Fund	6.0	0%	1.50%	0%	0%	100%
Prepaid Funeral Fund	7.0	0%	1.50%	0%	0%	110%
Funeral Fund No 2 - Non Taxable	7.5	0%	2.50%	0%	0%	115%
Funeral Fund No 2 - Taxable	9.0	0%	2.50%	30%	0%	115%
Tax Minimiser Funeral Fund	9.5	0%	1.50%	30%	0%	130%

Other information *continued*

33 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

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

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

Notes

1 The zero coupon Commonwealth Government Security yield curve plus illiquidity premium have been used to discount cash flows.

2 ALT2015-17 refers to Australian Life Tables (Male and Female) 2015-2017.

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

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

Taxation

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

Surrender values

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

Profit carriers

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

Restrictions on assets

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

Assets backing policy liabilities

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

Future participating benefits

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

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

Sensitivity analysis

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

Effects of changes in assumptions

There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2020. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement.

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

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

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

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

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

(f) Solvency and capital adequacy information

The Group is required by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2020 and 2019.

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

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

(g) Disaggregated information - Benefit Funds

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

Other information *continued*

34 Disaggregated information - Benefit Funds

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

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2020							
Non-investment linked benefit funds - Life insurance contracts	**155**	**2,671**	**24**	**949**	**1,810**	**91**	**-**
Investment linked benefit funds - Life investment contracts with DPF*	**34,099**	**28,297**	**2,190**	**77,096**	**(16,675)**	**4,165**	**-**
Investment contracts without DPF*	**-**	**(20,302)**	**(59)**	**-**	**(5,998)**	**(14,363)**	**-**
Total	**34,254**	**10,666**	**2,155**	**78,045**	**(20,863)**	**(10,107)**	**-**
30 June 2019							
Non-investment linked benefit funds - Life insurance contracts	258	7,886	-	1,061	6,628	455	-
Investment linked benefit funds - Life investment contracts with DPF*	58,094	91,714	-	108,145	23,435	18,228	-
Investment contracts without DPF*	-	76,652	(63)	-	58,160	18,429	-
Total	58,352	176,252	(63)	109,206	88,223	37,112	-

*DPF = Discretionary Participation Features

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2020					
Non-investment linked benefit funds - Life insurance contracts	**55,690**	**545**	**55,269**	**966**	**-**
Investment linked benefit funds - Life investment contracts with DPF*	**922,439**	**30,895**	**931,732**	**21,602**	**-**
Investment contracts without DPF*	**1,252,818**	**48,812**	**1,303,943**	**(2,313)**	**-**
Total	**2,230,947**	**80,252**	**2,290,944**	**20,255**	**-**
30 June 2019					
Non-investment linked benefit funds - Life insurance contracts	54,439	681	54,338	782	-
Investment linked benefit funds - Life investment contracts with DPF*	947,742	32,570	963,168	17,144	-
Investment contracts without DPF*	1,239,858	37,818	1,259,311	18,365	-
Total	2,242,039	71,069	2,276,817	36,291	-

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

*DPF = Discretionary Participation Features

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

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2020							
Central sick and funeral fund	-	339	-	93	246	-	-
Funeral and ancillary benefits fund	4	862	-	499	367	-	-
Funeral fund	-	776	-	107	669	-	-
Life assurance benefit fund	-	615	-	221	289	105	-
Travel protection fund	84	36	-	20	77	23	-
Other	67	43	24	9	162	(37)	-
Total	155	2,671	24	949	1,810	91	-
30 June 2019							
Central sick and funeral fund	-	892	-	109	783	-	-
Funeral and ancillary benefits fund	4	2,655	-	500	2,160	(1)	-
Funeral fund	-	2,481	-	167	2,314	-	-
Life assurance benefit fund	-	1,646	-	214	1,013	419	-
Travel protection fund	92	94	-	1	140	45	-
Other	162	118	-	70	218	(8)	-
Total	258	7,886	-	1,061	6,628	455	-

	Assets		Liabilities				
	Investments $'000	Other $'000	Life insurance $'000	Other $'000	Equity $'000	Capital in excess of prescribed capital amount $'000	Capital adequacy multiple
30 June 2020							
Central sick and funeral fund	7,480	-	7,466	14	-	382	3
Funeral and ancillary benefits fund	15,274	220	15,470	24	-	638	2
Funeral fund	16,527	74	16,599	2	-	469	2
Life assurance benefit fund	13,726	125	13,190	661	-	279	2
Travel protection fund	1,415	10	1,200	225	-	24	1
Other	1,268	116	1,344	40	-	365	-
Total	55,690	545	55,269	966	-	2,157	
30 June 2019							
Central sick and funeral fund	7,359	3	7,351	11	-	507	3
Funeral and ancillary benefits fund	14,957	405	15,339	23	-	360	2
Funeral fund	15,839	92	15,930	1	-	230	1
Life assurance benefit fund	13,659	5	13,166	498	-	455	6
Travel protection fund	1,340	6	1,146	200	-	200	1
Other	1,285	170	1,406	49	-	450	-
Total	54,439	681	54,338	782	-	2,202	

Other information *continued*

34 Disaggregated information - Benefit Funds *continued*

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

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2020							
Capital guaranteed bond	125	802	-	4,894	(3,901)	(66)	-
Capital guaranteed funeral bond (taxable)	411	2,442	-	3,342	(739)	250	-
Funeral fund no 2	946	6,447	1,406	13,438	(5,226)	587	-
NextGen investments capital guaranteed fund	3,694	317	-	4,910	(891)	(8)	-
Tax minimiser funeral fund	26,917	13,978	-	22,421	15,544	2,930	-
Other	2,006	4,311	784	28,091	(21,462)	472	-
Total	34,099	28,297	2,190	77,096	(16,675)	4,165	-
30 June 2019							
Capital guaranteed bond	108	1,749	-	6,794	(5,134)	197	-
Capital guaranteed funeral bond (taxable)	535	7,965	-		3,707	1,855	
Funeral fund no 2	1,046	28,194	-	2,938	10,750	4,179	-
NextGen investments capital guaranteed fund	23,881	928	-	14,311	(5,014)	170	-
Tax minimiser funeral fund	29,689	40,090	-	29,653	37,018	10,915	-
Other	2,835	12,788	-	21,846	(17,892)	912	-
Total	58,094	91,714	-	32,603	23,435	18,228	-

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2020					
Capital guaranteed bond	61,794	65	61,806	53	-
Capital guaranteed funeral bond (taxable)	58,958	4,328	61,047	2,239	-
Funeral fund no 2	193,065	9,884	198,958	3,991	-
NextGen investments capital guaranteed fund	49,356	157	49,472	41	-
Tax minimiser funeral fund	348,097	14,373	348,582	13,888	-
Other	211,169	2,088	211,867	1,390	-
Total	922,439	30,895	931,732	21,602	-
30 June 2019					
Capital guaranteed bond	66,957	-	66,731	226	-
Capital guaranteed funeral bond (taxable)	61,418	4,095	63,329	2,184	-
Funeral fund no 2	201,478	11,670	208,609	4,539	-
NextGen investments capital guaranteed fund	50,769	47	50,705	111	-
Tax minimiser funeral fund	331,908	14,525	337,218	9,215	-
Other	235,212	2,233	236,576	869	-
Total	947,742	32,570	963,168	17,144	-

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

	Revenue		Expenses	Profit/(loss) for the year	
	Investment $'000	Other $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2020					
Balanced growth	**(337)**	**(35)**	**(122)**	**(250)**	**-**
Education savings plan	**(4,884)**	**-**	**(1,587)**	**(3,297)**	**-**
Managed investment	**(640)**	**-**	**(217)**	**(423)**	**-**
NextGen investments	**(11,779)**	**-**	**(2,996)**	**(8,783)**	**-**
Select strategies	**(1,461)**	**-**	**(606)**	**(855)**	**-**
Other	**(1,201)**	**(24)**	**(470)**	**(755)**	**-**
Total	**(20,302)**	**(59)**	**(5,998)**	**(14,363)**	**-**
30 June 2019					
Balanced growth	1,340	(35)	1,028	277	-
Education savings plan	12,806	-	9,656	3,150	-
Managed investment	2,533	-	1,697	836	-
NextGen investments	49,485	-	37,804	11,681	-
Select strategies	5,505	-	4,052	1,453	-
Other	4,983	(28)	3,923	1,032	-
Total	76,652	(63)	58,160	18,429	-

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2020					
Balanced growth	**21,392**	**401**	**21,156**	**637**	**-**
Education savings plan	**209,337**	**23,413**	**233,128**	**(378)**	**-**
Managed investment	**39,743**	**(1,709)**	**40,051**	**(2,017)**	**-**
NextGen investments	**816,332**	**23,270**	**842,212**	**(2,610)**	**-**
Select strategies	**74,269**	**1,134**	**75,749**	**(346)**	**-**
Other	**91,745**	**2,303**	**91,647**	**2,401**	**-**
Total	**1,252,818**	**48,812**	**1,303,943**	**(2,313)**	**-**
30 June 2019					
Balanced growth	23,936	401	23,463	874	-
Education savings plan	211,806	20,515	228,190	4,131	-
Managed investment	45,767	150	46,044	(127)	-
NextGen investments	773,951	14,130	779,284	8,797	-
Select strategies	90,597	363	89,302	1,658	-
Other	93,801	2,259	93,028	3,032	-
Total	1,239,858	37,818	1,259,311	18,365	-

Other information *continued*

35 Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

AASB	Title
AASB 16	Leases
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
AASB 2018-3	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements

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

(b) Implementation of AASB 16 *Leases*

AASB 16 primarily impacts accounting by lessees, while accounting by lessors is not significantly changed. AASB 16 requires the recognition of right-of-use assets and lease liabilities on balance sheets with the amortisation of the assets and finance costs of the liabilities to be charged to profit or loss. The Group has implemented AASB 16 from 1 July 2019 and the relevant accounting policies have been amended to comply with the new requirements as described in note 35(u) and the impacts of the changes are disclosed in note 36.

(c) Principles of consolidation

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Associates

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

(iii) Joint arrangements

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

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

(iv) Equity method

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

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

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

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

(v) Changes in ownership interests

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

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

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

(vi) Life insurance benefit funds

The Group's life insurance operations are conducted within separate benefit funds as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the benefit funds are consolidated in the Group's financial statements.

(d) Benefit fund policy liabilities

(i) Classification

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

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

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

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

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

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

(ii) Valuation

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

Other information *continued*

35 Summary of significant accounting policies *continued*

The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method whereby policyholder liabilities are equal to the value of the assets backing the liabilities. The liability reported under this approach is equal to the account balance pre-bonus plus the current bonus plus the difference between the value of the assets and the preceding items. The exception is for funeral funds which are valued based on the net present value of the projected cash flows.

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

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

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

(e) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(f) Borrowings

Borrowings are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition or issue of the borrowings. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(g) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(h) Deferred acquisition costs

Acquisition costs represent commission and other expenses incurred in relation to the acquisition of health insurance contracts. These costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised on a straight line basis over a period in line with the average expected duration of the customer relationships to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The average expected duration of the customer relationships is reassessed annually.

(i) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedging relationship designated.

The Group designates its derivatives as hedges of interest rate risk associated with the cash flows of recognised liabilities (cash flow hedges).

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are included in other assets or other liabilities as applicable. Movements in the hedging reserve are shown in the consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

(j) Employee benefits

Employees engaged in the Group's operations are employed by subsidiary entities, Australian Unity Group Services Proprietary Limited, Australian Unity Home Care Service Pty Ltd, Australian Unity Bank Limited (formerly Big Sky Building Society Limited) and Lifeplan Australia Friendly Society Limited.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on high quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Superannuation

The employer contributes to the Australian Unity Staff Superannuation Plan (a sub plan of the MLC employer sponsored superannuation plan), the Hesta Superannuation Fund and other complying superannuation funds nominated by employees. The Australian Unity Staff Superannuation Plan is open to new members and is an accumulation fund, where the employer contributions are fully vested in the member. The Hesta Superannuation Fund is an industry based fund for employees working in the retirement village complexes and aged care facilities. The employer is required to contribute to the above mentioned plans in accordance with the Superannuation Guarantee Legislation.

One of the Group's subsidiaries makes contributions to three external defined benefit superannuation schemes that provide defined benefit amounts for employees on retirement. These schemes are closed to new members from the Group. The net obligation in respect of these defined benefit schemes is calculated separately for each of the relevant Group employees by estimating the amount of future benefits that they have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity. The Group does not consider its net obligation in respect of these defined benefit schemes to be material as at the end of each reporting period.

(k) Financial guarantee contracts

A financial guarantee contract is a contract requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of the debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(m) Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grant and subsidies will be received and the Group will comply with all attached conditions.

Government grants and subsidies relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Other information *continued*

35 Summary of significant accounting policies *continued*

(m) Government grants and subsidies *continued*

Government grants and subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(n) Health insurance

(i) Classification

Health insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a health insurance contract, it remains as a health insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Group has determined that all current contracts with health insurance policyholders are health insurance contracts.

(ii) Claims expense

Health insurance claims include all claim losses occurring during the year, whether reported or not, and any adjustments to claims outstanding from previous years.

(o) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(p) Income tax

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

Australian Unity Limited (Parent entity) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The Parent entity, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The Parent entity also recognises the current tax assets or liabilities, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities under the tax consolidated group entered into a tax funding agreement under which the wholly-owned entities fully compensate the Parent entity for any current tax payable assumed and are compensated by the Parent entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Parent entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The Parent entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(q) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount, based on value in use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Bed licences are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Computer software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of software and licences over their estimated useful lives, which vary from 4 to 7 years.

(iv) Management rights and other intangible assets

Management rights and other intangible assets acquired separately are initially recognised at cost. The cost of management rights and other intangible assets acquired in a business combination is their fair value as at the date of acquisition. Management rights and other intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of intangible assets over their estimated useful lives, which vary from 4 to 20 years. These intangible assets are assessed for impairment whenever there is an indication that they may be impaired. Management rights and other intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in and first out basis.

(s) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties other than the development sites are stated at fair value. Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise. Retirement village development sites are recognised at fair value, while other development sites are recognised at cost.

Retirement village investment property relates to interests in retirement village independent living units and aged care facilities where the aged care facilities are managed by operators which are not part of the Group. These investments are initially measured at cost and when the facilities are complete, or substantially complete, they are stated at fair value. The fair value represents the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, such as average length of residence and expected changes in property prices.

Land held for development purposes of investment property is also classified as investment property.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset (refer to note 35(v)) and sold to a retirement village operator.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains/(losses) on the derecognition of an investment property are recognised in the profit or loss in the year of derecognition.

Other information *continued*

35 Summary of significant accounting policies *continued*

(t) Investments and other financial assets

(i) Classification

The Group classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the relevant cash flows.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model the objective of which is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

(ii) Recognition and derecognition

A financial asset is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally at trade date. Loans and receivables are recognised when cash is advanced to the borrowers.

A financial asset is derecognised when the contractual cash flows from the asset expire or the rights to receive contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of the ownership are transferred. Any interest in a transferred financial asset that is created or retained by the Group is recognised as a separate asset or liability.

(iii) Measurement

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to the initial recognition, for financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held as described below. The Group reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments, the fair value will be recorded in profit or loss, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI)** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversal of impairment losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through profit or loss (FVPL)**
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net within investment gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the profit or loss using the effective interest rate method.

Equity instruments

The Group subsequently measures all investments in equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends and distributions from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in investment gains/(losses) in the statement of profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI. The recognition of impairment depends on whether there has been a significant increase in credit risk.

Debt investments at amortised cost are considered to be low credit risk, and thus the impairment provision is determined as 12 months ECL.

For loans to customers, the Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- Stage 1: 12-months ECL
  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- Stage 2: Lifetime ECL- not credit impaired
  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- Stage 3: Lifetime ECL - credit impaired
  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of significant increase in credit risk, loans are grouped on the basis of shared credit risk characteristics, taking into account the type of loans, days in arrears, loan collaterals, remaining term to maturity, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted amount of the present value of all reasonable cash shortfalls over the expected life of the loans discounted at the effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including macroeconomic factors and how changes in these factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The amount of ECL is recognised using a provision for doubtful debts account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(u) Leases

(i) Group as a lessee

The Group leases commercial buildings, computer equipment and motor vehicles under non-cancellable lease contracts. While lease contracts are typically made for fixed periods, they have varying terms and renewal rights. On renewal, the terms of the leases can be renegotiated.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Initial measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used. The incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Group considers any recent external borrowing received by the Group's entities, including any changes in financing conditions since the borrowing is received. The Group applies a three-month bank bill swap curve plus a margin that reflects the credit risk to determine the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Low-value assets mainly consist of computer equipment.

Subsequent measurement

Subsequent to the initial recognition, lease liabilities are adjusted by the interest charges, lease payments made and any re-measurement to reflect reassessment or lease modifications.

When the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Subsequent to the initial recognition, right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

Extension and termination options are included in a number of leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term for accounting, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Factors to be considered include, but are not limited to, historical lease duration, costs and business disruption required to replace the leased assets, the amount of termination penalties and remaining value of any leasehold improvements. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The extension options in buildings and motor vehicles leases, if any, have not been included in the lease liability as the Group could replace the leases without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the lessee.

Other information *continued*

35 Summary of significant accounting policies *continued*

(u) Leases *continued*

(ii) Group as a lessor
As lessor, leases are classified as either an operating lease or a finance lease. Income from operating leases is recognised on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature. Assets held under a finance lease are initially recognised on the balance sheet at an amount equal to the net investment in the lease. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

Where the Group is an intermediate lessor in a sublease transaction, the sublease is accounted for by reference to the respective head lease. If the head lease is a short-term lease, the sublease income is recognised as operating lease income over the lease term. For an asset that is subleased, the head lease does not qualify to be a lease of a low-value asset.

(iii) Accounting prior to 1 July 2019
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Group as a lessee
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Group as a lessor
Income from operating leases is recognised on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(v) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(w) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the end of each reporting period under insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims Incurred But Not Reported (IBNR), claims Incurred But Not Enough Reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments of claims expected to be settled within one year are not discounted as the undiscounted value approximates their present value. The expected future payments of other claims are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(x) Property, plant and equipment

(i) Cost
Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation
Land is not depreciated. Depreciation on other property, plant and equipment is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected useful life. Estimates of remaining useful lives are reassessed annually for major items.

The expected useful lives are as follows:

Category	Useful life
Buildings	40 years
Plant and equipment	5-20 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount and included in the profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

Non-property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the assets come into operational service.

(y) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.
The increase in the provision due to the passage of time is recognised as interest expense.

(z) Refundable lease deposits

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(aa) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(ab) Reserve for credit losses

The reserve for credit losses is used by a bank subsidiary company to recognise an additional impairment allowance for credit losses required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to this regulatory authority. It is recognised as an appropriation of retained earnings to non distributable reserves. This additional impairment allowance is not permitted by Australian Accounting Standards to be recognised as an impairment charge against loans and overdrafts or recognised as an expense in the Consolidated Statement of Comprehensive Income.

(ac) Resident loans

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ad) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue/income can be reliably measured. As the Group operates diverse businesses, it applies a number of relevant accounting standards for the recognition of revenue: AASB 1023 *General Insurance Contracts*, AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 117 *Leases*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, and AASB 1038 *Life Insurance Contracts*. The following summarises specific recognition criteria in line with these standards:

(i) Health insurance premium revenue (AASB 1023)

Health insurance premium revenue is recognised in the profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. The proportion of premium received or receivable not earned in the profit or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

(ii) Government grants and subsidies (AASB 120)

Government grants and subsidies funding aged care and home care services are recognised as the services are provided.

(iii) Revenue from contracts with customers (AASB 15)

The Group's revenue governed by the requirements of AASB 15 is related to services provided under contracts with customers in the operation of retirement communities, aged care facilities, home care and disability services, health services, wealth assets management and administration, financial planning, estate planning, trustee services, and finance and general insurance broking services. The revenue recognition from these services is based on the delivery of performance obligations by the Group and an assessment of when the control is transferred to the customer. Revenue is recognised either at a point in time when the performance obligation in the contract has been completed by the Group or over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

The transaction price is measured at contract inception, being the amount to which the Group expects to be entitled and to which it has rights under the contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on certain achievements. Such amounts are only included based on the expected value or the most likely outcome, and only to the extent that it is highly probable that no revenue reversal will occur. The Group identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. The transaction price is adjusted for the time value of money where the period between the transfer of the promised services to the customers and payment made by the customers exceeds one year.

Independent and assisted living services fees

Independent and assisted living services fees are revenue generated from the provision of home and disability services and the management of retirement communities and aged care facilities. Revenue is recognised over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

Management and performance fees

Management fees are earned from wealth management and trustee services provided over the life of the contracts and revenue is recognised periodically over time. Any associated performance fees are deemed to be a variable component of the management services that are constrained and recognised only if it is highly probable that the performance hurdles are met and reversal will not occur.

Brokerage and commission income

Brokerage and commission are earned from contracts with customers where the Group entities act as an agent to sell general and life insurance products. Commission is also earned from property sale services provided within trustee services and the operations of retirement villages. Revenue is recognised at a point in time when the transfer of the underlying asset has occurred.

Other information *continued*

35 Summary of significant accounting policies *continued*

(ad) Revenue recognition *continued*

Healthcare services revenue
Healthcare services revenue represents fees charged for dental, physiotherapy and other healthcare services provided to customers. Revenue is recognised after the delivery of services to the customers.

Assets and liabilities recognised from contracts with customers
As a result of the contracts with customers, the Group recognises Trade receivables and a number of contract assets and liabilities. Trade receivables are recognised when the Group has the right to consideration that is unconditional (no change in accounting policy). Contract assets are recognised when the Group has a conditional right to consideration for the services that have been provided to customers. Contract liabilities are recognised when the Group receives payments in advance for the services that will be provided to customers. The Group also capitalises incremental costs in obtaining contracts with customers.

Accrued and deferred income
Customer contracts generally include arrangements for payments dependent upon the nature and type of services being provided. Customer payments may be required at the inception of the contract (advance payment) or regular payments for ongoing service delivery or at the end of the contract (in arrears) or a combination of these with varied amounts. Accrued income is recognised as a contract asset for unbilled service revenue. Deferred income is recognised as a contract liability where a customer pays in advance or pays a deposit prior to the delivery of the contracted services. On the balance sheet, accrued income is presented as part of Trade and other receivables, while deferred income is presented as part of Trade and other payables.

Capitalised costs to obtain a contract
The incremental costs of obtaining a contract with a customer are capitalised as an asset to the extent to which the costs are expected to be recovered over a period of more than one year. The asset is amortised on a systematic basis that is consistent with the timing of recognition of the relevant revenue. The asset is subject to an impairment assessment through a review of the recoverability against the remaining future revenue, net of respective future expenses. The capitalised costs to obtain a contract are presented as part of Intangible assets on the balance sheet.

In determining the amount of capitalised costs to obtain a contract, management forms a number of key judgements and assumptions which include an assessment of the incremental costs, whether such costs should be expensed as incurred or capitalised, and the period of amortisation of the capitalised costs. These judgements may inherently be subjective, and cover future events such as the recoverability of the capitalised costs through future net income streams over a certain period.

Deferred management fee
Deferred management fee (DMF) is a contracted fee charged to a resident of a managed retirement village. The amount of DMF is linked either to the ingoing contribution the resident paid on entry to the retirement village or to the turnover value of a unit on exiting the village and is expressed as a percentage charge per annum over the period of occupancy. The number of years the DMF can be charged is usually capped to a specific period of time. DMF revenue is recognised at the time of unit turnover from one resident to another.

(iv) Interest income (AASB 9)
Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(v) Dividends and distributions (AASB 9)
Dividends and distributions are recognised when the Group's right to receive the income is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(vi) Benefit funds - Life insurance premiums and fees (AASB 1038)
For life insurance contract liabilities and participating investment contract liabilities, premium revenue is recognised when the liabilities arising from them are created. For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities on the balance sheet (rather than being included in the profit or loss).

(ae) Risk Equalisation Special Account

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the *Private Health Insurance (Risk Equalisation Administration) Rules 2007*, all health insurers must participate in the Risk Equalisation Special Account (RESA). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

The amounts receivable from the RESA are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(af) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided as part of the monthly management reporting document. The chief operating decision maker has been identified as the Group Executive Committee that has delegated responsibility from the board for the achievement of the business strategic and operational plans approved by the board.

(ag) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost. They are presented as current liabilities unless payment is not due within 12 months after the end of each reporting period.

(ah) Trade and other receivables

Trade and other receivables, which are generally settled on 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectable amounts.

The Group applies the simplified expected credit loss approach in place of the incurred credit loss. Under the expected credit loss approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the impairment loss is recognised in the profit or loss. When a trade receivable for which an impairment provision had been recognised becomes uncollectable in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

(ai) Unexpired risk liability

At the end of each reporting period the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the profit or loss. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

The Group's assessment on the potential impact of IFRS 17 is set out in the following paragraphs. The other accounting standards noted above are not expected to have a material impact to the amounts reported in the consolidated financial statements. Where applicable the Group will apply these standards to the annual reporting periods beginning on or after the operative dates set out above.

(aj) New standards and interpretations not yet adopted

The following table sets out the new and amended accounting standards issued by the Australian Accounting Standards Board that are not mandatory for 30 June 2020 reporting period and have not been adopted by the Group.

AASB	Title	Operative Date *
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	1 January 2020
AASB 2019-5	Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	1 January 2020
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2022
AASB 2020-2	Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	1 July 2021
AASB 17	Insurance contracts	1 January 2023
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	1 January 2022
AASB 2020-4	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions	1 June 2020
AASB 2020-5	Amendments to Australian Accounting Standards – Insurance Contracts	1 January 2021
AASB 2020-6	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2022
AASB 2020-7	Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions: Tier 2 Disclosures	1 July 2021

* Operative date is for the annual reporting periods beginning on or after the date shown in the above table, unless otherwise stated.

AASB 17 Insurance contracts

AASB 17 will replace AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. In March 2020, the IASB decided to defer the IFRS 17 application date to 1 January 2023. With this deferral, the Group's application date will be from 1 July 2023.

The standard will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. It requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract.

A simplified premium allocation approach is permitted for the liability with a period of one year or less. Claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract.

To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. The Group has started to consider the impact this standard will have on the Group's operations and its financial statements. The application of this standard will impact the health insurance and life insurance businesses of the Group.

Other information *continued*

35 Summary of significant accounting policies *continued*

(ak) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less any adjustments for impairment losses. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(al) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified.

36 Changes in accounting policies

As disclosed in note 35(b), the Group has adopted AASB 16 *Leases* from 1 July 2019, but has not restated comparatives for the previous reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the requirements of AASB 16 are therefore recognised in the opening balance sheet on 1 July 2019.

The following section summarises the impacts of the adoption of AASB 16 to the Group's accounting policies and its recognition and measurement of assets and liabilities related to the leases.

(i) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made in applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

(ii) Recognition and measurement of lease liabilities

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the outstanding lease payments, discounted using the Group's incremental borrowing rates. For the initial application, the weighted average of the Group's incremental borrowing rates applied to the lease liabilities on 1 July 2019 over a variety of terms was 4.99% per annum.

The following table is a reconciliation of the Group's lease commitments and liabilities following the application of AASB 16 as at 1 July 2019:

	1 July 2019 $'000
Operating lease commitments disclosed as at 30 June 2019	201,734
Less: short-term and low-value leases not recognised as a liability	(11,014)
Leases for which the liabilities are recognised	190,720
Discounted using the lessee's incremental borrowing rates at the date of initial application	(53,941)
Lease liabilities recognised as at 1 July 2019	136,779
Maturity profile of the lease liabilities:	
Current	17,620
Non-current	119,159
	136,779

(iii) Recognition and measurement of right-of-use assets

The associated right-of-use assets were recognised and measured at the amount equal to the lease liabilities as if AASB 16 had been applied since the commencement of the leases but discounted using the Group's incremental borrowing rate as of 1 July 2019. The right-of-use assets, by asset class, is disclosed in note 14.

(iv) Reconciliation of accounts impacted by AASB 16

The following table is a reconciliation of the carrying amount of the accounts in the Group's balance sheet which were impacted by the application of AASB 16 as at 1 July 2019:

	Net assets			Retained earnings
Accounts	**Carrying amount 30 June 2019 $'000**	**Addition/ (deduction) $'000**	**Carrying amount 1 July 2019 $'000**	**Addition/ (deduction) 1 July 2019 $'000**
Increase in assets				
Right-of-use assets	-	**127,208**	**127,208**	**127,208**
Sublease receivable	-	**1,850**	**1,850**	**1,850**
Deferred tax assets	114,643	**41,034**	**155,677**	**41,034**
Total		**170,092**		**170,092**
Increase in liabilities				
Lease liabilities	-	**(136,779)**	**(136,779)**	**(136,779)**
Deferred tax liabilities	(200,691)	**(38,717)**	**(239,408)**	**(38,717)**
Total		**(175,496)**		**(175,496)**
Reduction to Net Assets and Retained earnings		**(5,404)**		**(5,404)**

Director’s declaration

In the directors’ opinion:

(a) the financial statements and notes set out on pages 39 to 113 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group’s financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 35; and

(c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director
& Chief Executive Officer

Melbourne
8 September 2020

Independent auditor's report to the members

Independent auditor's report

To the members of Australian Unity Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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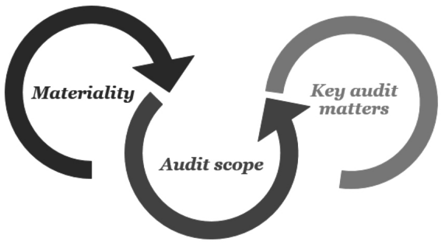
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $7.2 million, which represents approximately 1% of the Members' Funds of the Group. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Members' Funds because, in our view, it is the key financial statement metric used by the primary users of the financial report. • We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group is structured into four operating segments, being Retail, Wealth & Capital Markets, Independent & Assisted Living (IAL) and Corporate Functions and Eliminations. • We, as the group audit team, audited the most financially significant entities in the Retail, Wealth & Capital Markets and IAL segments. • We performed an audit of Australian Unity Group Services Limited, a subsidiary within the Corporate Functions and Eliminations segment, which provides payroll, accounts payable and corporate treasury services to the Group. • We performed specific risk focused audit procedures over certain account balances, and at a Group level this included the consolidation process and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of retirement village independent living units *(Refer to notes 11 & 12) [$1,374.9 million]* The Group's investment properties include, amongst other assets, retirement village independent living units and development sites – retirement village independent living units (collectively, "retirement villages"). Retirement villages are carried at fair value. The value of retirement villages is dependent on the terms of the residents' contracts and the inputs to the Group's valuation models ("the models"). Amongst others, the following assumptions are key in establishing fair value: • resident turnover rates, including the expected average length of stay based on mortality assumptions and voluntary turnover • property growth rates • discount rates At 30 June 2020, the Group engaged an external valuer to review the key assumptions used in the model. This was a key audit matter because of the: • relative size of the retirement villages balance, and • the level of judgement and estimation uncertainty associated with key assumptions underpinning the valuations and the general market uncertainty arising from the COVID-19 pandemic.	Our audit procedures over the valuation of retirement villages included the following: • We obtained an understanding of the methodology applied by the Group to determine the valuation of the retirement villages and assessed the appropriateness of this methodology against the requirements of Australian Accounting Standards • For a sample of contracts with residents across the portfolio, we compared the key inputs used in the models to underlying contracts. • For the review of key valuation assumptions performed by the external valuer, we performed the following procedures amongst others: - Assessed the expert's independence, experience, competency and the results of their procedures. - Read the expert's terms of engagement to identify any terms that might affect their objectivity or impose limitations on their work relevant to their findings. - Compared the key assumptions used in the expert's report to those used in the models. • For a sample of retirement villages we assessed the reasonableness of key assumptions applied in the valuation models. • We assessed the mathematical accuracy of a sample of the models. • We considered the adequacy of disclosures made in relation to the key assumptions and estimation uncertainty in note 11 in light of the requirements of Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
Revenue recognition – government grants and subsidies funding aged care, home and disability services *(Refer to note 2) [$193.6m]* Revenue from services includes government grants and subsidies funding aged care, home and disability services which are recognised as the relevant services are provided by the Group. The revenue relating to home and disability services is the largest component of these services and was a key audit matter due to Australian Accounting Standards (note 35(m)) requiring there to be reasonable assurance that the grant and subsidies will be received and the Group will comply with all attached conditions before revenue can be recognised. There is some judgement required when determining when contractual service obligations under the funding agreements have been achieved and revenue is recognised.	For government grants and subsidies funding home and disability services, we performed the following procedures amongst others: • Read a sample of underlying government funding agreements, government publications, and other communications received from the government. • Agreed the funding received by the Group to the supporting bank statements. • Considered the Group's assessment of compliance with the grant conditions, and compared this to the Group's revenue recognised for the year ended 30 June 2020.
Valuation of intangible assets *(Refer to note 15) [$313.5 million]* The Group recognised $313.5 million of intangible assets at 30 June 2020. $182.2 million of this related to goodwill and a further $24.8 million related to management rights and customer contracts which were assessed by the Group to have an indefinite useful life. The Group prepared value in use models, based on future cash flow forecasts discounted at a rate of return, to estimate the recoverable amount of the CGUs and assess whether impairment of these intangible assets was required. The assessment of impairment in the Home & Disability Services, Wealth Advice Services and Trustee Services CGUs were considered key audit matters due to the judgement required in determining the recoverable amount of these CGUs as outlined in Note 15.	We performed the following procedures, amongst others, to assess the valuation of intangible assets: • Assessed whether the level at which the impairment assessment was performed was consistent with our knowledge of the Group's operations and internal Group reporting. • Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU for the purposes of impairment. • Compared the forecast cash flows used in the impairment assessment to the latest business forecasts including consideration of the potential impacts of the COVID-19 pandemic. • Compared the performance of the CGUs against historical forecasts to assess the accuracy of the assumptions used in the latest business forecasts. • With the assistance of PwC valuation experts, assessed whether the discount rate used in the value in use model appropriately reflected the risks of the CGUs and the specific risk relating to the segments in which they operate. • Assessed the overall reasonableness of the assumptions when considered in the aggregate. We considered the adequacy of the disclosures of the sensitivity of the value-in-use calculations within the disclosures in note 15, in light of the requirements of Australian Accounting Standards.

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Key audit matter	*How our audit addressed the key audit matter*
Valuation of actuarially determined health and life insurance liabilities *(Refer to notes 16, 24 and 34) [$144.3m]*	
Actuarially determined insurance liabilities include claims provisions relating to the Group's health insurance business ($89.0 million) and non-investment linked benefit fund policyholder liabilities ($55.3 million). The claims provisions relating to the Group's health insurance business consists of an outstanding claim liability of $51.4m and a deferred claim liability of $37.6m (collectively the 'Group's health insurance claim liability'). The outstanding claim liability relates to 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. The deferred claim liability relates to claims that did not occur during March to June 2020 (the COVID-19 period), as a result of restrictions imposed on elective surgery and access to ancillary benefits in response to the COVID-19 pandemic, and are expected to be settled in future periods. The Group's health insurance claim liability is estimated by the Group as a central estimate and assesses the extent to which claim incidence and development patterns are consistent with past experience. The deferred claim liability also considers the expected rate at which deferred insured surgeries and other procedures will be caught up. A risk margin is applied by the Group to reflect uncertainty in the estimate. The central estimate and risk margin combined, which are estimated based on judgements and actuarial expertise, are intended to achieve an actuarially defined probability of adequacy (POA) of at least 95% (2019: 95%). In determining the valuation of the Group's non-investment linked benefit fund policyholder liabilities, the key actuarial assumptions made by the Group	To assess the assumptions used by the Group to determine the value of insurance liabilities, we together with PwC actuarial experts performed the following procedures, amongst others: • Evaluated the design of the Group's relevant key controls over the claims reserving process, taking into consideration the impact of the COVID-19 pandemic on a sample of the relevant key controls (including data reconciliation, data inputs, data quality and the Group's review of the estimate) and tested the operating effectiveness of a sample of these controls throughout the year. • Developed an understanding of the processes that the Group undertook to calculate the value of insurance liabilities, including the models used by the Group in calculating the actuarial liabilities. • Compared the methodologies used by the Group to those commonly applied in the industry and where relevant, used in the prior year. • On a sample basis, performed recalculations over the mathematical accuracy of the Group's actuarial models. • Assessed the key actuarial assumptions used by the Group in forecasting expected claims and anticipated rate at which deferred insured surgeries and other procedures will be caught up. This included comparing the key actuarial assumptions to the Group's historical experience, observable market trends, environmental factors, estimated payment patterns, member claiming patterns, and our industry knowledge. • Assessed the Group's approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, including an assessment of the reasonableness of the Group's actuarial calculation of the probability of adequacy. • Compared the level of claims received after the year end, which related to the current financial

Key audit matter	*How our audit addressed the key audit matter*
include mortality assumptions and the discount rate applied. This was a key audit matter because of the significant judgement required by the Group in estimating the Group's health insurance claim liability and non-investment linked benefit fund policyholder liabilities, including uncertainty as to the economic impact of the COVID-19 pandemic, and because a small change in assumptions can result in a material change in the estimated liability and corresponding charge to profit for the year.	year, to the estimate of the Group's health insurance claims provision. • Assessed the key assumptions and methodologies applied by the Group in estimating the value of non-investment linked benefit fund policyholder liabilities against the requirements of the applicable Australian Accounting Standards. • We assessed the adequacy of the disclosure of the Group's health insurance claim liability and non-investment linked benefit fund policyholder liabilities against the requirements of the applicable Australian Accounting Standards.
Operation of financial reporting Information Technology (IT) systems and controls This was a key audit matter because the Group's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Group's controls over IT systems include: • The framework of governance over IT systems • Program development and changes • Access to process, data and IT operations • Governance over generic and privileged user accounts.	Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 32 to 38 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Australian Unity Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

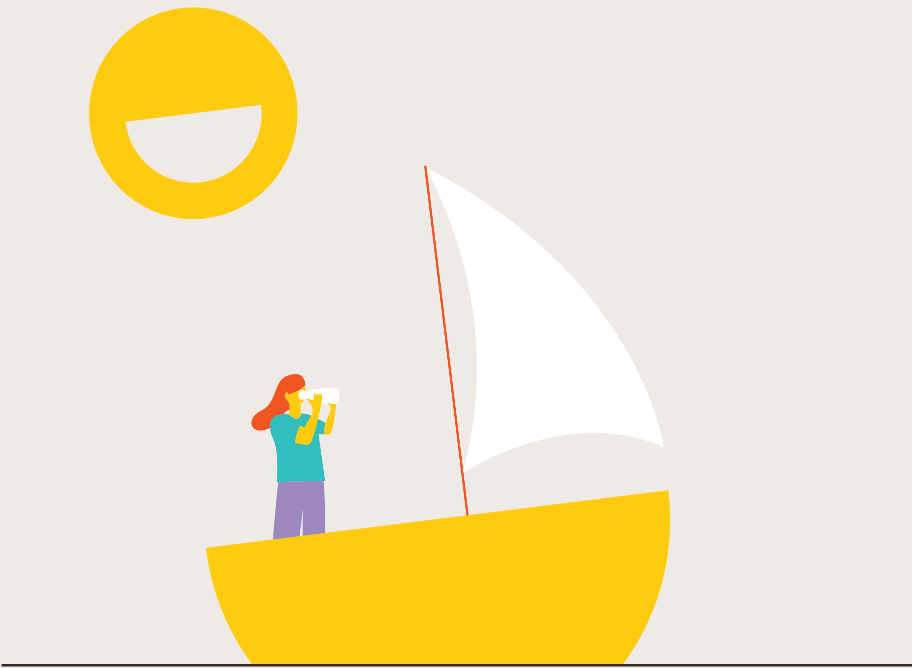
Andrew Cronin
Partner

Melbourne
8 September 2020

Glossary of terms

the Group	Australian Unity Group
the Company	Australian Unity Limited

ACCC	Australian Competition and Consumer Commission
AHC	Aboriginal Home Care
AOF	Australian Unity Office Fund
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUIREL	Australian Unity Investments Real Estate Limited
AUSTRAC	Australian Transaction Reports and Analysis Centre
CHSP	Commonwealth Home Support Program
Corporations Act	*Corporations Act 2001* (Cth)
CSV	Community & Social Value
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FUM	Funds under management
HDS	Home & Disability Services
IAL	Independent & Assisted Living
KMP	Key Management Personnel
MCI	Mutual Capital Instrument
NABERS	National Australian Built Environment Rating System
NDIS	National Disability Insurance Scheme
OAIC	Office of the Australian Information Commissioner
PC&R Committee	People, Culture & Remuneration Committee
PHI	Private health insurance
R&C Committee	Risk & Compliance Committee
S&P	Standard & Poor’s
SIDG	Social Infrastructure and Development Group
W&CM	Wealth & Capital Markets



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