



2021

Annual Report

Group facts and statistics

19.6%

Return for Diversified
Property Fund



~3,000,000

Hours of
Home Care Services
delivered

Delivered lowest
average health insurance
premium increase in
20 years

2,496

Independent
retirement units

21

Retirement communities



44.2%

Revenue
increase for
Remedy Healthcare

400,000+
Members



\$27.89b

Assets under
management and
administration

~95%

Aged care occupancy rate



Launched
Healing Minds



Launched Future
of Healthcare Fund



\$320.0m

Equity raised for
Australian Unity
Healthcare
Property Trust

7,000+
Employees



~\$300,000
Australian Unity
Foundation grants

\$207.4m
Sales in Life & Super



~68%

Women
in management roles

786

Aged care beds



\$1.8m

Spent with Indigenous
businesses

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

Australian Unity acknowledges the traditional owners of the lands and waters within Australia and recognises the important connection to country that Aboriginal and Torres Strait Islander peoples have.



About Australian Unity

Established in 1840, we were Australia’s first member-owned wellbeing company, delivering health, wealth and care services.

We’re committed to real wellbeing for all Australians. For us, real wellbeing means so much more than physical health. It’s about your standard of living and feeling safe in your home. It’s your personal relationships and being connected to your community. It’s about what you want to achieve in life, while having the security to get out and do what makes you happy.

Being a member-governed company—also called a mutual—gives us more freedom to invest money back into the services and solutions that matter most to our members, customers and the Australian community.

Our purpose

To help people thrive

Our vision

To enable Real Wellbeing for our members, customers and the community through our portfolio of commercial, sustainable businesses

Areas of operation

Health, Wealth & Care

Our key objectives

Create a great place to work

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



Put 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.



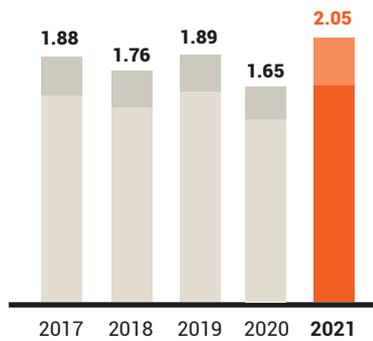
Make a difference in our community

Community is at the heart of what we do.

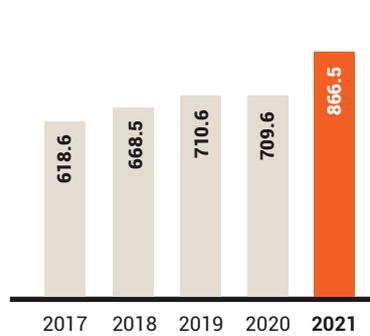


2021 at a glance

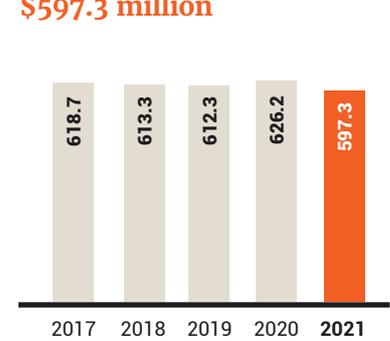
Revenues (\$b)^{†Σ#}
\$2.05 billion



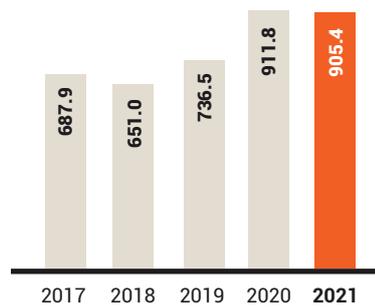
Members' funds (\$m)^{†#}
\$866.5 million



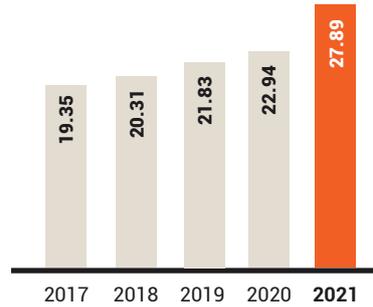
Private health insurance gross claims paid (\$m)
\$597.3 million



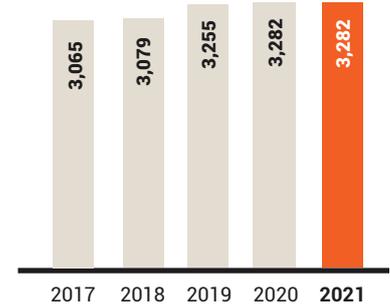
Australian Unity Bank loan book (\$m)[‡]
\$905.4 million



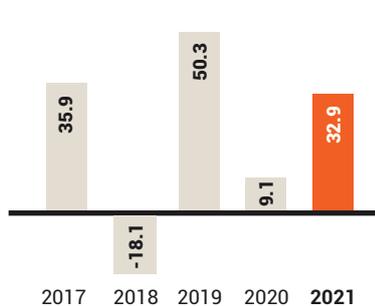
Assets & funds under management and advice (\$b)^{*}
\$27.89 billion



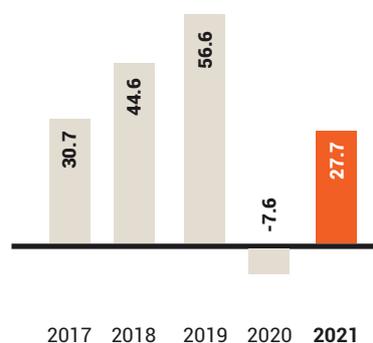
Retirement units and aged care beds
3,282



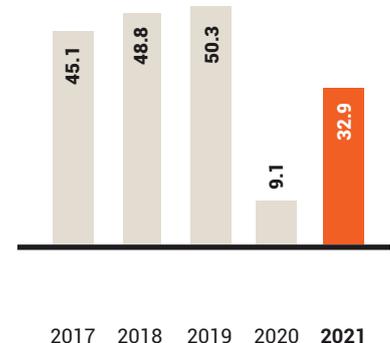
Profit from continuing operations (\$m)^{†#}
\$32.9 million



Profit before income tax (\$m)^{^#}
\$27.7 million



Profit after income tax (\$m)[#]
\$32.9 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.

Comparative information has been restated (see note 21(c) of the Financial report).

† 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



A clear and focused business strategy underpinned by a long-term vision to build a portfolio of health, wealth and care products and services has enabled Australian Unity to navigate the challenges of a global pandemic and deliver a solid result in the year under review.

The many and varied impacts on our business, members, customers and employees of the COVID-19 pandemic that emerged in early 2020 required the Group to continue making and refining adjustments to its operational activities. However, it finished the year with a profit after tax of \$32.9 million—a significant improvement on the prior year's \$9.1 million¹ profit.

The potential catastrophic consequences of a failure to manage the impact of COVID-19 on our human services businesses required extraordinary measures to protect aged care residents, home care customers and the 6,000 employees who support them. Despite the material threats arising from community transmission of COVID-19, particularly in Victorian aged care facilities, our residential aged care business successfully restricted and contained any outbreaks in its facilities.

In our Retail businesses, we provided hardship relief for health insurance and banking customers, including policy suspensions and premium deferrals. We also supported our employees through measures that included an enhanced employee assistance program and additional leave entitlement initiatives.

Building balance sheet strength

The turbulent operating environment that emerged with the onset of the pandemic sharpened focus on the need to maintain a solid balance sheet position in support of operational resilience and agility. A significant milestone in this regard was the successful Mutual Capital Instrument (MCI) issue in December of the year under review—the first of its kind in Australia—which raised \$120 million from investors.

The opportunity for mutual organisations to raise capital through MCIs—as equity listed entities do through the issuance of shares—was brought about by reforms to the *Corporations Act 2001* (Cth) in 2019 that included formal recognition of the mutual corporate form. Previously, mutual entities, including Australian Unity, generally could only raise funds by increasing debt, which had effectively restricted growth. Importantly, MCIs allow mutual entities to raise permanent capital without compromising their mutual status.

Before a mutual organisation can raise capital through MCIs, it must amend its constitution, which Australian Unity members approved at their 2019 Annual General Meeting—paving the way for the first MCI issue in December of the following year.

Pleasingly, the \$120 million raised included a \$20 million cornerstone investment from HESTA, the largest superannuation fund dedicated to Australia's health and community services sector. HESTA noted at the time that it shared with Australian Unity a long-term interest in building the country's social infrastructure and welcomed the opportunity to invest in the fast-growing care economy that could generate strong returns for its members while helping to create growth and jobs in the industries where they work.

The proceeds from this capital raising are being used for a range of opportunities across the Group, including pursuing near-term growth opportunities within individual businesses as well as investing capital where historically third-party funding has been used. The use of proceeds will also extend to merger and acquisition opportunities across the Group's platforms—including to increase investment in social infrastructure and to help support business consolidation in important mutual sectors such as private health insurance, banking and friendly societies.

Given the success of the capital raising—conducted during the economic and social uncertainty created by a global pandemic—the board may consider further MCI issues in support of our strategic agenda.

Strategic ambitions

While the COVID-19 pandemic has presented substantial operational challenges and required a strong focus on building balance sheet resilience, there was continued progress in our ambition to become Australia's most trusted wellbeing company, as highlighted by some of the examples below.

Consistent with our pursuit of accelerated growth opportunities in healthy ageing precincts, we acquired the Greengate retirement and aged care business, comprising three established co-located communities in Sydney (Kogarah and Maroubra) and Brisbane (Woolloongabba), as well as a prime development site in Brisbane (Auchenflower) that has approval for a vertical retirement village and residential aged care precinct. As with most of the existing Australian Unity portfolio, the Greengate precincts offer continuum of care options and operate on the small-household model endorsed by the recent Aged Care Royal Commission. This operating model made them compatible with Australian Unity's Better Together® model of care.

The acquisition, completed in July this year, was primarily financed from existing internal funds, including some proceeds from the inaugural issue of MCIs, discussed above.

Also within our health and human services portfolio, subsidiary company Remedy Healthcare delivered more than 410,000 episodes of care across 14 treatment programs. More than 34,000 hours of allied services were provided to Australian Unity Home Care customers—reflecting a strategic aim to deliver a range of care services that address the daily needs of customers. Encouragingly, Remedy Healthcare's Ramsay Connect joint venture with Ramsay Healthcare—in its first full year of operation—earned revenue of more than \$5.0 million and enrolled more than 2,200 patients into community care hospital substitution and rehabilitation programs.

Australians are also increasingly looking to trustworthy institutions to meet their financial wellbeing. To this end, we launched the Future of Healthcare Fund with the aim of delivering long-term capital growth through investment in the future healthcare needs of Australians, while our Green Bond Fund, which invests in green, sustainable and social bonds, continued to grow in its first full year.

Our Retail businesses—health insurer Australian Unity Health Limited and Australian Unity Bank Limited—delivered strong results in the face of particular challenges presented by the pandemic, while continuing to build solid foundations for the delivery of customer growth and member value.

Our social infrastructure agenda continued to advance, with the Australian Unity Healthcare Property Trust (AUHPT) achieving a major milestone with practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) public hospital in November 2020—part of the landmark \$1.1 billion Herston Quarter health precinct development in Brisbane. Investors endorsed the management of AUHPT by rejecting a takeover bid launched in the year under review by an international consortium.

Beyond healthcare, our social infrastructure interests continued to grow and broaden, with solid growth in the Specialist Disability Accommodation Fund, launched in the prior year, establishment of a Childcare Property Fund and our residential aged care acquisitions and developments.

As foreshadowed in last year's report, the board along with the executive team and other leaders from across the Group have spent time reviewing and revising our 10-year strategic plan. In the next decade, the Group will continue on its growth trajectory by leveraging its position across the continuum of care, incorporating key social determinants such as housing, community and social interaction,

employment and education alongside healthcare. We will also seek to become a leading source of integrated, personalised healthcare, continue to support Australians in building their financial wellbeing and accelerate our participation in social infrastructure.

In conclusion, as I complete this sixth year of my term as Chair, I am encouraged by the possibilities ahead for the Company, with the events of the past two years demonstrating the relevance of a modern mutual with 180 years of experience in meeting the real wellbeing needs of Australians.

The board renewal and succession process initially set in train a decade ago will continue as we seek to ensure the board contains a diversity of knowledge, skills and professional experience gained during senior executive and non-executive careers across a range of sectors.

Our solid results and future potential are the result of the work of many people across the board, our executive team led by Group Managing Director Rohan Mead and our 7,000-plus employees—to whom I extend my gratitude.



Peter Promnitz
Chair

Group Managing Director's report



Despite the ongoing economic and social disruption caused by the global pandemic during the year under review, Australian Unity continued to advance its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value—and is supportive of personal and community wellbeing.

While the pandemic presented our board, leadership team, businesses and employees with a range of challenges—at times unexpected and complex—the Group ultimately delivered a sound operational and financial result for its members. Significantly, as with the prior year, there were no fatalities among our residential aged care customers or employees due to workplace exposure to COVID-19.

We responded to the ongoing pandemic 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, we also focused on the welfare of our employees and the impact COVID-19 has had on them.

While the pandemic affected all sectors of the Australian economy, precipitating uncertainty and social disruption, the Group delivered a solid profit after income tax of \$32.9 million for the year under review, compared to \$9.1 million¹ in the prior year. The Group delivered these financial results after implementing the lowest average premium increase for health insurance premiums in more than 20 years.

Despite the positive result, direct and indirect COVID-19 impacts affected the Group's overall results, with these impacts including the implementation of extraordinary measures to protect aged care residents, home care customers and the employees who support them; the provision of hardship relief for health insurance and banking customers; and the effects of tightened economic circumstances on consumer spending patterns.

Strategically, our commitment to building long-term sustainability into our business portfolio did not waver in the face of the near-term operating challenges presented by COVID-19—but it did require a specific and strong focus on balance sheet resilience. To this end, the Group raised \$120 million from investors through Australia's first Mutual Capital Instrument (MCI) issue in the year under review—an opportunity provided by 2019 legislative amendments and endorsed by Australian Unity's members. Also, the Group retired the remaining \$71.3 million of Series B Australian Unity Bonds when they matured in December 2020—further strengthening its balance sheet position.

Progressing our strategic agenda

In the year under review, the Group continued to progress its strategy of developing a portfolio of valued health, wealth and care products and services for members across its three business platforms (see below).

It also advanced its social infrastructure agenda, with the major milestone of practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) public hospital in Brisbane—a key component of the \$1.1 billion Herston Quarter health precinct being developed in partnership with the Queensland Government.

In June of the year under review and subsequent months, Australian Unity invested more than \$100 million in the Australian Unity Healthcare Property Trust (AUHPT) via a premium cash offer made to existing AUHPT investors and by contributing \$20 million as a cornerstone investor in AUHPT's \$320 million capital raising (with property market participant Dexus contributing \$180 million). The investment demonstrated our commitment to both AUHPT's portfolio of unique healthcare and medical infrastructure assets that

support Australia's future healthcare needs, and the funding of its ongoing growth on behalf of unitholders.

In our prior year annual reporting, we noted that a review of historical employee entitlements and superannuation initiated by us had regrettably identified payroll errors, resulting in underpayments and overpayments to some of our employees. We have continued to progress our review and remediation program, making good on employee payments. We have not sought to recover overpayments, and our review and remediation program is nearing completion. We voluntarily reported to the Fair Work Ombudsman and are continuing to provide updates and respond to requests for information. We have made and are continuing to make significant improvements and upgrades to our payroll systems and practices to reduce the risk of these errors reoccurring.

Strategic and financial performances of the three business platforms

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

Independent & Assisted Living (IAL) delivered a sound result given the complex pandemic year. IAL's adjusted EBITDA² rose by \$13.7 million or 23.9 percent on the prior year, to reach \$71.1 million.

Subsidiary Remedy Healthcare had a successful year with a 44.2 percent increase in revenue to \$41.0 million. Encouragingly, the first full year of operation of its Ramsay Connect joint venture with Ramsay Healthcare earned more than \$5.0 million in revenue.

The IAL business continued to pursue its strategy of accelerated growth opportunities in healthy ageing precincts with the acquisition of the Greengate retirement and aged care business. As noted by the Chair, this purchase delivered three established co-located communities. As a result, IAL now owns and operates 10 co-located retirement villages and residential aged care precincts and 14 retirement villages across NSW, Victoria and Queensland, comprising 2,749 independent living units and 1,011 aged care beds.

Retail ended the year under review with an adjusted EBITDA increase of 33.6 percent on the prior year to \$81.8 million, which reflected both a decrease in private health insurance claims and improved performance by the business.

As well as providing relief for policyholders affected by the pandemic, our health insurance business delivered an average premium increase of 1.99 percent—which was below the announced sector average of 2.74 percent—the sixth lowest of all 35 health funds and, as noted above, our lowest in 20 years. As at 30 June 2021, about \$18 million of COVID-19 support measures had been provided to Australian Unity members. In line with claims savings due to the impact of the pandemic, further premium relief of about \$6 million will be delivered in the 2022 financial year.

Strong lending growth for Australian Unity Bank enabled the business to offset the impact of lower interest rates on revenue, with total assets at year-end growing by \$16.9 million to \$1,150.8 million.

Wealth & Capital Markets (W&CM) recorded an adjusted EBITDA of \$27.3 million, which was a decrease of 16.8 percent on the prior year, reflecting significant direct and indirect impacts of the pandemic on business activity.

Beyond the completion of the STARS public hospital mentioned above, the Group's presence in social infrastructure continued to grow and broaden. Notable achievements included material progress in the Specialist Disability Accommodation Fund and the establishment of a Childcare Property Fund, with an initial capital raise planned for early in the 2022 financial year. The Diversified Property Fund had a strong year, delivering investors a total return of 19.6 percent for the year to 30 June 2021.

The Investments business unit experienced positive net flows from retail, middle and institutional markets and strong investment performance across key product areas. The Future of Healthcare Fund was launched during the year with the aim of delivering long term capital growth by investing to support the future healthcare needs of Australians. Support for the Green Bond Fund also continued to grow.

Sales across Life & Super products were pleasing, given the prolonged low interest rate environment and challenging economic conditions presented by COVID-19. While the advisory and trustee services businesses were particularly affected by the pandemic, there was notable uplift in the second half of the year.

Despite the ongoing impact of COVID-19, the Group's outlook remains positive. While the effects of the pandemic will continue to be felt throughout the year ahead, our view is that the underlying pressures arising from demography and the associated economic, social and policy change will generate positive opportunities for the Group and its services. The Group's strategic approach, balance sheet resilience and operational flexibility has prepared it for these types of complex circumstances. Indeed, ongoing market disruption and growing community needs will provide Australian Unity with significant growth potential.

In conclusion, I thank our employees and their managers—under the guidance of our leadership team and board—for their commitment and tremendous efforts in such a challenging year.



Rohan Mead
Group Managing Director
& CEO

1 Comparative information has been restated (see note 21(c) of the Financial report).

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

Business performance

Independent & Assisted Living

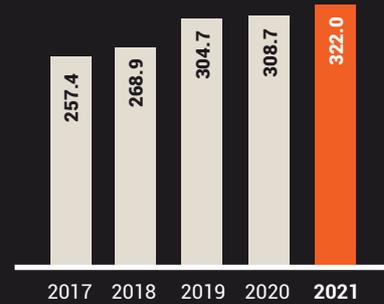
\$520.6m¹

in total segment revenue
(2020: \$484.6m)

\$71.1m¹

in adjusted EBITDA¹
(2020: \$57.4m)

Home Care Services
adjusted revenue (\$m)¹
\$322.0 million



Retail

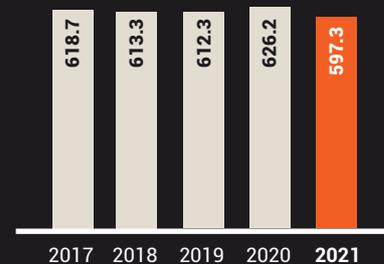
\$704.6m

in total segment revenue
(2020: \$709.5m)

\$81.8m

in adjusted EBITDA¹
(2020: \$61.2m)

Private health insurance
gross claims paid (\$m)
\$597.3 million



Wealth & Capital Markets

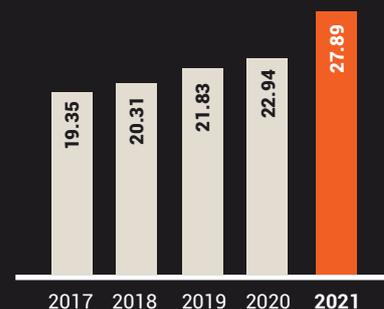
\$221.1m

in total segment revenue
(2020: \$170.5m)

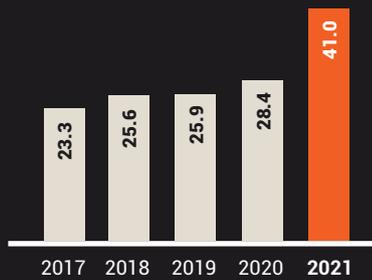
\$27.3m

in adjusted EBITDA¹
(2020: \$32.8m)

Assets & funds under
management and advice (\$b)*
\$27.89 billion



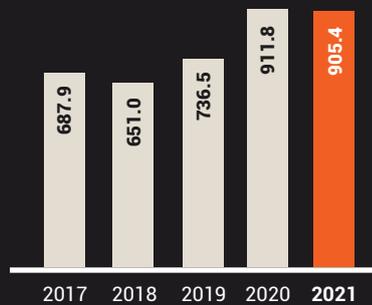
Remedy Healthcare revenue (\$m)
\$41.0 million



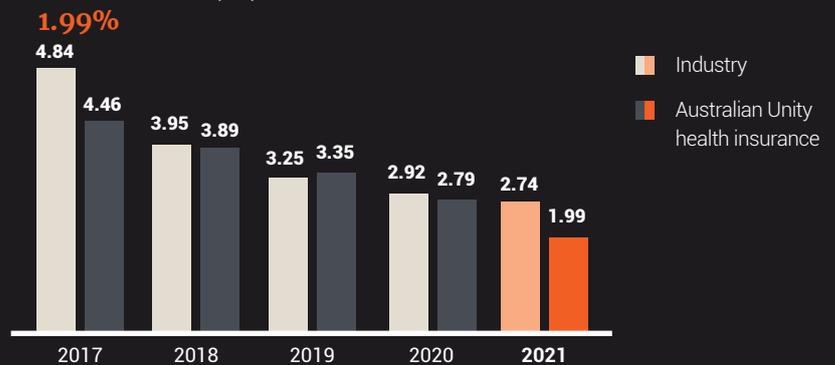
Independent & Assisted Living development pipeline (\$m)
Total \$491.9 million



Australian Unity Bank loan book (\$m)[¥]
\$905.4 million



Average private health insurance premium rate increase (%)
1.99%



Assets & funds under management and advice, including developments and associated debt facilities (\$b)[¶]



¹ Comparative information has been restated (see note 21(c) of the Financial report).

[^] 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.

[¶] Includes cross-investments (investments by Australian Unity funds in other funds managed or operated by Australian Unity or its associates).

Our impact

Environmental, Social and Governance (ESG) criteria have become increasingly important as a set of standards for assessing a company's activities and sustainability. In 2021, Australian Unity will release its first standalone report documenting its impact across these three areas, with a focus on our social impact, which has been at the centre of the Group's activities for more than 180 years.

Environmental

Australian Unity acknowledges the growing impact of climate change on the wellbeing of our communities. We are seeking to understand and to manage this risk and finding ways to reduce our environmental impact across our business activities. We have already implemented various policies, principles, initiatives and targets across the Group to achieve this aim and continue to look for new and innovative ways to improve our environmental performance. Importantly from a governance and accountability perspective, we continue to improve the capture and disclosure of our environmental impacts and activities—including at the board level where we report our current position, achievements and commitments in relation to environmental governance, risk management, strategic initiatives and our targets and metrics.

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, last year we introduced our 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 the broader Australian society. It is underpinned by our 20-year partnership with Deakin University to better understand and quantify wellbeing through the Australian Unity Wellbeing Index (AUWI), which focuses on the 'seven domains of wellbeing'—factors that combine and work together over time to build a picture of life satisfaction.

Governance

As a modern mutual company, Australian Unity brings together a focus on members, customers and community with the commerciality of a listed company or private equity. We are proud of our strong social focus and presence—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 and Directors' report of this Annual Report.

Community & Social Value framework

Impact area: Lifelong wellness



Outcome 1: Better access to healthcare

With pressures on the public health system affecting access to healthcare, Australian Unity seeks to ensure its customers get quality healthcare when they need it, including early intervention care, preventative services, in-home and specialist services, appropriate accommodation and specialist health facilities. We also invest in the future of healthcare to help provide better access for more Australians.

One of the ways we deliver on our support for better healthcare is through our social infrastructure agenda—perhaps best demonstrated by our partnership with the Queensland Government to develop the \$1.1 billion Herston Quarter health precinct in Brisbane. In FY2021, the Herston project achieved a major milestone with practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) public hospital.

Beyond Herston, the unlisted Australian Unity Healthcare Property Trust has invested in healthcare properties for more than 20 years, including hospitals, medical centres and aged care facilities. In FY2021, it added 243 hospital beds—48 at Beleura Private (Mornington, Victoria), 13 at Townsville Private Clinic (Queensland) and 182 at the STARS hospital.

Outcome 2: Improved health outcomes

Australian Unity supports customers to look after their health and financial wellbeing, which leads to improved health outcomes.

Our subsidiary business, Remedy Healthcare, employs more than 350 health professionals who support the health and wellbeing of Australians through allied health, in-home care and telehealth services. In FY2021, more than 500 people accessed Remedy Healthcare's MindStep® program—a low-intensity, guided self-help service for people with symptoms of mild to moderate anxiety or depression that is designed to run alongside existing psychological care.

The success of MindStep® has seen its adaptation for a specialised support service for Aboriginal and Torres Strait Islander peoples called Healing Minds, which commenced in FY2021. Developed by Australian Unity's Indigenous services team with leading Aboriginal health and cultural professionals, Healing Minds provides culturally appropriate one-on-one support from qualified Indigenous mental health practitioners that meets the needs of Aboriginal and Torres Strait Islander peoples.

Under our Community & Social Value framework, we seek to maximise and measure our impact on the wellbeing of our members, customers, the community and broader society against three areas of impact: lifelong wellness, economic empowerment and strong communities—each of which have their own defined outcomes.

Impact area: Economic empowerment



Outcome 3: Building financial resilience

Australian Unity helps customers to grow their wealth by providing unique financial products, financial supports and wealth management options that are easy to access and provide good returns. As a result, customers build their financial resilience and improve their financial wellbeing, including their ability to fund their own healthcare and ageing.

In FY2021, our commitment to fostering financial resilience saw the launch of a partnership with Indigenous Business Australia (IBA) to make banking products more accessible to Aboriginal and Torres Strait Islander peoples. Through this agreement, Australian Unity Bank will provide a diverse range of products and services to IBA customers to facilitate their economic independence in a culturally-sensitive way—with a particular focus on home ownership, which can contribute significantly to improved socio-economic outcomes and community benefits. Since its launch, the partnership has seen 12 loans written, totalling \$3.42 million, including seven loans for first home buyers.

Outcome 4: Social and economic opportunities through employment

Australian Unity's investment in social infrastructure has flow-on benefits for local communities, including employment opportunities and increased spend with local small businesses. For example, the STARS hospital, mentioned above, is already employing almost 400 healthcare workers—a number expected to grow to around 900 in the future.

Through our Reconciliation Action Plan, we prioritise expenditure with Indigenous businesses and social enterprises that offer employment opportunities to those who may otherwise be excluded. To this end, in FY2021 we engaged 48 Indigenous enterprises and spent \$1.8 million—almost two percent of contestable spend—with Indigenous businesses, of which \$1.1 million was recurring expenditure.

In FY2021, Australian Unity remained the largest private employer of Indigenous and Torres Strait Islander peoples within the health sector in New South Wales, with all the Aboriginal Home Care executive team and most of its workforce of some 200 identifying as Aboriginal.

Impact area: Strong communities



Outcome 5: Leading social innovation

With a gap between current social service availability and future demand, particularly around in-place supports, Australian Unity seeks to support positive change in communities across Australia through innovative products and solutions that benefit its members, customers and our broader society.

This innovation mindset is expressed in Better Together®—aged care featuring consistent rostering of care companions to each household that we have been designing, building and operating for more than 10 years. 'Small household' was a preferred model of care in the final report of the Royal Commission into Aged Care Quality and Safety released in FY2021. The Better Together® model was also a key contributor to successful restriction and containment of any COVID-19 outbreaks in our communities in FY2021.

Our commitment to supporting innovative models of in-place living extends to our investment products, with the nascent Australian Unity Specialist Disability Accommodation Fund—launched in 2020—settling 31 dwellings and having a further eight parcels of land expected to be developed.

Outcome 6: Supporting living in place

Many Australians, particularly the aged, people with disability, and those living in regional and remote areas, must move location to receive appropriate care or housing. To help address this challenge, Australian Unity invests in and facilitates access to place-based models of care, builds social and community infrastructure, and affordable and specialist housing. These help people to maintain their independence, stay connected to their family, friends and local community, and be empowered to make decisions that support their wellbeing.

In FY2021, Australian Unity delivered almost three million hours of care to about 38,000 customers in their homes, including 240,000 hours of care to more than 2,400 Aboriginal and Torres Strait Islander people, which included a range of allied health, meals provision, domestic assistance, transport, respite care and social support services. In FY2021, these services were particularly important to those customers living independently at home during the COVID-19 pandemic who relied heavily on our services and care in an environment of strict government restrictions.

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, FFin

Australian Unity Group Executives

Rohan Mead

Group Managing Director &
Chief Executive Officer



Prue Bowden

BA, MEmplabRelLaw
Group Executive—
People & Culture



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



David Lumb

BEc, LLB, GAICD
Acting Group Executive—
Customer, Digital & Technology



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, SF FIN, GAICD
Chief Executive Officer—
Retail

Amanda Hagan was Group Executive—Customer, Digital & Technology until end November 2020.

Governance statement

Australian Unity Limited is a mutual entity 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 that has been trusted to deliver wellbeing services since 1840. Being a mutual entity, the Company has more flexibility 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.

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, which are Australian Unity Bonds – Series C and D and Mutual Capital Instruments.

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 2021, there were eight directors on the board. 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 six 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.

In a commitment to continuous improvement, the board engaged an external consultant to conduct a review of its effectiveness and composition in the year under review. While the board is operating effectively, it has recognised areas for improvement and is committed to adopting these as appropriate in FY2022 and beyond.

The board's current skills-matrix includes:

Specific Skills	General Skills
✓ Healthcare	✓ Management
✓ Retirement communities	✓ People and culture
✓ Assisted living services	✓ Finance and accounting
✓ Home and disability services	✓ Law
✓ Financial services	✓ Governance
✓ Investment management	✓ Risk and compliance
✓ Insurance	✓ Regulatory and public policy
✓ Property development	✓ Marketing and communications
✓ Architecture	

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 the Group's annual budget and operating plans and platform strategies and operating plans
- approval of new subsidiaries and subsidiary board members
- setting and monitoring the Group risk management framework, including internal 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 26 occasions during the year under review, including a meeting to consider the revised annual operating plan and its application to the year ahead. The board also had a number of additional briefings in the year under review, particularly in relation to the Group's response to the COVID-19 pandemic.

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. Notwithstanding this term limitation, if a non-executive director is appointed as Chair in their third or fourth terms then such non-executive director, subject to being re-elected at an Annual General Meeting, may serve two further terms of three years' duration from the date that they were appointed as 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 and 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 outlined below.

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 frameworks, 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 matters 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 included 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) was 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 2020 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 2021 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 humbled and appreciative of the resilience of the Australian Unity front line and office-based workforce during what has been another extraordinary and challenging year.

In FY2021, the Group was well advanced in progressing its strategic objectives while managing continuing challenges across each of the business units. The Group saw a material uplift in the profit after tax for the year; however, as I have noted in my previous reports, due to the nature of the portfolio of businesses, an unpacking of the result is important to understand the performance of each business.

The Group reported adjusted EBITDA of \$98.9 million, which was \$22.5 million higher than the previous corresponding period, and a profit after tax of \$32.9 million—\$23.8 million above the previous corresponding period.¹ During the year, the Group successfully executed Australia's first Mutual Capital Instrument (MCI), issuing \$120.0 million at a fixed dividend rate of 5.0 percent per annum. The dividend rate grossed up for franking credits is 7.14 percent per annum.² The Group repaid on maturity in December 2020 \$71.3 million of Series B Australian Unity Bonds and refinanced \$33.1 million of Retirement Village Investment Notes.

I note the resilience and adaptability that continues to be displayed by our employees, members and customers during these unprecedented times. Our front line workers were and, indeed, continue to be relentless in their efforts to provide services to our members and customers, while our office-based employees have remained adaptive in responding to new and increasingly interrupted ways of working remotely.

Notwithstanding the challenges that 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 reached a major milestone in the practical completion and delivery of the STARS public hospital, while the Home Care Services business continued to refine and deliver operating efficiencies through the development of business insights and the introduction of self-insurance.

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.

I encourage members to read the financial statements, the Operating and Financial Review that forms part of the Directors' report and this report in detail to gain further insight into how the Group has performed and to understand how we are executing our strategy.

A year with varying impacts brought on by the COVID-19 restricted operating environments; positive progress occurred in some businesses within the portfolio while others have been forced to largely stand still during extended lockdowns.

Across the three business platforms, the Group progressed its strategic objectives; however, financial performance of some businesses was affected by regulatory and macro challenges. We continued to invest in systems and the operating model for the largest of our newer businesses, Home Care Services, which again saw a material improvement in its financial position. This was despite the challenges of various lockdowns across our operating regions and continued challenges in attracting new employees to support customer growth.

The Retail platform had a positive year, driven by a lower underlying claims pattern for the private health insurance business and improved performance. The scheduled April 2020 premium round increase was delayed until October 2020, with the Group delivering an average premium rate increase of 1.99 percent in April 2021, compared to a reported sector average of 2.74 percent. Within the Banking business, we saw a continuation of the strong lending growth it has experienced in recent years, which offset the impact of lower interest rates. Australian Unity Bank implemented a self-securitisation structure that will help support the Bank's continued above average growth aspirations.

The Wealth & Capital Markets (W&CM) platform continued to make significant progress with the delivery of its social infrastructure agenda, including material progress on the Herston Quarter project in Queensland

¹ Comparative information has been restated (see note 21(c) of the Financial report).

² This is based upon Australian Unity's current corporate tax rate of 30 percent and assumes that investors are able to fully benefit from attaching imputation credits. This gross rate will change if Australian Unity's corporate tax rate changes in the future.

and progress with the Specialist Disability Accommodation Fund and the establishment of a Childcare Property Fund. The platform was negatively impacted by the COVID-19 operating environment, with the Advice and Trustees businesses suffering from ongoing restrictions on face-to-face engagement and the intermittent closure of law courts.

The Independent & Assisted Living (IAL) platform made positive progress in the Home Care Services business and reported a solid performance within the Retirement Communities business unit. Consistent with previous years, the Group continued to report occupancy levels well above market average in both its Residential Aged Care and Retirement Communities portfolios. The platform was negatively impacted by the COVID-19 operating environment, with the Dental business experiencing recurrent closures and material personal protective equipment costs in the Aged Care business.

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 \$32.9 million, which was \$23.8 million, or 260.6 percent, higher than the previous corresponding period.¹

During the year, a review of our remuneration operations regrettably identified errors in payment of historical employee entitlements and superannuation to some of our employees. As a result, historical wage payments of \$8.1 million and superannuation payments of \$3.9 million have been made or set aside for current and former employees. These payments have impacted earnings in the current and prior financial years. A review of Home Care Packages accounting processes in our IAL platform was also undertaken during the year, which identified reconciliation errors impacting revenue in prior financial years. The reconciliation errors did not cause any financial or service level impact to our customers.

Information about the financial impacts of our reviews and consequential restatement of prior accounts is detailed in the Explanatory Notes (note 21(c)).

Total revenue and other income from continuing operations was \$1.71 billion (2020: \$1.40 billion¹). The Explanatory Notes (note 27) highlight that \$1.45 billion of this revenue was attributable to members and \$0.26 billion was attributable to benefit fund policyholders—with revenue attributable to members up \$89.3 million, or 6.6 percent, from the prior year. This comparative result was mainly driven by growth within IAL and higher current year management and performance fees in our Wealth & Capital Markets business, compared to the prior year where the volatile investment markets led to lower crystallisation of performance fees (see note 2).

Expenses, excluding finance costs, of \$1.59 billion were \$208.2 million (15.1 percent) higher than the prior year. Gross claims paid by our retail health insurance business of \$591.6 million were 4.7 percent lower than in the prior corresponding period. Expenses in relation to benefit funds of \$205.0 million were \$147.9 million higher (258.6 percent) than the prior year.

As detailed in note 3, depreciation and amortisation costs of \$47.7 million were \$1.4 million, or 2.8 percent, lower than the prior year.

Finance costs, excluding the impact of AASB 16³, were \$2.1 million lower than the prior year due to the repayment of the Australian Unity Bonds Series B in December 2020 and lower notional interest on leases.

The group focused on liquidity and balance sheet resilience

The consolidated balance sheet details the Group's assets and liabilities along with equity. The 2021 financial year closed with members' funds of \$866.5 million, up 22.1 percent. The material growth in members' funds for the year was driven by the inaugural MCI issuance for \$120.0 million.

At 30 June 2021, the Group gearing ratio was 29 percent (see note 9(b)), compared with 33 percent at 30 June 2020. 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.

Corporate interest-bearing debt at 30 June 2021 totalled \$415.1 million, compared to \$468.5 million in the prior year, which mainly reflected the payment upon maturity of the Series B 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 3.18 times, compared to 2.12 times the previous year.¹ Interest cover ratio is not a covenant of the listed bonds.

Intangible assets (see note 15) in the current year of \$313.8 million remained in line with the prior year's \$313.5 million.

The Group continues to maintain strong liquidity and ended the year with \$1.01 billion in cash and cash equivalents (see note 5). The balance of cash and cash equivalents as at 30 June 2021 included the Parent Entity's accounts totalling \$162.4 million and amounts held by benefit funds of \$369.8 million.

I hope this report provides a greater understanding of the key financial activities the Group undertook during the year under review. While the year ahead will remain challenging as a result of continued uncertainty around border restrictions and lockdowns across Australia and the ongoing 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

³ AASB 16 Leases

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 2021.

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

Gregory Willcock, Non-executive Director

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2021.

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

In April 2021, the Company paid an interim fully franked dividend of \$1.5342 per Australian Unity Mutual Capital Instrument totalling \$1,841,000.

Operating and financial review

In the year to 30 June 2021, the Australian Unity Group continued advancing its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value and is supportive of personal and community wellbeing.

While the year under review was similar in many ways to the prior year, being significantly impacted by the COVID-19 pandemic, the Group delivered a solid financial result.

Highlights of the year included a positive result within the Private Health Insurance and Banking businesses, the continued positive impact of improvements in the Home Care Services business; the Group's work in developing improved and sustainable patient and outcome-focused healthcare services; and the ongoing advancement of the Group's social infrastructure agenda, which included the major milestone of practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) public hospital at the \$1.1 billion Herston Quarter health precinct in Brisbane. Notwithstanding the challenges arising from COVID-19, this major public hospital and significant piece of social infrastructure was delivered largely on time and within budget parameters.

In the year under review, the Group also prioritised its focus on the maintenance of a solid balance sheet position in support of operational resilience and agility. To this end, the Group undertook Australia's inaugural Mutual Capital Instrument (MCI) issuance, raising \$120.0 million from investors. The opportunity to issue these financial instruments was the culmination of many years of sector-shaping advocacy for the Group, leading to 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. 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 MCIs. Also during the year, the Group retired the remaining \$71.3 million of Series B Australian Unity Bonds when they matured in December 2020 and reissued \$33.2 million of Retirement Village Investment Notes (RVINs).

The impact of the COVID-19 pandemic continued to be felt in many ways across the Group's businesses in the year under review. It required the implementation of extraordinary measures to seek to protect aged care residents, home care customers and the employees who support them; the provision of hardship relief for health insurance and banking customers; and the effect of tightened economic circumstances. Australian Unity responded to the pandemic 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, the Group has also focused on the welfare of its employees and the impact COVID-19 has had on them.

Nevertheless, the pandemic has affected the Group's overall results, with impacts including the deferment of private health insurance premium increases; client cancellations and interruptions to regular home care, disability, dental and health care servicing; some additional government funding receipts; reduced lending and property services activity fees; increased cost of additional personal protective equipment (PPE) and related consumables; and cost containment undertaken in response to these pandemic effects.

Despite this, the Group delivered a profit after tax of \$32.9 million for the year under review, compared to \$9.1 million in the prior year, with each of the business platforms making a positive contribution to the result.

The Group's total revenue and other income increased to \$1,706.1 million (2020: \$1,400.9 million). Despite the ongoing pressures of the pandemic, overall revenues from operating businesses and investment returns grew by \$89.3 million, while benefit fund revenues increased by \$215.9 million.

Total expenses, excluding financing costs, were \$1,586.6 million (2020: \$1,378.4 million). This aggregate expense position was driven by a \$147.9 million uplift in benefit fund expenses. Expenses of operating businesses increased by 4.6 percent, or \$60.3 million, with higher client care costs (up \$19.6 million) and employee expenses (up \$27.6 million), while net health insurance claims were \$24.3 million lower.

The overall outcome represents a significant improvement in the aggregate trading position, with operating earnings for the year of \$52.1 million—an increase of \$21.8 million on the prior year.

As noted in the interim report at 31 December 2020, during the year the Group undertook a detailed review of the Home Care Services business within the IAL platform following the effective finalisation of outcomes from the remuneration review reported previously and regulatory changes relating to the timing of funding for Home Care Package (HCP) clients.

In a review of the Group's remuneration operations, payroll errors impacting employees in our IAL platform were identified and voluntarily reported to the Fair Work Ombudsman (FWO) during the year.

Operating and financial review *continued*

The errors resulted in both underpayments and overpayments to some of our employees. We are continuing to update and engage with our employees, unions and the FWO, including responding to requests for information. We have completed a substantial proportion of the remediation work, with payments made for current and former employees of \$5.7 million. A further \$2.4 million has been provisioned for remaining remediation costs, which represents our best estimate of remaining remediation costs at the time of writing this report. We have not sought to recover overpayments. While this extensive and highly complex review is nearing completion, efforts to finalise the remediation work, including to contact former employees, are continuing. As the review has involved reconciliation of a substantial volume of data and a high degree of complexity, the final outcome of the review may be subject to future adjustment. Separately, and as also noted in the Group's interim report at 31 December 2020, a review of historical superannuation guarantee contributions for all employees was undertaken, resulting in additional superannuation payments, including interest, of \$3.9 million during the year. Significant improvements and upgrades have been made to the Group's payroll systems and processes, with further enhancements planned, to reduce the risk of these errors reoccurring.

A review of HCP accounting processes in our IAL platform identified reconciliation errors impacting revenue in prior financial years. The HCP review was undertaken in the context of changes made by the Commonwealth Government to the HCP funding model, which in February 2021 adjusted funding from payments in advance to payments in arrears. The errors identified did not impact customers; specifically no funds are owed to any and none has been underserved.

The net aggregate impact of these reviews was determined to be sufficient to require a restatement of prior period results, thus providing more meaningful comparability between the years. The adjustments are set out in the financial statements and are detailed at note 21(c). Comparative information in this Operating and financial review has been restated accordingly.

Despite the ongoing impact of COVID-19 and the consequential pressures on its individual businesses, the Group remains positive about its capacity to respond to these challenges and to continue to build on the considerable opportunities arising from an external environment of uncertainty and market disruption. In the context of this market volatility, the Group will persist in maintaining 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 2021 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 material non-recurring expenditure. A reconciliation between adjusted EBITDA and profit before income tax from continuing operations is set out in note 1 to the consolidated financial statements.

Independent & Assisted Living (IAL)

The IAL platform operates retirement communities and provides home care, aged care, retirement living, disability and allied health services. The platform offers preventative health and chronic disease management services through a wholly owned subsidiary, Remedy Healthcare, and direct healthcare services through dental clinics. 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 2021	Full year to 30 June 2020	Variance
	\$million	\$million	
Total segment revenue	\$520.6	\$484.6	7.4%
Operating expenses	\$449.5	\$427.2	(5.2%)
Adjusted EBITDA	\$71.1	\$57.4	23.9%

The IAL platform recorded total segment revenue of \$520.6 million for the year, representing an increase of 7.4 percent compared to the prior corresponding period (30 June 2020: \$484.6 million). This positive result was despite significant disruption across the IAL business during the period as a result of the continuing COVID-19 pandemic.

Home Care Services experienced a 4.3 percent increase in revenue to \$322.0 million, Residential Communities increased 9.2 percent to \$133.0 million, Health Services increased 32.2 percent to \$50.0m, while Developments decreased 4.6 percent to \$15.5 million.

IAL's adjusted EBITDA of \$71.1 million represented an increase of 23.9 percent and \$13.7 million on the prior corresponding period.

Home Care Services (HCS)

HCS delivered an EBITDA of \$29.4 million—a gain of \$10.7 million on the prior year. This was achieved through cost savings in a number of areas, notably salary and wages expense through improvements in safety performance, injury management and care worker utilisation, and reduced costs in travel and entertainment, driven by government-imposed travel restrictions as a result of the pandemic.

Almost three million hours of care were delivered to more than 38,000 customers by 3,021 care workers.

HCS saw a 26.5 percent increase in its home care packages (HCP) customer base and a 32.0 percent increase in additional service hours provided. Total HCPs under management reached 8,824 at 30 June 2021; an increase of 1,850 package clients on the prior year.

The business secured government funding for meal delivery and COVID-19 emergency response, which partially offset the additional operational costs imposed by the COVID-19 operating environment, particularly those relating to PPE.

Within HCS, the Aboriginal Home Care business delivered approximately 240,000 hours of care to more than 2,400 clients by 196 care workers. There were 747 HCPs under management, which was an increase of 159 packages in the year to 30 June 2021. Australian Unity's Indigenous Services business, which includes Aboriginal Home Care, is one of the largest employers of Aboriginal and Torres Strait Islander peoples in the aged and disability care sectors in Australia.

Residential Communities

Residential Communities owned and operated 21 retirement communities across Victoria and New South Wales (NSW), comprising 2,496 independent living units (ILUs) (June 2020: 2,496).

The resurgent property market, particularly in NSW, resulted in sales growth of more than seven percent on the prior year.

Occupancy levels across the portfolio's mature retirement villages remained high at over 94 percent in the year under review.

Residential Communities owned and operated seven aged care facilities in Victoria and NSW, incorporating 786 aged care beds (June 2020: 786). The mature aged care portfolio continued to achieve top-quartile occupancy at above 95 percent for the year to 30 June 2021 despite the challenges of the pandemic.

Notwithstanding the material threats arising from community transmission of COVID-19, particularly in Victorian aged care facilities, Residential Communities successfully restricted and contained any outbreaks in its facilities during the year under review, and remains highly vigilant with the rapidly changing impacts from COVID-19 across the sector. Australian Unity's signature built-form environment—based on a small household model with consistent rostering of the same staff and strong clinical governance—was a key contributor to infection prevention and control.

In the year under review, the Royal Commission into Aged Care Quality and Safety report was released, including 148 recommendations of which 126 were accepted by the Federal government. The Group welcomed the report and, in particular, the references to the *National Aged Care Design Principles* which embody 'small household' models. Australian Unity is uniquely positioned to deliver this model, which we call Better Together®.

On 7 July 2021, IAL acquired the Greengate retirement and aged care business, with its three established co-located communities in Sydney (Kogarah and Maroubra) and Brisbane (Woolloongabba) and a prime development site in Brisbane (Auchenflower) that has approval for a vertical retirement village and residential aged care precinct.

With the purchase of Greengate, Australian Unity now owns and operates 10 co-located retirement villages and residential aged care precincts and 14 retirement villages across NSW, Victoria and Queensland, comprising 2,749 ILUs and 1,011 aged care beds.

The acquisition is part of IAL's strategy of pursuing accelerated growth opportunities in healthy ageing precincts and the business will continue to look for further growth opportunities.

Remedy Healthcare

Remedy Healthcare increased revenue by 44.2 percent to \$41.0 million, driven predominantly by Allied Health Services (2020: \$28.4 million). More than 410,000 episodes of care were delivered across 14 treatment programs, and over 34,000 hours of allied services were delivered to NSW HCP clients of Australian Unity.

Despite the ongoing challenges presented by the pandemic during the year under review, Remedy Healthcare delivered more than 6,900 'hospital substitution' programs, which was an increase of 53.1 percent on the prior corresponding period.

The year in review saw the first full year of operation of the Ramsay Connect joint venture with Ramsay Healthcare. Despite establishing Ramsay Connect during the pandemic in March 2020, the joint venture earned revenue for the year in excess of \$5.0 million and enrolled more than 2,200 patients into community care hospital substitution and rehabilitation programs.

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 impacted by government restrictions associated with COVID-19, which saw patient visits decline by 8.3 percent from 44,915 in the prior year to 41,187 during the year under review.

Development pipeline

The business continued to progress its development pipeline including the redevelopment of the 120 bed Walmsley Residential Aged Care Facility in Kilsyth, Victoria, and a vertically integrated residential aged care and assisted living development in South Melbourne, Victoria, comprising 84 aged care beds and 71 assisted living apartments, both of which are programmed to be completed mid-late 2022.

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.

HCS expects to continue its strong results through continued growth in HCPs, increased service hours per customer, safety management and ongoing cost savings initiatives as well as growth in its frontline workforce to meet ongoing increases in customer demand. The continued lengthy closure of international borders will negatively impact the opportunity to secure workforce in critical areas of the business.

The COVID-19 pandemic is expected to continue to present significant ongoing challenges and disruption throughout the next financial year. Notwithstanding, the business is well positioned and has proven its ability to continue to deliver essential services to its customers and keep them safe.

Retail

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

Financial performance – Retail

	Full year to 30 June 2021	Full year to 30 June 2020	Variance
	\$million	\$million	
Total segment revenue	\$704.6	\$709.5	(0.7%)
Operating expenses	\$622.8	\$648.3	3.9%
Adjusted EBITDA	\$81.8	\$61.2	33.6%

Despite the significant challenges and disruption presented by the COVID-19 pandemic, the Retail platform delivered a strong financial result with adjusted EBITDA of \$81.8 million—33.6 percent higher than the prior year.

Revenue was lower than the prior corresponding period, driven by a decrease in the average number of health insurance policyholders, lower bank interest income due to lower interest rates and the impact of COVID-19 hardship measures introduced to support members, including postponement of the April 2020 premium increase to October 2020. The Group also delivered its lowest premium rate increase in 20 years in the health insurance business of 1.99 percent, which was 0.75 percentage points lower than the reported sector average increase.

Operating and financial review *continued*

Total operating expenses were \$622.8 million—\$25.5 million or 3.9 percent lower than the prior year. This decrease reflected a \$24.3 million decrease in health insurance claims net of risk equalisation, a \$3.1 million decrease in the banking Expected Credit Loss provision on loans and a \$1.9 million increase in other operating expenses across the Retail platform.

Estimation of the level of catch-up and deferral of procedures and benefits due to the pandemic required significant actuarial judgement, including the impact of differing restrictions imposed by Victorian and non-Victorian state governments on elective surgery and ancillary services, which resulted in the deferred claims liability increasing from \$37.6 million at 30 June 2020 to \$51.3 million at 30 June 2021.

Australian Unity Health Limited (private health insurance)

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

The number of private health insurance (PHI) policyholders increased by 1.7 percent over the year to 174,827 at 30 June 2021. PHI policy sales were up 35.8 percent and attrition down 21.1 percent compared to the prior year. Overseas visitor cover was impacted by border closures, with policyholders decreasing 33.6 percent over the year to 3,088 at 30 June 2021.

During December 2020, the Minister for Health approved Australian Unity Health Limited's (AUHL) 2021 Premium Round submission with an average increase of 1.99 percent. This was below the announced sector average of 2.74 percent, the sixth lowest of all 35 health funds, and the lowest average AUHL increase in 20 years.

In recognition of the impact of the pandemic on the Australian community, COVID-19 hardship measures for Australian Unity policyholders were extended through to 31 December 2020. This included the six-month deferral of the 2020 premium increase, extending policy suspensions, premium relief for those on government Job Keeper and Job Seeker payments, covering COVID-19 admissions regardless of product type and recognition of telehealth consultations as a feature of extras claiming—now a permanent feature for Australian Unity members. As at 30 June 2021, approximately \$18 million of COVID-19 support measures have been provided to Australian Unity members. In line with claims savings due to the impact of the pandemic, further premium relief of approximately \$6 million will be delivered in the 2022 financial year.

Australian Unity Bank Limited

As at 30 June 2021, Australian Unity Bank had approximately 26,000 customers, with its total assets growing by \$16.9 million to \$1,150.8 million (2020: \$1,133.9 million) during the year under review. The Expected Credit Loss provision on loans was \$13.3 million (30 June 2020: \$16.4 million).

Strong lending growth in the prior year enabled the banking business to offset the impact of lower interest rates on banking revenue. The banking business's average loan book of \$915.9 million was \$67.7 million, or 8.0 percent, above the previous year.

Australian Unity Bank continued to focus on delivering quality products and services, with an emphasis on digital delivery. Despite significant challenges and disruption presented by the pandemic, the Gross Loan Portfolio decreased only marginally by \$9.6 million to \$918.7 million (2020: \$928.1 million).

During the year, Australian Unity Bank implemented the Kookaburra Securitisation Program – a self-securitisation structure acting as a contingent liquidity support capability for the bank with 94 percent of notes rated as 'AAA' and providing further access to the RBA's Term Funding Facility.

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

Outlook

The outlook for the Retail platform is cautiously positive, notwithstanding the known impacts and ongoing uncertainties flowing from COVID-19 on healthcare and the economy. It is anticipated that health insurance claims deferred voluntarily or due to effects of restrictions on healthcare services during the pandemic will catch up, with the nature of claims potentially also changing. A number of federal government initiatives in private health insurance have recently been proposed, with a view that over time these will improve affordability and participation. Australian Unity's health insurance business is well placed to leverage reforms and continue to build upon the growth achieved in the 2021 financial year.

Likewise, Australian Unity Bank is well positioned to progress its 'banking that's good for you' strategy—a program of work that identifies the benefits to the customer beyond the product itself. The securitisation program introduced in the year under review is intended to allow the bank to pursue its strategic growth agenda and continue to grow at above sector rates.

The Retail platform has established a solid foundation for the delivery of customer growth and member value. With national issues such as trust and affordability concerning the community, there are several opportunities arising from the health insurance and banking adjacencies. The extension of the banking business's funding sources through securitisation expansion of its distribution footprint and strengthened general insurance offering together with an improved health insurance customer value proposition are all key elements to Retail's business development strategy. This includes packages of banking and insurance products; innovative solutions to tackling health and housing affordability; and customer-centred digital platforms that assist the coordination of essential financial and health insurance related services.

Wealth & Capital Markets (W&CM)

The W&CM platform comprises the investments, property, life & super, advice and trustee services business units.

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

W&CM's expertise in property, across established assets such as healthcare and aged care and increasingly through capabilities in childcare, purpose-built student accommodation and specialist disability accommodation, combined with its ability to raise funds from a wide array of sources within debt and equity markets, means it is well placed to take 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, along with market-leading products in investment bonds, funeral bonds and education savings plans, that provide access to contemporary, responsible, sustainable investment and savings options for all Australians. In addition, the business works with advisers and industry partners to provide professional advice and trustee services that, together, seek to provide the right services at the right time in the right way to support the financial and overall wellbeing of our customers.

Financial performance – Wealth & Capital Markets

	Full year to 30 June 2021 \$million	Full year to 30 June 2020 \$million	Variance
Total segment revenue	\$221.1	\$170.5	29.7%
Operating expenses	\$193.8	\$137.7	(40.8%)
Adjusted EBITDA	\$27.3	\$32.8	(16.8%)

The W&CM platform manages investments, property assets and developments (and associated debt facilities), and provides advice and trustee services. At a platform level, the aggregate value of assets under management and administration (AUMA), excluding cross-investments (investments by Australian Unity funds in other funds managed or operated by Australian Unity or our associates), was \$27.89 billion as at 30 June 2021 (2020: \$22.94 billion). The platform recorded a 29.7 percent increase in total segment revenue compared to the previous year, reflecting the ongoing impact of the global pandemic in suppressing growth across most business lines, offset by a positive performance in the Property business.

Investments

The Investments business, including its boutique funds management partners, is responsible for the stewardship of \$10.46 billion in funds under management and advice (FUMA) as at 30 June 2021 on behalf of its customers (2020: \$8.22 billion). The business experienced positive net flows from retail, middle and institutional markets and strong investment performance across key product areas during the year.

During the year, the Future of Healthcare Fund was launched with the aim of delivering long term capital growth by investing to support the future healthcare needs of Australians, well-aligned to the Group's Community & Social Value framework.

Support for the Green Bond Fund also continued to grow in its first full year, with funds under management reaching \$178.0 million as at 30 June 2021. Managed by Altius Asset Management, the Investments business' cash and fixed interest team, the Green Bond Fund is the first of its kind and invests in green, sustainable and social bonds with a primary aim of targeting investments that will contribute to lower carbon emissions.

Australian Unity's joint venture partners' achievements include Acorn Capital's significant growth in funds under management to \$470.0 million (2020: \$251.4 million), its launch of the NextGen Resources Fund and growth of the Micro Opportunities Fund. Platypus Asset Management's funds under management and advice grew to \$5.27 billion (2020: \$3.74 billion) over the year, benefitting from continued support from retail and institutional flows as well as strong investment performance.

The platform's strong governance arrangements and investment capabilities were furthered, in particular, through the appointment of a standalone Chief Investment Officer (separate to the role of the Chief Executive Officer, W&CM), building capability around Environmental, Social and Governance (ESG) and sustainable investment and recognition of our products through inclusion in key model portfolios.

The Investments team also manages the Group's \$937.0 million investment portfolio (2020: \$811.7 million), including its capital stable and highly liquid insurance reserves. In the year to 30 June 2021, the portfolio's weighted average investment return was 1.8 percent, reflecting resilient performance across a diverse array of investment activities.

Property

The Property business delivered a strong result, with assets under management increasing to \$4.10 billion as at 30 June 2021 (2020: \$3.52 billion). Its multi-year development pipeline stood at \$1.25 billion (2020: \$1.29 billion), with lending and debt facilities on behalf of investors (through property funds and its commercial lending activities) of \$1.57 billion (2020: \$1.37 billion).

The landmark \$1.1 billion Herston Quarter health precinct in Brisbane continued to progress, with the Healthcare Property Trust (HPT) achieving a major milestone of practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) public hospital in November 2020. Significant progress was also made on the wider precinct works, including the public realm assets adjacent to STARS and the restoration of the key heritage buildings and surrounds.

HPT increased its assets under management to \$2.64 billion as at 30 June 2021 (2020: \$2.20 billion) and posted a total return of 28.1 percent (wholesale units) for the year to 30 June 2021.

In February 2021, a NorthWest/GIC consortium commenced a process to seek to acquire all the units in HPT, resulting in four unsolicited offers being made between March to June 2021 and ultimately, NorthWest/GIC convening a member meeting to consider and vote on resolutions proposed by NorthWest/GIC which, if approved by members, would result in NorthWest/GIC's acquisition of 100 percent of the units on issue in HPT. Australian Unity Funds Management Limited (AUFM), as responsible entity for HPT, recommended that each offer be rejected on the basis they materially undervalued the fund's portfolio of assets. During this period, HPT also raised \$320.0 million in equity to fund its development pipeline, including a rights issue to investors and a placement to Dexus and Australian Unity. Australian Unity also announced a Premium Cash Offer to provide liquidity for investors seeking an exit from the fund. In mid-July 2021, following a hearing in the Supreme Court of New South Wales to determine certain matters about which AUFM had sought judicial advice, NorthWest formed the view there was insufficient unitholder support for its proposal to be successful and withdrew the proposal and cancelled the meeting of HPT members.

The Group's presence in social infrastructure continued to grow and broaden. The Specialist Disability Accommodation Fund settled 31 dwellings and has a further eight parcels of land expected to be developed, with a combined value of completed and dwellings committed or under construction totalling \$118.1 million. A Childcare Property Fund has also been established, with an initial capital raise planned for early in the 2022 financial year.

The Diversified Property Fund (DPF) had a very strong year, delivering investors a total return of 19.6 percent for the year to 30 June 2021. This was the culmination of the acquisition of a property in Osborne, South Australia (leased to Australian Naval Infrastructure), acquisition of the Williamstown Aerospace Centre in Newcastle, NSW and divestment of the Richlands, Queensland asset for approximately 37 percent above book value.

Total equity flows for the Select Income Fund (SIF) exceeded \$100 million in the year to 30 June 2021—the first time this has occurred since the fund was acquired by Australian Unity in the midst of the global financial crisis. Over the year, 276 new dwellings were delivered, with the total value of the lending portfolio sitting at \$293.9 million as at 30 June 2021 (2020: \$254.7 million).

The Property business continued to work closely with the Group's IAL platform during the year, with construction commencing on new co-located residential aged care facilities in South Melbourne and Kilsyth, Victoria. Refer to the IAL section of this report for further information on these development activities.

Operating and financial review *continued*

Life & Super

The Life & Super business continued as Australia's largest investment, education and funeral bonds provider, with \$2.51 billion in funds under management and administration as at 30 June 2021 (2020: \$2.27 billion).

During the year to 30 June 2021, sales across Life & Super products reached \$207.4 million (2020: \$217.5 million) — a significant outcome given the prolonged low interest rate environment and the challenging economic conditions presented by the COVID-19 pandemic.

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

The business maintained its growth in the direct-to-consumer market, with the 10Invest Investment Bond (10Invest) helping more than 3,200 Australians invest in their long-term future since its launch. Following the success of 10Invest, Life & Super launched the co-branded Platinum Investment Bond with Platinum Asset Management in March 2021. Initial support for this product has been positive.

Australian Unity also retained its leading position in the pre-paid funeral market via its specialised business, Funeral Plan Management, with funeral funds under management of \$714.2 million (2020: \$736.2 million) across more than 90,000 clients.

Advice

The growth aspirations of the Advice business continued to experience significant impacts from the pandemic, with limited and interrupted opportunities to meet with prospective and new clients in a face-to-face settings.

During the period, 44 new advisers joined Australian Unity, with the overall number of advisers decreasing slightly to 171 as at 30 June 2021 (2020: 176). The business continues to focus on ensuring the right quality and cultural fit of its adviser cohort, particularly in light of ongoing regulatory changes and consumer expectations. Funds under advice grew over the year in review to \$9.36 billion as at 30 June 2021 (2020: \$7.14 billion), and personal life insurance premiums in-force increased to \$74.6 million (2020: \$69.0 million). Revenue increased 8.4 percent to \$65.4 million for the full year (2020: \$60.4 million). In addition, separately managed investment accounts (SMA) constructed and managed by the Advice business grew in funds under management to \$716.5 million as at 30 June 2021 (2020: \$391.8 million).

Trustees

The growth of the Trustees business was particularly impacted by a slow-down in the operation of courts, tribunals and referral partners as a result of the pandemic and a lowering of death rates nationally, which reduced demand for estate administration services. However, an established pipeline of estates, trusts and protected persons opportunities enabled continued inflows of new clients and associated revenue and there was a notable uplift in this pipeline in the second half of the year, as face-to-face business development activities and referral partner operations regained momentum.

Funds under management grew by 6.5 percent in the year to 30 June 2021. In addition, the Trustees business continued to increase the size of its will bank nationally, with a healthy percentage of executor, trustee and enduring power of attorney appointments in estate plans written, enhancing its latent value.

Outlook

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

The platform offers a broad yet customer-focused range of services, and a material and growing presence in the funding, development and management of Australia's social infrastructure. The period ahead should continue to provide opportunities for the platform to offer customers valuable investment opportunities, and to deliver increased community and social value. The expansion of funding to the childcare property sector is an example of the value that Australian Unity can bring to supporting Australian families. In addition, opportunities are being actively pursued to further the Group's ambitions in becoming a significant force in health and wellbeing precincts, building on the experience at Herston Quarter.

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

Matters subsequent to the end of the financial year

Greengate acquisition

On 7 July 2021, the Group acquired the aged care and retirement living owner-operator Greengate Partnership Pty Ltd (Greengate) for \$95 million. The acquisition includes three recently-built and fully operational vertical co-located retirement village and residential aged care precincts (two in Sydney and one in Brisbane) as well as a prime development site in Brisbane that has approval for a vertical retirement village and residential aged care precinct. The three operational sites have added 253 independent living units and 225 residential aged care beds to the Group's Independent and Assisted Living portfolio. The acquisition is part of the Group's strategy of pursuing accelerated growth opportunities in healthy ageing precincts. It has added presence in favourable geographic locations and increased economic scale.

The financial statements of Greengate for the year ended 30 June 2021 are currently in the process of completion and audit. Cash flows in relation to the business acquisition consist of payments for the acquisition price of \$95,000,000 and costs directly related to the acquisition of \$1,325,000, less cash acquired of \$29,145,000. The acquisition-related costs were expensed in the 2020 and 2021 financial years, amounting to \$965,000 and \$360,000 respectively. Except for the respective acquisition-related costs and a deposit of \$4.75 million for the acquisition, the financial effect of the Greengate acquisition has not been brought to account in the financial statements for the 2021 financial year. This will be recognised in subsequent financial reports.

Premium relief to private health insurance policyholders

On 6 September 2021, the board of Australian Unity Health Limited approved additional COVID-19 support for private health insurance (PHI) policyholders through premium relief. In line with claims savings due to the impact of the COVID-19 pandemic, further premium relief of approximately \$6 million will be delivered in the 2022 financial year.

MCI dividend

On 7 September 2021, the board has determined an interim fully franked dividend of \$2.5068 per Australian Unity Mutual Capital Instrument (MCI) to be paid on 15 October 2021.

The financial effects of the above board resolutions in relation to PHI premium relief and the MCI dividend have not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 30 June 2021 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 22 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.

The Group's current key material risks and how they are managed are summarised below.

(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 cash flow 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, aged care or in home care services, including changes to government policy, laws, regulations, regulatory expectations, economic activity and the demand for our products and services could impact the Group's financial performance.	We manage this risk by seeking opportunities to grow businesses within our portfolio that diversify our revenue and cash flow. We participate in private health sector advocacy for policies that sustain the sector. We actively manage costs against revenue expectations.
Strategic and operational disruption due to the COVID-19 pandemic	We face a variety of risks as a result of the COVID-19 pandemic, ranging 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. Execution of strategy is closely monitored by our board, committees, executives and senior management. 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

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

The directors of the Company are responsible for setting and monitoring the Group's risk management framework which represents the totality of systems, structures, policies, processes and people that identify, assess, mitigate and monitor internal and external sources of risk that could have a material impact on the Group's operations. The directors are also responsible for setting the risk appetite within which management is 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 these 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 its 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.

Australian Unity supports 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 risk management framework and associated risk culture are continually reviewed, both internally and externally, to improve and evolve its coverage, relevance and efficiency. This includes ongoing reviews of our existing risks, scanning the horizon for new and emerging risks and seeking to improve the way in which our risks are managed.

Climate risk is an example of an emerging risk we track and monitor. We perform regular analysis on our level of climate risk and have assessed it as not currently material for the Group overall, but likely to continue to increase over time. We are committed to performing regular and ongoing analysis, including scenario modelling, to understand, quantify and mitigate its impacts over multiple time horizons.

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 markets 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 may result in loss of customers	We operate in a competitive environment and it is becoming easier for customers to move to our competitors. If we are unable to deliver effective and efficient services or 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.
Customer mistreatment or injury	We provide high trust services such as health and aged care services in the community and operate in highly regulated industries. An event such as customer mistreatment or injury could result in sanctions from relevant regulators, reduced government funding, reputational damage and remediation costs.	We manage this risk by designing and maintaining ethically safe, high quality products and services for all of our customers and communities. We have frameworks, policies and procedures in place to prevent, monitor and manage the risk of harm.
Private Health Insurance viability risks	There are inherent risks associated with operating a private health insurance business, such as rising medical costs, adverse selection, having an application for a change in premium rates rejected and mispricing premiums or under-estimating claims. The government encourages participation by the public in private health insurance through a number of incentives. Adverse changes to the level of these incentives would likely lead to a reduction in membership. The value proposition of Australian Unity's private health insurance business depends on the agreements it enters into with private hospitals and other relevant healthcare providers. Failure to have satisfactory agreements in place may impact the attractiveness of private health insurance products offered and may adversely affect our operating and financial performance.	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.
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 and safety issues and any change in the market conditions.	We manage these risks by conducting a detailed site analysis for prospective development sites; conducting due diligence for property developments which includes a competitor and amenity analysis; conducting a competitive process when appointing contractors; working with specialist teams to engage contractors; and managing projects and engaging regularly with contractors to ensure that projects are being delivered in accordance with the required specifications and timetables, in a manner that minimises health and safety issues.
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 internal and external assessment 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 guides all employees; having a Whistleblower Policy to support and protect employees to raise concerns; monitoring and analysing customer complaints and operational incidents; and establishing compliance monitoring and consequence management frameworks and ongoing employee training programs.

(iv) Information and system risks

Risk that technology does not enable appropriately or that 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 inefficiencies, errors and 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. The Group has invested in its payroll and data analytic systems to continue to manage this risk.

(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 cash flow 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	Australian Unity is a mutual entity limited by shares and guarantee. We have no ordinary shares on offer and are unable to issue ordinary shares to raise new capital other than following Non Shareholder Member approval in accordance with the Demutualisation provisions in the Constitution. We rely on external debt markets for a portion of our funding and can raise equity via the issuance of Mutual Capital Instruments. A change in the economic environment could result in reduced access to capital, difficulty in raising equity or increased costs of funding. This could negatively affect our capital position and our ability to fund business initiatives.	We manage this risk by Group Treasury closely monitoring funding of available plans, incorporating appropriate capital buffer settings to manage losses and cash flow constraints. We maintain ongoing access to capital through external debt markets and have policies and plans in place to monitor and review our capital and liquidity position.
Liquidity demands	There is a risk that liquidity and funding plans fail to operate effectively, or there may be factors outside Australian Unity's control which could adversely affect these plans. Australian Unity Group's investments may not be readily converted to cash, or that levels of liquidity may not be sufficient to respond to a specific demand. In particular, an event that leads to the refund of a large proportion of refundable accommodation deposits across the Australian Unity Group's aged care facilities may place significant demands on Australian Unity's liquidity and funding position.	We manage this risk via liquidity and funding plans which are designed to ensure that the Group's entities are able to meet their debts and other obligations as and when they fall due.
Investments may not yield returns as expected	Investments in new business ventures, projects or other investment vehicles may generate inherently uncertain returns and may not achieve the expected return on capital due to the performance of the underlying businesses, their operational and financial circumstances, profits, earnings and cash flows and general economic impacts, market conditions and government policy risks.	We manage this risk by due diligence and thorough analysis of investment cases. This involves a consideration of a range of factors including financial viability, strategic alignment and member and community interests.
Increases in operational costs and capital investment requirements	We may be exposed to increases in operational costs, capital investment requirements, changes to funding models and increased regulation, particularly in the social infrastructure and disability service sectors.	We manage this risk via ongoing budgeting and forecasting to maintain control of costs and investment. We engage in active leadership and lobbying in respect of regulatory impacts to funding models within the sectors we operate.
Occupancy levels in residential aged care	There is no guarantee 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. These circumstances could adversely impact the Group's financial performance.	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.

Key business risks *continued*

(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. We also hold securities and deposits with a number of other institutions. If Australian economic conditions were to worsen, a proportion of our customers and counterparties 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 hazards and risks that could lead to a workplace injury or illness	We have a large workforce across the Group that could be exposed to risks or hazards, which might lead to a workplace injury or illness. Given the variability of our workforce, business activities, locations, conditions and types of care delivered, key risks and hazards include manual tasks, ergonomics, slips, trips, falls, driving, mental health and occupational violence.	We proactively promote a safe and inclusive workplace with the aim to prevent harm and manage workplace safety and employee wellbeing through supporting frameworks, policies, procedures and tools. We have plans, instructions, supervision, training and awareness. We work towards eliminating hazards, managing and investigating incidents and fostering sustainable return to work outcomes for any ill or injured employee.
Inability to attract and retain a skilled and experienced workforce	We are reliant on our valued employees and the skills and experience they possess to effectively service our members and customers. If we can't access appropriately skilled people or effectively retain our current employees, we may experience workforce constraints that adversely impact our business and financial performance.	We manage the employee retention risk by providing a strong corporate culture and employee value proposition. We offer a supportive and fulfilling work environment and we listen and respond to employee experience and feedback. We have programs and initiatives in place to support talent acquisition and retention, including employee wellbeing and safety, reward and recognition, performance management, learning and development and competitive 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 regulation and supervision could adversely affect our business activities. This could require changes to our business model, products or services and incurrence of significant costs to implement change and the potential for fines and reputational damage 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 Limited, 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 includes a diverse career in financial services in Australia and New Zealand. He has led investment, superannuation, actuarial and human resource consulting businesses in both executive and non-executive capacities with a personal focus on clients, diversity and governance.

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 Pty Ltd, Private Healthcare Australia Limited, the Business Council of Co-Operatives and Mutuals Limited (BCCM) and the Centre for Independent Studies. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996-2003) in a range of senior roles.

LISA CHUNG 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, a director of AVJennings Limited, Warren and Mahoney Limited and Artspace/Visual Arts Centre Limited and a Trustee of the Art Gallery of NSW Foundation. Prior to this, Ms Chung was a partner specialising in commercial property and infrastructure at Maddocks Lawyers and at Blake Dawson (now Ashurst) where she also held various senior management roles and was an elected member of the firm's board. Ms Chung completed the Advanced Management Program at INSEAD in France in 2004. She was previously the chairman of The Benevolent Society and Urbis and a nonexecutive director of APN Outdoor Limited. Ms Chung has not held any directorships of listed entities in addition to those set out above during the last three years.

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

Ms Cilento was appointed to the board of Australian Unity Limited on 1 May 2014. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Investment Committee and a member of the People, Culture & 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. She has previously been a Commissioner with the Productivity Commission, 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 of Australia, Ms Cilento was Head of Economics at Invesco Australia. Ms Cilento has also worked with the Federal Treasury and International Monetary Fund in Washington DC. She 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 a 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 Investment Advisory Committee of Monash University. Mr Kirk 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. He 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 Energy Renaissance. Ms McCluskey is a Commissioner for the Australian Commission for International Agricultural Research and a member of the Australian Live Exporters' Council Conduct Committee. She was a member of the Charities Review, the Harper Review of Competition Policy, the Regional Telecommunications Review and a Commissioner for the National COVID-19 Commission Advisory Board. Ms McCluskey was previously the Chief Executive Officer of the Regional Australia Institute and the Executive Director of the Office of Best Practice Regulation. She 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.

Information on directors *continued*

JULIEN PLAYOUST, BSc (Arch), BArch (Hons), MBA, FAICD

Mr Playoust was appointed to the board of Australian Unity Limited on 1 February 2020. He has more than 25 years' experience as a director in public and private companies, including ASX-100, SME and for-purpose organisations. He is passionate about sustainable business models for economic and social good and the arts, and is a proponent of design thinking, diversity and cross-disciplinary skills. Mr Playoust 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 funding and portfolio management. He is currently Managing Director of AEH Group; Deputy Chairman of the Art Gallery of NSW Foundation and Chairman of the Financial Committee; Member of the Advisory Board and Chairman of the Investment Committee of The Nature Conservancy; and member of the Alumni Leaders Group of the UNSW Business School. Past appointments include: Non-Executive Director of ASX-listed Tatts Group Limited, MCM Entertainment Group Limited and Australian Renewable Fuels Limited; Director of TimeOut Group Australia and Ventura Health; and Member of the UNSW Art & Advisory Board and the National Gallery of Australia Foundation Board. He has worked with AMP, NAB and Accenture. Mr Playoust is a Fellow of the Australian Institute of Company Directors. He holds a Master of Business Administration (AGSM) from UNSW, Bachelor of Architecture (First Class Honours) and Bachelor of Science from Sydney University, and Company Director Course Diploma from the Australian Institute of Company Directors.

GREGORY WILLCOCK, BCom, FCPA, FAICD, 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 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National 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) and was a director and chairman of Big Sky Credit Union.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2021, 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	26	26	5	5	6	6	3	4	4	4
Rohan Mead	26	26	5	5	6	6	4	4	4	4
Lisa Chung	24	26	5	5	6	6	4	4	4	4
Melinda Cilento	25	26	-	-	6	6	4	4	4	4
Paul Kirk	26	26	5	5	-	-	-	-	4	4
Su McCluskey	26	26	5	5	6	6	4	4	4	4
Julien Playoust	26	26	5	5	6	6	-	-	-	-
Gregory Willcock	26	26	5	5	6	6	-	-	-	-

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.

Company secretaries

MELINDA HONIG, BEc, LLB, GAICD, Group Executive, Governance

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

CATHERINE VISENTIN, GIA (Affiliated), 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.

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 33 to 40. 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 32.

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

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

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

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

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

	2021 \$	2020 \$
PricewaterhouseCoopers Australia		
Audit of regulatory returns	372,571	393,379
Tax compliance services	18,948	168,597
Tax consulting services	96,375	50,000
Other services	330,555	224,690
Total remuneration for non-audit services	818,449	836,666

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 32.

Rounding of amounts

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

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



Peter Promnitz
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
7 September 2021

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Limited for the year ended 30 June 2021, 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.

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is written over a light blue horizontal line.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
7 September 2021

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

Liability limited by a scheme approved under Professional Standards Legislation.

Remuneration report

This Remuneration report relates to the Company's performance for the year ending 30 June 2021 including all incentives payable in respect of that performance. The report is structured as follows:

- Key Management Personnel (KMP)
- Remuneration Policy
- The Remuneration Framework and Link to Performance
- Senior Executive Compensation
- Non-executive Director remuneration
- Remuneration tables
- Use of Remuneration Consultants

Dear Member

On behalf of the board, I am pleased to present Australian Unity's Remuneration report for the year ended 30 June 2021.

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. We are fortunate to have high quality people working in and managing each of our businesses. This is critical to the ongoing success of Australian Unity and its ability to deliver high quality products and services.

Financial year 2021 (FY21) was a year that continued to challenge our operations as we navigated the ongoing uncertainty, disruption and impacts of the COVID-19 global pandemic. We observed extraordinary efforts right across our business to protect the safety and wellbeing of our customers, members and employees.

Despite the turbulent external environment, we continued to advance our business strategies, maintaining strong underlying business performance, developing new ways of working including digital and remote working capabilities, and strengthening our balance sheet resilience. Our people have demonstrated tremendous personal resilience and teamwork and have cared for each other and for our customers and members admirably during these difficult times.

Last year, the board elected not to award variable compensation to employees to safeguard Australian Unity's long-term financial soundness and in view of the continued uncertainty caused by the COVID-19 pandemic. Fees for Non-executive Directors were also reduced by 10% for the period 1 July 2020 to 31 December 2020, and, other than in relation to new appointments, senior executive compensation arrangements remained unchanged.

This Remuneration report sets out the remuneration information for Australian Unity Limited and the entities it controls (Australian Unity or Group) for the year ending 30 June 2021. It has been prepared and audited as required by the *Corporations Act 2001* (the Act). The report covers all Key Management Personnel of the Group.

Having regard to the significant improvement in our profit after tax performance this year and, when considering the tremendous efforts of our people over the past 12-18 months, the board has decided to acknowledge those efforts and the resulting outcomes by awarding variable compensation for FY21. This is in accordance with the principles set out in our established compensation framework, recognising both financial and non-financial outcomes and acknowledging the continued proactive management of strategic and operational risks. This decision signals the value we place on the contributions of our people and acknowledges the important role they collectively played in confronting the many and considerable challenges over the period.

Looking to FY22 and beyond

In an era of a dynamic and constantly changing employment market, we will continue to review and refine Australian Unity's compensation frameworks, including long-term variable compensation structures, to ensure we remain competitive. The successful launch of the mutual capital instrument (MCI) introduces a new potential opportunity to align the long-term value creation of the group with compensation settings for senior executives. These settings remain critical to our ability to attract and retain the very best people to steward the performance of the Group and realise our ambition to be Australia's most trusted wellbeing organisation.

I offer my sincere thanks to all our people for their untiring efforts and ongoing commitment over the past year.

Yours faithfully



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 2021.

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 2021 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

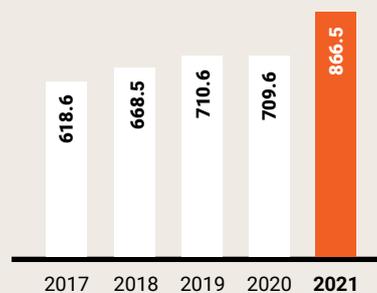
Non-executive Director	Position
Peter Promnitz	Chair
Greg Willcock	Non-executive Director
Julien Playoust	Non-executive Director
Lisa Chung	Non-executive Director
Melinda Cilentio	Non-executive Director
Paul Kirk	Non-executive Director
Su McCluskey	Non-executive Director
Current Key Management Personnel	Position
Rohan Mead	Group Managing Director & CEO
Kevin McCoy	CEO Independent & Assisted Living
Esther Kerr-Smith ¹	CEO Wealth & Capital Markets
Christine Yates ²	CEO Retail
Darren Mann ³	Group Executive - Finance & Strategy
Key Management Personnel who ceased employment during 2021	Position
David Bryant ⁴	CEO Wealth & Capital Markets
Matt Walsh ⁵	CEO Retail
Amanda Hagan ⁶	Group Executive - Customer, Digital & Technology

- 1 Esther Kerr-Smith commenced in the position of CEO Wealth & Capital Markets 13 July 2020. Prior to being appointed to this position Esther Kerr-Smith held the position of Group Executive - Finance & Strategy.
- 2 Chris Yates commenced employment in the position of CEO Retail 17 August 2020.
- 3 Darren Mann commenced in the position of Group Executive - Finance & Strategy 13 July 2020.
- 4 David Bryant resigned from employment at Australian Unity Limited 3 July 2020.
- 5 Matt Walsh resigned from employment at Australian Unity Limited 31 July 2020.
- 6 Amanda Hagan resigned from employment at Australian Unity Limited 27 November 2020.

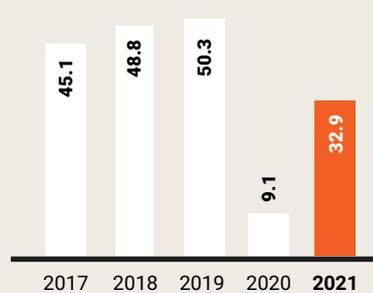
Table 2 – Five year Performance

The table below outlines Australian Unity's performance over the last five years against key metrics.

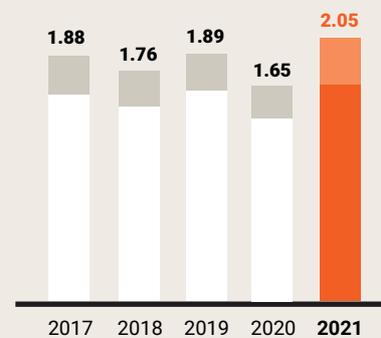
Members' funds (\$m)[‡]
\$866.5 million



Profit after income tax (\$m)
\$32.9 million



Revenues (\$b)^{†Σ}
\$2.05 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 insurance 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 Consolidated statement of comprehensive income.

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

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 where expected standards are not met at either a Group, platform, business unit or individual level.
- Establish goals and apply measures of performance that align with the Group's ambition, strategic direction and values.

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

The Remuneration Framework and Link to Performance

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.

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.

In conjunction with the Risk & Compliance Committee, consideration is given to risk and compliance matters including, but not limited to, conduct in accordance with our desired risk culture, 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 Compensation

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.

The performance of each senior executive is reviewed by the Group Managing Director in consultation with the board at the end of each year. In reviewing the performance of each senior executive, 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 variable compensation scheme for senior executives defers a portion of variable compensation aligned with the requirements of the Banking Executive Accountability Regime in Part IIAA Div 4 of the *Banking Act 1958* (Cth) (BEAR). 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, each Senior Executive's variable compensation is capped in any one year at one times their fixed compensation. If a senior executive is awarded variable compensation greater than one time their fixed 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 PC&R Committee, any other person or Committee, or on its own motion), may determine that variable compensation for a Senior Executive be:

- Reduced (including to zero) for the current year; or
- Reduced (including to zero) for prior year(s) deferred amounts (malus); or
- 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 ordinary shares on issue, and no director or executive has ordinary shares in Australian Unity.

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

Senior Executive Compensation *continued*

Table 3 – Overview of Senior Leader Variable Compensation Program

Individual 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: <ul style="list-style-type: none"> - 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 56.5 - 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 directors' fees for the year ended 30 June 2021 was \$1,345 million. During the period 1 July 2020 to 31 December 2020, the fees for Non-executive Directors were reduced by 10% to support safeguarding Australian Unity's long-term financial soundness given the uncertainty created by COVID-19.

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 2021

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

Name	Year	Fixed			Variable		Termination benefits \$	Total compensation \$	Variable proportion of the current year's total remuneration	Increase/ (decrease) in long service leave provision ³ \$
		Cash salary and fees ^{1,5} \$	Non-monetary benefits ^{1,4} \$	Superannuation contributions ² \$	Cash payable (Current year variable compensation) ¹ \$	Cash payable (Deferred variable compensation) ³ \$				
NON-EXECUTIVE DIRECTORS										
Peter Promnitz, Chair	2021	304,263	1,038	21,694	-	-	-	326,995	-	-
	2020	309,015	1,000	21,003	-	-	-	331,018	-	-
Lisa Chung	2021	149,053	-	14,139	-	-	-	163,192	-	-
	2020	150,685	-	14,315	-	-	-	165,000	-	-
Melinda Cilentio	2021	148,830	-	14,139	-	-	-	162,969	-	-
	2020	150,685	-	14,315	-	-	-	165,000	-	-
Paul Kirk	2021	183,783	-	17,459	-	-	-	201,242	-	-
	2020	186,073	-	17,677	-	-	-	203,750	-	-
Su McCluskey	2021	151,231	-	11,796	-	-	-	163,027	-	-
	2020	152,941	-	12,059	-	-	-	165,000	-	-
Julien Playoust (appointed 1 February 2020)	2021	149,313	-	14,139	-	-	-	163,452	-	-
	2020	57,956	-	5,506	-	-	-	63,462	-	-
Gregory Willcock	2021	149,053	1,038	14,139	-	-	-	164,230	-	-
	2020	150,685	1,039	14,315	-	-	-	166,039	-	-
Sub-total non-executive directors	2021	1,235,526	2,076	107,505	-	-	-	1,345,107	-	-
	2020	1,158,040	2,039	99,190	-	-	-	1,259,269	-	-
EXECUTIVES										
Rohan Mead, Group Managing Director	2021	1,258,519	1,038	21,694	708,858	137,369	-	2,127,478	40%	27,857
	2020	1,193,703	4,048	21,003	-	210,922	-	1,429,676	15%	56,468
David Bryant (ceased as CEO Wealth & Capital Markets 3 July 2020)	2021	31,416	38	834	-	-	155,501	187,789	0%	(1)
	2020	812,532	1,000	20,984	-	-	-	834,516	0%	(41,011)
Amanda Hagan (ceased as Group Executive - Customer, Digital & Technology 27 November 2020)	2021	322,453	462	10,847	-	-	132,435	466,197	0%	(81,970)
	2020	730,332	1,000	21,002	-	139,498	-	891,832	16%	(16,566)
Esther Kerr-Smith	2021	730,864	1,038	21,694	317,915	61,888	-	1,133,399	34%	8,682
	2020	594,190	1,000	21,002	-	74,487	-	690,679	11%	7,364
Darren Mann (appointed Group Executive - Finance & Strategy and CFO 13 July 2020)	2021	519,791	-	20,443	277,427	30,660	-	848,321	36%	9,912
	2020	-	-	-	-	-	-	-	-	-
Kevin McCoy	2021	757,152	1,038	21,694	350,250	81,307	-	1,211,441	36%	14,807
	2020	708,764	4,997	21,002	-	118,701	-	853,464	14%	32,619
Matthew Walsh (ceased as CEO Retail 31 July 2020)	2021	69,990	199	2,503	-	-	325,149	397,841	0%	(192,550)
	2020	582,617	5,879	20,984	-	-	-	609,480	0%	38,713
Christine Yates (appointed CEO Retail 17 August 2020)	2021	540,214	-	18,774	176,250	-	-	735,238	24%	2,014
	2020	-	-	-	-	-	-	-	-	-
Total	2021	5,465,925	5,889	225,988	1,830,700	311,224	613,085	8,452,811		(211,249)
	2020	5,780,178	19,963	225,167	-	543,608	-	6,568,916		77,587

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.

5 Cash salary and fees is inclusive of cash reimbursements.

Remuneration tables *continued*

Table 5 – In addition to the amounts in Table 4, Mr Greg 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.

Name	Year	Fixed		Total remuneration \$
		Cash salary and fees ¹ \$	Superannuation contributions ² \$	
Non-executive directors	2021	86,094	7,555	93,649
Greg Willcock	2020	88,225	6,665	94,890
Total Non-executive directors	2021	86,094	7,555	93,649
	2020	88,225	6,665	94,890

1 Short-term benefits.

2 Post-employment benefits.

From time to time Key Management Personnel or their close family members may purchase or subscribe to the various products or securities offered by the Group. These transactions are on the same terms and conditions as those 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.

Name	Variable compensation opportunity amount	Variable compensation amount awarded based on performance		Variable compensation amount payable	Maximum 2021 deferred variable compensation amount (payable subject to ongoing performance)
	\$	%	\$	\$	\$
Rohan Mead	924,597	100%	924,597	708,858	215,739
Esther Kerr-Smith	511,000	85%	434,350	317,915	116,435
Darren Mann	385,000	100%	385,000	277,427	93,500
Kevin McCoy	525,000	90%	472,500	350,250	122,250
Christine Yates	350,000	75%	262,500	176,250	86,250

1 The variable compensation amount payable for Mr Mann is the portion that relates to his activities since being appointed a KMP.

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.

Name	Deferred Variable Remuneration				
	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	1 September 2021	2025	215,739	-	-
	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2021	137,369	100%	-
David Bryant	28 August 2019	2021	102,652	-	100%
Amanda Hagan	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2021	77,782	-	100%
Esther Kerr-Smith	1 September 2021	2025	116,435	-	-
	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2021	61,888	100%	-
Darren Mann	1 September 2021	2025	93,500	-	-
	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2021	30,660	100%	-
Kevin McCoy	1 September 2021	2025	122,250	-	-
	26 August 2020	2021	-	-	-
		2022	-	-	-
	28 August 2019	2021	81,307	100%	-
Matthew Walsh	28 August 2019	2021	64,831	-	100%
Christine Yates	1 September 2021	2025	86,250	-	-

1 The maximum total value of Mr Mann's deferred variable remuneration awarded in August 2019 but payable in 2021 is that proportion that relates to his time as a KMP.

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	6 months	12 months	none
Esther Kerr-Smith	6 months	6 months	none
Darren Mann	6 months	6 months	none
Kevin McCoy	6 months	6 months	none
Christine Yates	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 2021.

Independent remuneration adviser's report



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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

27 August 2021

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 FY21 remuneration for Australian Unity's KMP is reasonable and appropriate in comparison with Australian market practice.

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

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

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

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 31 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 7 September 2021.

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Consolidated statement of comprehensive income

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 Restated* \$'000
Revenue and other income	2	1,706,072	1,400,916
Expenses, excluding finance costs	3	(1,586,625)	(1,378,422)
Operating profit		119,447	22,494
Finance costs	3	(37,112)	(41,105)
Share of net profit of joint ventures		3,273	906
Profit/(loss) before income tax		85,608	(17,705)
Income tax benefit/(expense)	4	(52,701)	26,830
Profit after income tax		32,907	9,125
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges	19(a)	8,929	(7,644)
Income tax relating to this item	19(a)	(2,678)	2,293
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations	19(a)	2,632	677
Other comprehensive income for the year, net of tax		8,883	(4,674)
Total comprehensive income for the year		41,790	4,451
Profit for the year is attributable to:			
Members of Australian Unity Limited		32,907	9,125
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		41,790	4,451

* Refer to note 21(c) for details regarding the restatement.

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 27.

Consolidated balance sheet

As at 30 June 2021

	Notes	2021 \$'000	2020 Restated* \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	1,008,647	1,036,703
Trade and other receivables		129,970	102,685
Current tax assets		-	8,594
Loans and advances	6	21,099	21,950
Financial assets at fair value through profit or loss	7	2,305,419	2,070,692
Other financial assets at amortised cost	8	47,278	47,012
Other current assets		45,830	33,437
Total current assets		3,558,243	3,321,073
Non-current assets			
Loans and advances	6	886,192	893,843
Financial assets at fair value through profit or loss	7	48,525	13,128
Investments in associates and joint ventures		21,382	17,425
Investment properties	12	1,652,704	1,489,160
Property, plant and equipment	13	323,834	305,608
Right-of-use assets	14	110,863	115,879
Intangible assets	15	313,790	313,466
Other non-current assets		11,836	11,732
Total non-current assets		3,369,126	3,160,241
Total assets		6,927,369	6,481,314
LIABILITIES			
Current liabilities			
Trade and other payables	9	187,451	186,532
Borrowings	14	1,018,999	1,141,578
Lease liabilities		16,039	16,813
Current tax liabilities		6,205	-
Provisions	16	166,973	149,695
Other current liabilities	10	1,526,639	1,410,021
Benefit fund policy liabilities	34	348,195	268,229
Total current liabilities		3,270,501	3,172,868
Non-current liabilities			
Borrowings	9	461,738	373,870
Lease liabilities	14	109,333	111,795
Deferred tax liabilities	17	96,204	71,842
Provisions		6,620	5,698
Other non-current liabilities		2,087	12,878
Benefit fund policy liabilities	34	2,114,392	2,022,715
Total non-current liabilities		2,790,374	2,598,798
Total liabilities		6,060,875	5,771,666
Net assets		866,494	709,648
EQUITY			
Members' balances		255,919	255,919
Mutual Capital Instruments	18	116,897	-
Reserves	19(a)	7,140	(1,743)
Retained earnings	19(b)	486,538	455,472
Equity attributable to members of Australian Unity Limited		866,494	709,648
Total equity		866,494	709,648

* Refer to note 21(c) for details regarding the restatement.

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 2021

	Notes	Members' balances \$'000	Mutual Capital Instruments \$'000	Reserves \$'000	Retained earnings* \$'000	Total equity \$'000
Balance at 1 July 2019		255,919	-	2,931	459,543	718,393
Restatement adjustment (net of tax)	21(c)	-	-	-	(7,792)	(7,792)
Restated total equity at the beginning of the financial year		255,919	-	2,931	451,751	710,601
Adjustment on adoption of AASB 15, net of tax		-	-	-	(5,404)	(5,404)
Profit for the year		-	-	-	9,125	9,125
Other comprehensive income						
- Cash flow hedges	19(a)	-	-	(5,351)	-	(5,351)
- Post-employment benefits	19(a)	-	-	677	-	677
Total comprehensive income		-	-	(4,674)	9,125	4,451
Balance at 30 June 2020		255,919	-	(1,743)	455,472	709,648

* Refer to note 21(c) for details regarding the restatement.

	Notes	Members' balances \$'000	Mutual Capital Instruments \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2020		255,919	-	(1,743)	455,472	709,648
Mutual Capital Instruments issued	18	-	116,897	-	-	116,897
Profit for the year		-	-	-	32,907	32,907
Other comprehensive income						
- Cash flow hedges	19(a)	-	-	6,251	-	6,251
- Post-employment benefits	19(a)	-	-	2,632	-	2,632
Total comprehensive income		-	-	8,883	32,907	41,790
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	18	-	-	-	(1,841)	(1,841)
Balance at 30 June 2021		255,919	116,897	7,140	486,538	866,494

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

Consolidated statement of cash flows

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,386,261	1,353,609
Payments to suppliers and employees (inclusive of goods and services tax)		(838,326)	(780,384)
Health insurance claims and benefits paid		(512,360)	(519,166)
Life investment contracts - Contributions received		377,857	284,642
Life investment contracts - Withdrawals		(347,358)	(267,278)
Life insurance - Premiums received		212	155
Life insurance - Policy claims paid		(835)	(949)
Net payments of loans asset		11,595	(177,655)
Net receipts of deposits liability		299	215,645
Interest received		32,373	37,471
Dividends and distributions received		5,337	12,862
Interest and finance charges paid		(25,544)	(37,147)
Income tax payments		(8,488)	(5,058)
Net cash inflow from operating activities	20	81,023	116,747
Cash flows from investing activities			
Payments for investments		(1,777,676)	(925,190)
Payments for investment properties		(160,509)	(131,501)
Payments for property, plant and equipment		(65,283)	(78,691)
Payments for intangible assets		(22,745)	(19,240)
Payments for investments in associates and joint ventures		(13,149)	(1,848)
Payment for Greengate acquisition deposit		(4,750)	-
Receipts from investments		1,704,799	834,984
Receipt from long term rent of commercial property		41,415	-
Receipts from joint venture's capital returns		10,217	-
Dividends received from joint ventures		1,081	1,139
Proceed from sale of a joint venture investment		2,520	50
Proceeds from disposal of property, plant and equipment		15,395	-
Proceeds from disposal of intangible assets		2,477	10,096
Net receipts from refundable lease deposits and resident liabilities		(266,208)	(310,201)
Cash flows from financing activities			
Receipts from Mutual Capital Instruments (MCI) issued, net of issuance costs		115,602	-
Receipts of borrowings		81,041	206,626
Net receipts from refundable lease deposits and resident liabilities		80,042	100,507
Payments of borrowings		(117,715)	(21,743)
Payments of MCI dividend		(1,841)	-
Net cash inflow from financing activities		157,129	285,390
Net increase/(decrease) in cash and cash equivalents		(28,056)	91,936
Cash and cash equivalents at the beginning of the year		1,036,703	944,767
Cash and cash equivalents at the end of the year	5	1,008,647	1,036,703

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 2021 is as follows:

	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
2021					
Total segment revenue	520,621	704,570	221,131	(15,340)	1,430,982
Inter-segment revenue	(8,868)	-	-	8,868	-
Revenue from external customers	511,753	704,570	221,131	(6,472)	1,430,982
Adjusted EBITDA	71,098	81,825	27,299	(81,344)	98,878
Depreciation and amortisation					(46,805)
Interest expense					(37,167)
Investment income					12,812
Income tax benefit					5,189
Profit from operations					32,907
Share of gain after tax from joint ventures (included in adjusted EBITDA)					3,273
Total segment assets include:					
Income producing assets	107,566	1,525,685	57,420	182,969	1,873,640
Working capital assets	36,282	66,629	95,618	87,102	285,631
Non-interest bearing assets	771,792	24,330	234,860	185,173	1,216,155
Total segment assets	915,640	1,616,644	387,898	455,244	3,375,426
Total segment liabilities include:					
Borrowings and net inter-segment lending	163,661	1,065,669	106,042	275,043	1,610,415
Working capital liabilities	275,859	239,569	51,230	123,699	690,357
Non-interest bearing liabilities	142,087	18,330	25,756	21,987	208,160
Total segment liabilities	581,607	1,323,568	183,028	420,729	2,508,932

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2020 is as follows:

2020 (Restated)*	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
Total segment revenue	484,623	709,516	170,465	(15,829)	1,348,775
Inter-segment revenue	(8,837)	-	-	8,837	-
Revenue from external customers	475,786	709,516	170,465	(6,992)	1,348,775
Adjusted EBITDA	57,379	61,245	32,819	(75,062)	76,381
Depreciation and amortisation					(46,073)
Interest expense					(41,486)
Investment income					3,580
Income tax benefit					16,723
Profit from operations					9,125
Share of loss 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	17,887	63,022	53,738	18,289	152,936
Non-interest bearing assets	668,740	8,870	212,385	208,640	1,098,635
Total segment assets	782,178	1,539,611	328,050	436,099	3,085,938
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	180,824	222,965	37,106	91,762	532,657
Non-interest bearing liabilities	133,346	13,688	25,797	21,459	194,290
Total segment liabilities	454,203	1,292,642	137,280	492,165	2,376,290

* Refer to note 21(c) for details regarding the restatement.

(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*

(i) Segment revenue *continued*

Segment revenue reconciles to total revenue as follows:

	2021 \$'000	2020 Restated* \$'000
Total segment revenue	1,430,982	1,348,775
Dividends and distributions (note 2)	5,682	7,348
Gain/(loss) on investments in financial instruments (note 2)	4,651	(9,731)
Other interest income (note 2)	1,065	5,123
Other	763	2,326
Revenue and other income attributable to members of Australian Unity Limited (note 27)	1,443,143	1,353,841
Revenue from benefit funds (note 27)	262,929	47,075
Total revenue and other income	1,706,072	1,400,916

* Refer to note 21(c) for details regarding the restatement.

(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 material non-recurring expenditure and shared services costs.

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

	2021 \$'000	2020 Restated* \$'000
Adjusted EBITDA	98,878	76,381
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	(47,669)	(49,025)
Gain on disposal of assets	1,991	4,334
Merger and acquisition expenses	(859)	(1,101)
Other	(268)	(281)
	(46,805)	(46,073)
Interest expense		
Finance costs (note 3)	(37,112)	(41,105)
Other	(55)	(381)
	(37,167)	(41,486)
Investment income:		
Dividends and distributions (note 2)	5,682	7,348
Gain/(loss) on investments in financial instruments (note 2)	4,651	(9,731)
Other interest income (note 2)	1,065	5,123
Other	1,414	840
	12,812	3,580
Profit/(loss) before income tax attributable to members of Australian Unity Limited (note 27)	27,718	(7,598)
Profit/(loss) before income tax of benefit funds (note 27)	57,890	(10,107)
Profit/(loss) before income tax	85,608	(17,705)

* Refer to note 21(c) for details regarding the restatement.

(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:

	2021 \$'000	2020 Restated* \$'000
Segment assets	3,375,426	3,085,938
Resident liabilities and refundable lease deposits	1,230,225	1,153,729
Retirement Village Property Fund consolidation	74,717	71,169
Netting of eligible deferred tax balances	(142,646)	(123,098)
Netting of inter-segment loan balances	(111,817)	(25,679)
Other reclassifications between assets and liabilities	23,349	15,074
Total assets attributable to members of Australian Unity Limited	4,449,254	4,177,133
Benefit fund assets (note 35)	2,514,235	2,311,199
Netting of eligible deferred tax balances	(36,120)	(7,018)
Total assets	6,927,369	6,481,314

* Refer to note 21(c) for details regarding the restatement.

(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. These liabilities are allocated based on the operations of the segment.

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

	2021 \$'000	2020 Restated* \$'000
Segment liabilities	2,508,932	2,376,290
Resident liabilities and refundable lease deposits	1,230,225	1,153,729
Retirement Village Property Fund consolidation	74,717	71,169
Netting of eligible deferred tax balances	(142,646)	(123,098)
Netting of inter-segment loan balances	(111,817)	(25,679)
Other reclassifications between assets and liabilities	23,349	15,074
Total liabilities attributable to members of Australian Unity Limited	3,582,760	3,467,485
Benefit fund policy liabilities (note 34)	2,462,587	2,290,944
Benefit fund other liabilities (note 35)	51,648	20,255
Netting of eligible deferred tax balances	(36,120)	(7,018)
Total liabilities	6,060,875	5,771,666

* Refer to note 21(c) for details regarding the restatement.

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 different accounting standards for revenue recognition as applicable to each category of revenue.

The following is revenue and other income from operations:

	2021 \$'000	2020 Restated* \$'000
Health insurance net premium revenue	671,335	673,427
Revenue from services		
Government grants and subsidies funding aged care, home and disability services	208,402	193,592
Independent and assisted living services and other fees	224,387	219,994
Management and performance fees revenue	89,845	84,485
Brokerage and commission	67,818	64,820
Healthcare services revenue	39,797	28,558
	630,249	591,449
Interest income of bank	31,324	32,384
Investment earnings		
Other interest income	1,065	5,123
Dividends and distributions	5,682	7,348
Gain/(loss) on investments in financial instruments	4,651	(9,731)
Fair value gains on investment property	22,268	30,108
	33,666	32,848
Benefit funds income	262,929	47,075
Other income	76,569	23,733
	1,706,072	1,400,916

* Refer to note 21(c) for details regarding the restatement.

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 2021 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
2021					
Health insurance net premium revenue	-	671,335	-	-	671,335
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	208,402	-	-	-	208,402
Independent & assisted living services and other fees	229,691	-	-	(5,304)	224,387
Management and performance fees revenue	(22)	-	91,590	(1,723)	89,845
Brokerage and commission	1,614	2,412	63,792	-	67,818
Healthcare services revenue	40,538	-	-	(741)	39,797
	480,223	2,412	155,382	(7,768)	630,249
Interest income of bank	-	31,324	-	-	31,324
Investment earnings					
Other interest income	100	130	18	817	1,065
Dividends and distributions	-	4,859	813	10	5,682
Gain/(loss) on investments in financial instruments	(3,034)	4,233	2,741	711	4,651
Fair value gains on investment property	22,268	-	-	-	22,268
	19,334	9,222	3,572	1,538	33,666
Benefit funds income	-	-	262,929	-	262,929
Other income	9,676	1,140	63,475	2,278	76,569
Revenue and other income	509,233	715,433	485,358	(3,952)	1,706,072
Reconciliation to revenue from external customers in segment reporting					
<i>Items added to/(excluded from) the segment revenue</i>					
Dividends and distributions	-	(4,859)	(813)	(10)	(5,682)
Other investment income	2,934	(4,363)	(2,759)	(1,528)	(5,716)
Other	(414)	(1,641)	2,274	(982)	(763)
Revenue from benefit funds	-	-	(262,929)	-	(262,929)
	2,520	(10,863)	(264,227)	(2,520)	(275,090)
Revenue from external customers in segment reporting	511,753	704,570	221,131	(6,472)	1,430,982

How numbers are calculated *continued*2 Revenue and other income *continued*

2020 (Restated*)	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
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	222,314	-	(2)	(2,318)	219,994
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
	447,733	3,084	148,491	(7,859)	591,449
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	474,623	714,726	215,975	(4,408)	1,400,916
Reconciliation to revenue from external customers in segment reporting					
<i>Items added to/(excluded from) the segment revenue</i>					
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	475,786	709,516	170,465	(6,992)	1,348,775

* Refer to note 21(c) for details regarding the restatement.

3 Expenses

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

	2021 \$'000	2020 Restated* \$'000
Bank charges	2,966	2,922
Client care costs	51,224	31,595
Commission expense	65,823	57,109
Communication costs	8,924	6,765
Computer and equipment costs	38,574	34,371
Depreciation and amortisation expense	47,669	49,025
Employee benefits expense	507,668	480,111
Expenses in relation to benefit funds (note 34)	205,039	57,182
Financial and insurance costs	2,114	7,370
Fund manager and administration fees	12,899	20,383
Health insurance claims expense	591,615	620,528
Health insurance claims recoveries - Net Risk Equalisation Special Account	(69,702)	(74,259)
Interest expense of bank	7,958	11,904
Legal and professional fees	17,567	19,319
Marketing expenses	14,236	13,130
Occupancy costs	18,013	20,613
Other direct expenses	5,250	4,949
Other expenses	58,788	15,405
	1,586,625	1,378,422
Depreciation and amortisation		
Depreciation of property, plant and equipment	10,453	12,843
Depreciation of right-of-use assets	14,883	14,561
Amortisation of intangible assets	22,333	21,621
	47,669	49,025
Finance costs		
Interest and finance charges on borrowings	20,194	23,041
Notional interest on leases and related accounts	17,863	19,770
Total interest and finance charges	38,057	42,811
Capitalisation of borrowing interest	(945)	(1,706)
Finance costs expensed	37,112	41,105

* Refer to note 21(c) for details regarding the restatement.

How numbers are calculated *continued***4 Income tax expense/(benefit)****(a) Income tax expense/(benefit)**

	2021 \$'000	2020 Restated* \$'000
Current tax	(10,785)	(28,467)
Current tax - benefit funds	23,185	21,325
Deferred tax	(4,731)	23,938
Deferred tax - benefit funds	32,917	(28,637)
Adjustments for current tax of prior periods	10,931	(11,404)
Adjustments for current tax of prior periods - benefit funds	1,788	(2,795)
Other	(604)	(790)
Income tax expense/(benefit)	52,701	(26,830)
Deferred income tax (revenue)/(benefit) expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(18,611)	808
Increase/(decrease) in deferred tax liabilities	46,797	(5,507)
	28,186	(4,699)

* Refer to note 21(c) for details regarding the restatement.

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

	2021 \$'000	2020 Restated* \$'000
Profit/(loss) before income tax	85,608	(17,705)
Less: Loss/(profit) in benefit funds	(57,890)	10,107
Profit before income tax for the year	27,718	(7,598)
Tax at the Australian tax rate of 30% (2020: 30%)	8,315	(2,279)
Non-assessable income	(7,938)	(9,034)
Other assessable amounts	296	385
Non-deductible expenditures	742	1,401
Other deductible expenditures	(2,141)	(2,001)
Other deferred tax adjustments	(1,879)	52
Over provision in prior years	(1,785)	(6,315)
Tax offsets/(credits)	(799)	1,068
Tax in benefit funds	57,890	(10,107)
Income tax expense/(benefit)	52,701	(26,830)

* Refer to note 21(c) for details regarding the restatement.

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

	2021 \$'000	2020 \$'000
Cash at bank and on hand	26	26
Bank balances	56,724	41,503
Deposits at call	951,897	995,174
	1,008,647	1,036,703

The balance of cash and cash equivalents as at 30 June 2021 included the Parent entity's accounts totalling \$162,385,000 (30 June 2020: \$217,187,000) and amounts held by benefit funds totalling \$369,799,000 (30 June 2020: \$375,087,000).

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 22.

6 Financial assets - Loans and advances

	2021 \$'000	2020 \$'000
Current		
Mortgage loans	27,506	24,940
Personal loans	4,734	4,066
Provision for impairment	(11,141)	(11,056)
Advances	-	4,000
Total – current	21,099	21,950
Non-current		
Mortgage loans	883,048	894,222
Personal loans	3,386	5,016
Provision for impairment	(2,174)	(5,395)
Advances	1,932	-
Total – non-current	886,192	893,843
Total loans and advances	907,291	915,793

(a) Mortgage loans

Mortgage loans are provided to customers by the Group's authorised deposit-taking institution, Australian Unity Bank Limited (AUBL). The mortgage loans are secured on real property. These loans mature at various dates up to 30 June 2051 and earn interest at annual rates between 1.89% and 6.98% (2020: between 2.54% and 6.98%).

AUBL entered into transactions by which financial assets were transferred to the Reserve Bank of Australia (RBA) under repurchase agreements. These transactions were associated with the term funding facilities provided by the RBA. The transfers of financial assets under repurchase agreements do not qualify for derecognition. As at 30 June 2021, the carrying amounts of the financial assets under repurchase agreements totalled to \$50,360,000 (2020: \$27,124,000). Refer to note 9(f) for further information of the RBA term funding facilities.

(b) Personal loans

AUBL also provides personal loans to customers. The personal loans mature at various dates up to 18 January 2028 and earn interest at annual rates between 4.57% and 15.18% (2020: between 4.57% and 15.18%).

Financial assets and liabilities *continued***6 Financial assets - Loans and advances** *continued***(c) Provision for impairment**

The provision for impairment is related to the mortgage and personal loans above. It is calculated based on an expected credit loss (ECL) model. The provision for impairment totalling to \$13.3 million as at 30 June 2021 (2020: \$16.5 million) consisted of \$5.3 million loans in the Stage 1 twelve-month ECL category (2020: \$6.1 million), \$3.9 million loans in the Stage 2 lifetime ECL not credit impaired category (2020: \$7.7 million), and \$4.1 million loans in the Stage 3 lifetime ECL credit impaired category (2020: \$2.7 million).

In the previous financial year, customers who were impacted by the adverse economic condition arising from COVID-19 were offered tailored COVID-19 financial assistance by AUBL in the form of loan deferrals. In the 2021 financial year, these customers no longer required financial assistance and as a result there was no balance of loans under deferral as at 30 June 2021 (30 June 2020: \$76.9 million).

(d) Past due but not impaired

At 30 June 2021, the current portion of loans and advances that were past due but not impaired amounted to \$30,084,000 (2020: \$40,241,000). 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 22.

7 Financial assets at fair value through profit or loss

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

	2021 \$'000	2020 \$'000
Securities held by benefit funds	2,062,482	1,864,486
Securities held by subsidiaries	291,462	219,334
	2,353,944	2,083,820

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

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

	2021 \$'000	2020 \$'000
Equity trusts	1,387,627	1,291,630
Fixed interest and other debt security trusts	596,333	493,872
Mortgage trusts	16,525	23,249
Property syndicates and trusts	61,997	55,735
	2,062,482	1,864,486

(b) Securities held by subsidiaries comprise the following:

	2021 \$'000	2020 \$'000
Equity trusts	27,420	18,011
Fixed interest and other debt security trusts	231,566	190,931
Mortgage trusts	1,380	3,165
Property syndicates and trusts	31,096	7,227
	291,462	219,334

(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:

	2021 \$'000	2020 \$'000
Current	2,305,419	2,070,692
Non-current	48,525	13,128
	2,353,944	2,083,820

(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 22.

8 Financial assets - Other financial assets at amortised cost

	2021 \$'000	2020 \$'000
Other financial assets at amortised cost - Bank bills and term deposits	47,278	47,012

Fair value and risk exposures

Due to the short term nature of these investments, their carrying amount is assumed to approximate their fair value. Information about the Group's exposure to credit risk and the credit quality in relation to these investments is provided in note 22.

9 Financial liabilities - Borrowings

	2021 \$'000	2020 \$'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	137,302	128,798
Retirement Village Investment Notes	-	19,961
Total secured interest bearing liabilities	137,302	148,759
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	686,469	494,553
Term deposits	190,128	384,388
Development finance loans	-	37,646
Loan payable to related entity	5,100	5,100
Total unsecured interest bearing liabilities	881,697	921,687
Total current borrowings	1,018,999	1,141,578

Financial assets and liabilities *continued***9 Financial liabilities - Borrowings** *continued*

	2021 \$'000	2020 \$'000
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	51,611	18,401
RBA term funding facilities	43,582	25,193
Total secured interest bearing liabilities	95,193	43,594
Unsecured interest bearing liabilities		
Series C Australian Unity Bonds		
Face value	115,019	115,019
Valuation at amortised cost	(1,613)	(2,295)
At amortised cost	113,406	112,724
Series D Australian Unity Bonds		
Face value	207,000	207,000
Valuation at amortised cost	(2,692)	(3,480)
At amortised cost	204,308	203,520
Bank loans	40,660	-
Term deposits	8,171	14,032
Total unsecured interest bearing liabilities	366,545	330,276
Total non-current borrowings	461,738	373,870
Total borrowings	1,480,737	1,515,448

(a) Series B Australian Unity Bonds

Series B Australian Unity Bonds – Tranche 1 totalling to 250,000,000 at \$100 each were issued by the Company pursuant to the prospectus dated 9 November 2015, raising \$250,000,000. Series B Australian Unity Bonds were unsubordinated and unsecured simple corporate bonds listed on the Australian Securities Exchange (code: AYUHB). The bonds had a five-year term that matured on 15 December 2020. In September 2019, a reinvestment offer was made to all eligible holders of these 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, 1,786,743 Series B Australian Unity Bonds were sold to the Company. The remaining balance of the bonds amounting to \$71,326,000 as at 30 June 2020 were 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 at \$100 each pursuant to the prospectus dated 9 September 2019, raising \$322,019,200 in total. Series C and Series D Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHC and AYUHD respectively). Series C Australian Unity Bonds have a five-year term maturing on 15 December 2024 and bear interest at the three month BBSW rate plus a margin of 2% per annum. Series D Australian Unity Bonds have a seven-year term maturing on 15 December 2026 and bear interest at the three month BBSW rate plus a margin of 2.15% per annum. The interest of both series of bonds is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year.

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

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

Under the terms of the Series C and Series D Australian Unity Bonds, the Company is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by lease liabilities and the Company's unencumbered cash and cash equivalents. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Series C and Series D Australian Unity Bonds. The Covenant Gearing Ratio is determined by reference to the accounts prepared on the basis of the Australian Accounting Standards in place as at the date of the Base Prospectus. As at 30 June 2021, the Covenant Gearing Ratio was 29% (30 June 2020: 33%).

(c) Retirement Village Investment Notes (RVIN)

RVIN are debt instruments issued by a subsidiary of the Group. The proceeds from RVIN issues were utilised by the Group for expanding the Independent & Assisted Living business and general corporate purposes. The RVIN are secured by a registered first ranking security interest over intra-group loans in relation to the RVIN proceeds and the mortgages, granted as security for the loans, over allotments of units held in Australian Unity Retirement Village Trust #1.

Australian Unity Retirement Village Trust #1 (AURVT#1) comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1 or other subsidiary entities of the Group.

In July 2020, the Group issued Series 6 RVIN amounting to \$33,210,000 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 \$11,218,000 which were rolled over into Series 6 RVIN. The net proceeds of \$21,992,000 from this RVIN issue were used for general corporate purposes. During the financial year, the Group repaid maturing RVIN of \$8,743,000.

As at 30 June 2021, the total amount of RVIN on issue reported as interest bearing liabilities was \$51,611,000 (30 June 2020: \$38,362,000).

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June	30 June
				2021	2020
				\$'000	\$'000
RVIN - Series 1	8	30 November 2020	5.60%	-	15,988
RVIN - Series 2	5	31 December 2020	5.60%	-	3,973
Interest bearing RVIN - current				-	19,961
RVIN - Series 5	1	30 November 2024	4.95%	18,401	18,401
RVIN - Series 6	1	31 July 2023	5.00%	33,210	-
Interest bearing RVIN - non-current				51,611	18,401
Total RVIN				51,611	38,362

(d) Development finance loans

Development finance loans reported as current liabilities amounting to \$37,646,000 as at 30 June 2020 represented loan facilities from a related entity for the development of the Herston Quarter health precinct in Brisbane, Queensland. This loan was fully repaid in the 2021 financial year.

(e) Bank loans

Bank loans reported as non-current liabilities of \$40,660,000 as at 30 June 2021 represented loan facilities for general corporate purposes. These loans bear interest at BBSY bid rate plus margin. As at 30 June 2021, these interest rates were 1.31% - 2.59% per annum.

Financial assets and liabilities *continued***9 Financial liabilities - Borrowings** *continued***(f) RBA term funding facilities**

In the previous financial year, the Reserve Bank of Australia (RBA) offered three-year term funding facilities to authorised deposit-taking institutions (ADI) to reinforce the benefits to the economy with lower cash rates and encourage ADI to support home loan customers during a difficult period of the COVID-19 pandemic. These facilities were provided during the period from April 2020 to June 2021. The total amount of funding the Group had received from the RBA as at 30 June 2021 was \$43,582,000 (2020: \$25,193,000) with average interest at 0.19% per annum (2020: 0.25% per annum). These facilities are secured by transfers of financial assets under repurchase agreements.

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

	2021	2020
	\$'000	\$'000
Carrying amount of transferred assets under repurchase agreement	50,360	27,124
Carrying amount of associated liabilities	(43,582)	(25,193)
Net position	6,778	1,931

(g) Call deposits

Call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2021, the interest rate ranged between 0.01% and 1.45% (2020: between 0.01% and 1.65%).

(h) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2021 ranging between 0.15% and 3.25% (2020: between 0.25% and 3.25%).

(i) Mortgage offset savings accounts

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

(j) 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 2021 this rate amounted to 2.30% (2020: 2.10%).

(k) 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 22.

10 Other current liabilities

	2021 \$'000	2020 Restated* \$'000
Financial liabilities		
Refundable accommodation deposits	295,390	274,602
Resident loan liabilities	1,009,586	950,332
	1,304,976	1,224,934
Non-financial liabilities		
Unearned income	212,752	177,621
Other	8,911	7,466
	221,663	185,087
Total other current liabilities	1,526,639	1,410,021

* Refer to note 21(c) for details regarding the restatement.

(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 22.

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 2021.

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 2021 and 2020 on a recurring basis.

Financial assets and liabilities *continued***11 Fair value measurements** *continued***(a) Recognised fair value measurements** *continued***(i) Fair value hierarchy**

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2021				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	7,559	1,407,488	-	1,415,047
Fixed interest and other debt security trusts	-	827,899	-	827,899
Mortgage trusts	-	17,905	-	17,905
Property syndicates and trusts	26,436	66,657	-	93,093
Other financial assets	-	-	6,994	6,994
Total financial assets	33,995	2,319,949	6,994	2,360,938
Non-financial assets				
Investment properties	-	-	1,652,704	1,652,704
Total non-financial assets	-	-	1,652,704	1,652,704
Financial liabilities				
Interest rate swaps	-	3,279	-	3,279
Life investment contract policy liabilities	-	1,538,103	-	1,538,103
Total financial liabilities	-	1,541,382	-	1,541,382
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

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, which 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 2021:

	Other financial assets \$'000	Investment properties \$'000	Total \$'000
Opening balance 1 July 2019	7,056	1,327,551	1,334,607
Additions	-	131,501	131,501
Gains/(losses) recognised in other income*	(59)	30,108	30,049
Closing balance 30 June 2020	6,997	1,489,160	1,496,157
Opening balance 1 July 2020	6,997	1,489,160	1,496,157
Additions	-	160,509	160,509
Commercial property rent received in advance	-	(40,897)	(40,897)
Transfers	-	21,664	21,664
Gains/(losses) recognised in other income*	(3)	22,268	22,265
Closing balance 30 June 2021	6,994	1,652,704	1,659,698
* 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			
2021	(3)	22,268	22,265
2020	(59)	30,108	30,049

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 2021 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 2021 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties, excluding non-retirement village development sites	\$1,652,704	Discount rate	13% - 14%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -\$18.7 million/+\$20.6 million (2020: -\$16.3 million/+\$18.0 million).
		Property growth rate	1% - 4.4%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +\$32.0 million/-\$29.1 million (2020: +\$28.1 million/-\$25.5 million).
		Average length of residents' stay	5-7 years for serviced apartments, 8-14 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. The results of the actuarial property valuation model are monitored via a regular cycle of periodic external valuations by independent accredited valuers.

(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 with fair values which differ from their amortised cost are as follows:

	2021		2020	
	Amortised cost \$'000	Fair value \$'000	Amortised cost \$'000	Fair value \$'000
Current and non-current assets				
Mortgage loans	897,239	897,678	902,710	902,974
Advances	1,932	1,788	4,000	4,000
	899,171	899,466	906,710	906,974
Current and non-current liabilities				
Australian Unity Bonds	317,714	321,513	387,376	390,275
Bank loans	40,660	39,679	-	-
Development finance loans	-	-	37,646	37,646
Retirement Village Investment Notes	51,611	54,468	38,362	40,390
Term deposits	198,299	198,260	398,420	398,325
	608,284	613,920	861,804	866,636

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.

	2021 \$'000	2020 \$'000
Retirement village independent living units	1,029,310	981,025
Development sites - retirement village independent living units	527,086	393,876
Development sites - other	96,308	114,259
Commercial property	40,897	-
Commercial property rent received in advance*	(40,897)	-
	1,652,704	1,489,160

(a) Movements of investment properties

	2021 \$'000	2020 \$'000
At fair value		
Balance at the beginning of the financial year	1,489,160	1,327,551
Additions	160,509	131,501
Commercial property rent received in advance*	(40,897)	-
Transfers to property, plant and equipment	21,664	-
Net fair value movements	22,268	30,108
Balance at the end of the financial year	1,652,704	1,489,160

* Commercial property rent received in advance relates to receipts for the full term of a lease expiring in 2059.

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

	2021 \$'000	2020 \$'000
Revenue	31,300	39,230
Expenses	(33,084)	(33,555)
Changes in fair value recognised in profit or loss	22,268	30,108
	20,484	35,783

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 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
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
Year ended 30 June 2021					
Opening net book amount	39,826	235,864	11,315	18,603	305,608
Additions	3,380	58,581	2,820	162	64,943
Transfers	-	-	2,512	(2,512)	-
Transfers from/(to) investment properties	(3,650)	(18,014)	-	-	(21,664)
Transfers from/(to) intangibles	-	-	260	(238)	22
Disposals	(296)	(14,324)	(2)	-	(14,622)
Depreciation charge	-	(4,171)	(3,265)	(3,017)	(10,453)
Closing net book amount	39,260	257,936	13,640	12,998	323,834
At 30 June 2021					
Cost	39,260	279,477	39,019	44,872	402,628
Accumulated depreciation	-	(21,541)	(25,379)	(31,874)	(78,794)
Net book amount	39,260	257,936	13,640	12,998	323,834

14 Non-financial assets and liabilities - Leases

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 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 2021 was immaterial.

(a) Amounts recognised in the consolidated balance sheet

The following are assets and liabilities recognised under AASB 16:

	30 June 2021 \$'000	30 June 2020 \$'000
Right-of-use assets		
Buildings	107,359	112,862
Vehicles	3,504	3,017
	110,863	115,879
Other non-current assets - Sublease receivables	-	1,410
Total assets	110,863	117,289
Lease liabilities		
Current	16,039	16,813
Non-current	109,333	111,795
Total liabilities	125,372	128,608

Additions to the right-of-use assets during the financial year ended 30 June 2021 were \$8,442,000 (2020: \$3,622,000).

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

	2021 \$'000	2020 \$'000
Depreciation charge of right-of-use assets	14,883	14,561
Interest expense (included in Finance costs)	6,141	6,496
Interest income on sublease receivable	(13)	(61)
Expenses relating to short-term leases or leases of low value assets (included in Other expenses)	5,675	6,262
	26,686	27,258

Total cash outflow for leases in the financial year ended 30 June 2021 was \$23,579,000 (2020: \$23,660,000).

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 2019					
Cost	188,246	111,474	12,655	118,435	430,810
Accumulated amortisation and impairment	(6,000)	(61,236)	(1,915)	(37,895)	(107,046)
Net book amount	182,246	50,238	10,740	80,540	323,764
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					
Costs	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

	Goodwill \$'000	Computer software \$'000	Bed and other licences \$'000	Management rights and other intangible assets \$'000	Total \$'000
Year ended 30 June 2021					
Opening net book amount	182,246	52,761	10,740	67,719	313,466
Additions	-	22,154	-	1,784	23,938
Transfers to property, plant and equipment	-	(22)	-	-	(22)
Disposals	(199)	-	-	(1,060)	(1,259)
Amortisation charge	-	(16,265)	-	(6,068)	(22,333)
Closing net book amount	182,047	58,628	10,740	62,375	313,790
At 30 June 2021					
Cost	188,047	150,513	12,655	112,376	463,591
Accumulated amortisation and impairment	(6,000)	(91,885)	(1,915)	(50,001)	(149,801)
Net book amount	182,047	58,628	10,740	62,375	313,790

The management rights and other intangible assets include those with an indefinite life of \$24,757,000 as at 30 June 2021 and 2020. 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 and Ageing are not ascribed a value. Bed licences purchased from other approved providers are valued at cost. At 30 June 2021, the Group held 1,039 granted licences and 231 purchased licences (no change from 30 June 2020).

(a) Impairment tests for goodwill and intangible assets with an indefinite useful life

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:

CGU	2021 \$'000	2020 \$'000
Home & Disability Services	141,116	141,116
Wealth Assets Management	34,108	34,108
Trustee Services	8,399	8,399
Wealth Advice Services	9,163	9,362
Residential Communities	20,017	20,017
Health Services	4,741	4,741
	217,544	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. 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.

The COVID-19 pandemic has had wide-ranging impacts to the economy and financial markets since 2020 and despite signs of improvements during the 2021 financial year, there is still uncertainty in the economic outlook and the extent of impacts to the business is still evolving. The Group applies its best estimates in developing the financial projection; 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. Consistent with the prior year, 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 CGUs hold. 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, the CGUs are in the process of recovery and are projected to be restored to normal business value levels during the 2023 to 2024 financial periods.

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 7.1% to 11.2% were applied to cash flow projections of the relevant CGU (2020: 10.0% - 12.9%). The terminal value is determined based on an assumption of terminal growth rate of 2.5% - 3.0% which is within the target long term inflation rate of the Reserve Bank of Australia (2020: 2.5% to 3.0%).

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 12.2% (2020: 11.6%) 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*

(a) Impairment tests for goodwill and intangible assets with an indefinite useful life *continued*

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 2023. Ongoing Royal Commission submissions and recommendations are expected to consider potential alternative future models of government funding.

Revenue growth assumptions for the CGU average 8.4% per annum over the five-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 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 8.7%. 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 3.0%. A one 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 \$341.9 million higher than its carrying amount.

Trustee Services CGU

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

- (i) The Trustee Services business continued to expand its operations, invest in building capability and enhance its growth strategy and portfolio. These initiatives have supported revenue growth during the year and will support future business growth. The forecasts reflect commercial opportunities faced by the 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 8.9%. 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 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 \$10.9 million higher than its carrying amount.

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 licence 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 9.6% 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 10.5%. 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 \$8.8 million higher than its carrying amount.

(b) Bed licences

Residential aged care bed licences are assessed as having an indefinite useful life as they are issued for an unlimited period and therefore are not amortised. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

The current government has stated its intention to abolish the residential aged care bed licence and the Aged Care Approval Rounds from 1 July 2024. This proposal has the potential to impact the accounting value of bed licences. Legislation has not yet been drafted or passed to give effect to this intention and the exact nature of any changes to the licencing rules remains uncertain at the date of this report. Until such time as any legislation is passed, approved providers will still be required to own bed licences to be eligible for government subsidies under the *Aged Care Act*. As a result, the Group has determined that the bed licences continue to have an indefinite life and the carrying value remains appropriate at the date of this report.

16 Non-financial liabilities - Provisions

	2021 \$'000	2020 Restated* \$'000
Current provisions		
Employee benefits provision	59,389	56,195
Health insurance claims provision	103,067	89,052
Other provisions	4,517	4,448
	166,973	149,695

* Refer to note 21(c) for details regarding the restatement.

Health insurance claims provision

Health insurance claims provision represents provision made for outstanding claims and deferred claims. Provision is made for claims outstanding at the end of the 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. As at 30 June 2020, a specific claims liability had also been recorded for deferred claims, estimated at \$37,613,000, that were a result of surgeries and other health services being restricted for policyholders as the impact of the COVID-19 pandemic. There is a general expectation that as these restrictions are lifted there will be a catch up of procedures and benefits claimed in the future. As the restrictions continued until October 2020 followed by short restrictions imposed multiple times in Victoria, additional deferred claims provision totalling to \$27,471,000 were recorded during the 2021 financial year. The Group also recorded the unwinding of deferred claims provision of \$14,248,000 during the year. Refer to note 25 for further details.

Non-financial assets and liabilities *continued*

17 Non-financial liabilities - Deferred tax balances

	2021 \$'000	2020 Restated* \$'000
Deferred tax assets		
Accrued expenses	12,845	7,368
Fixed assets	11,157	13,181
Capitalised expenditure	3,407	2,467
Leases	4,353	4,224
Policy bonus credits	41,837	39,019
Provisions	47,310	32,974
Risk Equalisation Special Account	480	420
Tax losses	3,272	1,868
Trust distribution	13,537	14,185
Unrealised losses	1,205	4,078
Other assessable items	3,243	3,313
Total deferred tax assets	142,646	123,097
Deferred tax liabilities		
Fixed assets and investment properties	120,518	114,652
Intangible assets	17,596	19,783
Risk Equalisation Special Account	8,707	6,943
Tax deferred	4,342	5,532
Unrealised gains	71,091	35,230
Other deductible items	16,596	12,799
Total deferred tax liabilities	238,850	194,939
Net deferred tax liabilities	96,204	71,842

* Refer to note 21(c) for details regarding the restatement.

18 Mutual Capital Instruments

On 24 December 2020, the Company issued 1,200,000 Australian Unity Mutual Capital Instruments (Australian Unity MCI) of \$100 each pursuant to the prospectus dated 7 December 2020, raising \$120,000,000 in total. In accordance with the requirements of AASB 132 *Financial Instruments: Presentation*, the Australian Unity MCI balance in the Company's consolidated balance sheet is shown after deducting directly attributable transaction issuance costs, net of any income tax benefit.

Australian Unity MCIs are mutual capital instruments as defined in section 167AD of the *Corporations Act 2001* (Cth). Mutual capital instruments are financial instruments created exclusively for Australian mutual entities, such as Australian Unity Limited, to access permanent capital without compromising their mutual entity status and to decrease their sole reliance on retained profits as a source of new capital. The opportunity to issue mutual capital instruments was created by the *Treasury Laws Amendment (Mutual Reforms) Act 2019* which came into effect in April 2019 with the intention of improving growth, innovation and competition in sectors where mutual entities operate. At the Annual General Meeting on 30 October 2019, Members of Australian Unity Limited approved changes to the Company's constitution to facilitate the Company issuing Australian Unity MCIs.

Australian Unity MCIs are perpetual, fully paid mutual capital instruments that are listed on the Australian Securities Exchange (code: AYUPA). The holders of Australian Unity MCIs are expected to receive fixed rate dividend payments to be paid semi-annually in arrears. The dividends are discretionary and non-cumulative. The Company may determine to pay no dividend, a partial dividend or an optional dividend. Dividends that are not paid do not accrue and will not subsequently be paid. The dividend rate for Australian Unity MCIs is 5.00% per annum and are expected to be fully franked. The dividend rate grossed up for franking credits is 7.14% per annum if fully franked. Dividends are scheduled to be paid semi-annually in arrears on 15 April and 15 October each year, with the first dividend paid on 15 April 2021.

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

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

In April 2021, the Company paid an interim fully franked dividend of \$1.5342 per Australian Unity MCI totalling to \$1,841,000.

19 Equity

(a) Reserves

	2021 \$'000	2020 \$'000
Asset revaluation reserve	2,462	2,462
Post-employment benefit reserve	6,973	4,341
Cash flow hedges reserve	(2,295)	(8,546)
	7,140	(1,743)
Movements:		
<i>Asset revaluation reserve</i>		
Balance at the beginning of the year	2,462	2,462
Balance at the end of the year	2,462	2,462
<i>Post-employment benefit reserve (i)</i>		
Balance at the beginning of the year	4,341	3,664
Remeasurement of net defined benefit obligations	2,632	677
Balance at the end of the year	6,973	4,341
<i>Cash flow hedges reserve (ii)</i>		
Balance at the beginning of the year	(8,546)	(3,195)
Movements in hedging value during the year	8,929	(7,644)
Deferred tax	(2,678)	2,293
Balance at the end of the year	(2,295)	(8,546)

(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:

	2021 \$'000	2020 Restated* \$'000
Balance at the beginning of the financial year	455,472	459,543
Prior year adjustments	-	(7,792)
Adjustment on adoption of AASB 16, net of tax	-	(5,404)
Profit for the year	32,907	9,125
Dividends paid	(1,841)	-
Balance at the end of the financial year	486,538	455,472

* Refer to note 21(c) for details regarding the restatement.

Non-financial assets and liabilities *continued***20 Cash flow information****(a) Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities**

	2021	2020
	\$'000	Restated*
	\$'000	\$'000
Profit after income tax for the year	32,907	9,125
Depreciation and amortisation expense	32,785	34,464
Impairment of assets	-	(450)
Loss/(gain) on investments	(4,651)	9,731
Fair value gains on investment property	(22,268)	(30,108)
Gain on disposal of assets	(3,344)	(4,226)
Share of net profit or loss of joint ventures	(3,273)	(906)
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(17,517)	4,769
Decrease/(increase) in loans and advances	8,502	(174,996)
Decrease/(increase) in current tax assets	8,594	(6,624)
Decrease/(increase) in other operating assets	(3,252)	8,833
Increase/(decrease) in trade and other payables	(2,950)	1,411
Increase in deposits liability	299	215,645
Increase/(decrease) in current tax liabilities	6,205	(17,141)
Increase/(decrease) in deferred tax liabilities	23,749	(11,159)
Increase in provisions	18,200	30,129
Increase/(decrease) in benefit fund policy liabilities	(27,967)	26,721
Increase in other operating liabilities	35,004	21,529
Net cash inflow from operating activities	81,023	116,747

* Refer to note 21(c) for details regarding the restatement.

(b) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities \$'000	Other liabilities \$'000	Total \$'000
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 of RBA term funding facilities	25,193	-	25,193
Receipts from resident loan liabilities	-	68,599	68,599
Receipts of refundable lease deposits	-	31,908	31,908
	201,203	84,187	285,390
Closing balance as at 30 June 2020	499,646	1,224,934	1,724,580
Opening balance as at 1 July 2020	499,646	1,224,934	1,724,580
Cash flows			
Proceeds from RVIN issue	21,992	-	21,992
Repayments of RVIN	(8,743)	-	(8,743)
Receipts from bank loans	40,660	-	40,660
Repayments of Series B Australian Unity Bonds	(71,326)	-	(71,326)
Repayments of development finance loans	(37,646)	-	(37,646)
Receipts of RBA term funding facilities	18,389	-	18,389
Receipts from resident loan liabilities	-	59,254	59,254
Receipts of refundable lease deposits	-	20,788	20,788
	(36,674)	80,042	43,368
Closing balance as at 30 June 2021	462,972	1,304,976	1,767,948

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.

21 Critical accounting estimates, judgements and errors

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 a certain valuation component is not available, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends. These valuations are based upon assumptions established by application of professional judgement to analyse the data available to support each assumption. Changing the assumptions may change the resulting estimate of fair value.

(ii) Estimated impairment of loans and advances

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

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

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

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

(iv) Retirement village investment property

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

(v) 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 25 and 34.

(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 23. 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.

Risk management *continued***21 Critical accounting estimates, judgements and errors** *continued***(c) Restatement of prior year results**

During the year ended 30 June 2021, retrospective adjustments impacting the Group's prior years' financial statements were identified. The requirement for these adjustments was identified during the following reviews performed by the Group during the year:

- historical payroll and superannuation reviews as noted in the Group's interim report at 31 December 2020, which identified errors causing underpayments to employees impacting multiple prior financial years; and
- a review of Home Care Package (HCP) accounting processes in our IAL platform, which identified reconciliation errors impacting revenue in prior financial years. The HCP review was undertaken in the context of changes made by the Commonwealth Government to the HCP funding model, which in February 2021 adjusted funding from payments in advance to payments in arrears. The errors identified did not impact customers, specifically no funds are owed to any and none have been underserved.

Further details of these reviews are set out in the Group's Operating and financial review in the Directors' report.

As a result, the affected financial statement line items have been restated for the prior periods as set out below and changes have been footnoted throughout the financial report. A provision made in 2020 which is now recognised in prior years has resulted in an expense reduction in the 2020 year.

	30 June 2020 As previously presented \$'000	Adjustments \$'000	30 June 2020 As restated \$'000	30 June 2019 As previously presented \$'000	Adjustments \$'000	30 June 2019 As restated \$'000
Consolidated balance sheet (extract)						
Current tax assets	3,761	4,833	8,594	-	-	-
Total assets	6,476,481	4,833	6,481,314	5,816,616	-	5,816,616
Trade and other payables	175,388	11,143	186,531	190,409	10,098	200,507
Current tax liabilities	-	-	-	19,457	(1,970)	17,487
Provisions	148,896	799	149,695	119,929	549	120,478
Other current liabilities	1,403,212	6,809	1,410,021	1,275,843	-	1,275,843
Deferred tax liabilities	72,130	(288)	71,842	86,048	(885)	85,163
Total liabilities	5,753,202	18,464	5,771,666	5,098,223	7,792	5,106,015
Net assets	723,279	(13,631)	709,648	718,393	(7,792)	710,601
Retained earnings	469,103	(13,631)	455,472	459,543	(7,792)	451,751
Total equity	723,279	(13,631)	709,648	718,393	(7,792)	710,601
Consolidated statement of comprehensive income (extract)						
Revenue and other income	1,412,662	(11,746)	1,400,916			
Expenses, excluding finance costs	(1,382,063)	3,641	(1,378,422)			
Operating profit	30,599	(8,105)	22,494			
Loss before income tax	(9,600)	(8,105)	(17,705)			
Income tax benefit	24,564	2,266	26,830			
Profit after income tax	14,964	(5,839)	9,125			
Total comprehensive income for the year	10,290	(5,839)	4,451			
Profit for the year is attributable to:						
Members of Australian Unity Limited	14,964	(5,839)	9,125			
Total comprehensive income for the year is attributed to:						
Members of Australian Unity Limited	10,290	(5,839)	4,451			

22 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 & 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.

The unprecedented economic challenges associated with the COVID-19 pandemic continue to have wide-ranging impacts upon the financial markets. In response to this, the Group continues to strengthen its prudence 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 possible movements in currencies, securities prices and interest rates.

(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: price risk, interest rate risk and foreign currency 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) 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 14% (2020: 25%) 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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Judgements of reasonably possible movements				
Securities prices +14% (2020: +25%)	11,305	8,616	11,305	8,616
Securities prices -14% (2020: -25%)	(11,305)	(8,616)	(11,305)	(8,616)

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

Risk management *continued***22 Financial risk management** *continued***(a) Market risk** *continued***(ii) 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 risk management strategy. During the years ended 30 June 2021 and 2020, the Group's borrowings at variable rate were denominated in Australian Dollars.

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

	2021 \$'000	2020 \$'000
Financial assets		
Cash and cash equivalents	638,848	661,616
Financial assets at fair value through profit or loss	216,379	166,637
Loans and advances	609,238	700,719
	1,464,465	1,528,972
Financial liabilities		
Australian Unity Bonds	322,019	393,345
Call deposits	675,731	487,067
Loan payable to related entity	5,100	5,100
Interest rate swap, at notional principal amounts	(322,019)	(322,019)
	680,831	563,493
Net position	783,634	965,479

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

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

As at the end of the reporting period, if interest rates had increased or decreased by 0.60% (2020: 1.00%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Judgements of reasonably possible movements				
Interest rates +0.60% (2020: +1.00%)	(1,967)	(337)	(1,967)	(337)
Interest rates -0.60% (2020: -1.00%)	1,967	337	1,967	337

Australian Unity Bonds interest rate hedging

As at 30 June 2021, Australian Unity Bonds consisted of Series C at a face value of \$115,019,000 maturing in December 2024 and Series D at a face value of \$207,000,000 maturing in December 2026. The bonds bear interest at the three-month BBSW rate plus a fixed margin. Series C and Series D bonds carried a fixed margin of 2.00% and 2.15% respectively which resulted in total interest rates of 2.04% (2020: 2.18%) for Series C and 2.19% (2020: 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 at rates ranging from 0.90% to 0.95% for Series C and 1.12% to 1.13% for Series D.

As at 30 June 2020, the amount of Australian Unity Bonds included Series B at a face value of \$71,326,000 and carried interest at the three-month BBSW rate plus 2.8% fixed margin. The variable interest component was hedged via an interest rate swap at 2.20% per annum. The bonds and the associated swap contracts matured in December 2020.

(iii) 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.

(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.

Trade and other receivables

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

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

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

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

Loans provided by the bank to customers

The Group's subsidiary Australian Unity Bank 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 movements in credit loss provision during the current financial year was immaterial.

Other loans and advances

The Group has loans 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.

Risk management *continued***22 Financial risk management** *continued***(b) Credit risk** *continued*

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired \$'000	Past due and impaired \$'000	Total \$'000
	High grade \$'000	Other grade \$'000			
At 30 June 2021					
Cash and cash equivalents	1,008,647	-	-	-	1,008,647
Trade and other receivables	499	66,578	61,043	1,850	129,970
Financial assets at fair value through profit or loss	827,899	1,521,045	-	-	2,348,944
Other financial assets at amortised cost	47,278	-	-	-	47,278
Loans and advances	798,694	78,037	30,083	13,792	920,606
Other financial assets	-	47,316	-	-	47,316
	2,683,017	1,712,976	91,126	15,642	4,502,761

	Neither past due nor impaired		Past due but not impaired \$'000	Past due and impaired \$'000	Total \$'000
	High grade \$'000	Other grade \$'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

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 \$34,930,000 (2020: \$18,560,000).

The Group provides financial guarantees to certain parties amounting to \$69,479,000 (2020: \$52,823,000). 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 2021 (refer to notes 28 and 29), 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 2021						
Trade and other payables	187,451	-	-	-	-	187,451
Current tax liabilities	-	-	-	-	-	-
Interest bearing liabilities						
Australian Unity Bonds	5,066	5,066	150,512	210,388	-	371,032
RBA term funding facilities	41	41	43,671	-	-	43,753
Bank loan	371	371	41,146	-	-	41,888
Call deposits	686,760	-	-	-	-	686,760
Term deposits	148,143	42,470	8,493	-	-	199,106
Mortgage offset savings accounts	137,302	-	-	-	-	137,302
Retirement Village Investment Notes	1,286	1,286	55,686	-	-	58,258
Loan payable to related entity	59	5,159	-	-	-	5,218
	979,028	54,393	299,508	210,388	-	1,543,317
Lease liabilities	8,300	8,060	55,534	95,288	-	167,182
Benefit fund policy liabilities	175,864	172,331	-	-	2,114,392	2,462,587
Other liabilities	1,480	-	3,993	-	1,311,693	1,317,166
Total liabilities	1,352,123	234,784	359,035	305,676	3,426,085	5,677,703

	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	186,531	-	-	-	-	186,531
Interest bearing liabilities						
Australian Unity Bonds	78,004	5,066	153,867	217,164	-	454,101
RBA term funding facilities	31	31	25,309	-	-	25,371
Bank loan	38,622	-	-	-	-	38,622
Call deposits	503,940	-	-	-	-	503,940
Term deposits	310,314	75,760	14,735	-	-	400,809
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	1,410,907	228,539	267,153	324,416	3,254,702	5,485,717

Risk management *continued*

22 Financial risk management *continued*

(d) Capital risk management

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

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

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

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

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2021 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 business of the Group provides private health insurance which provides benefits to cover costs arising from a range of services, including hospital services, medical services, prostheses and ancillary services. Some contracts cover all services, some cover only ancillary services and others cover all services excluding ancillary services. The benefits are provided under two types of contracts – health insurance contracts and health related insurance contracts. The latter provides cover for overseas visitors.

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

Product design

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

Claims management

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

Insurance risk and experience monitoring

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

Prudential capital requirements

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

Risk equalisation

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

Concentration of insurance risk

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

Ability to vary premium rates

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

Preventative health programs

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

(f) Operational risk management

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

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

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

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

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

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

Group structure

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

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

23 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 Ltd	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
	Kookaburra Securitisation Trust 2021-1R
	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

24 Parent entity financial information

(a) Summary financial information

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

	2021 \$'000	2020 Restated* \$'000
Balance sheet		
Cash and cash equivalents	162,385	217,187
Other current assets	172,820	161,823
Current assets	335,205	379,010
Non-current assets	965,403	851,332
Total assets	1,300,608	1,230,342
Current liabilities	59,739	130,037
Non-current liabilities	402,244	353,865
Total liabilities	461,983	483,902
Members' balances	255,625	255,625
Mutual Capital Instruments	116,897	-
Reserves	(2,295)	(8,546)
Retained earnings	468,398	499,361
Total equity	838,625	746,440
Profit for the year	(29,124)	18,694
Total comprehensive income for the year	(29,124)	18,694

The movement in the Profit/(loss) relates to a \$35,180,000 lower dividend from the Australian Unity Healthcare Limited subsidiary during the year, a \$5,350,000 non-cash revaluation decrease upon the transfer of a strategic investment to a controlled entity (nil impact on a Group consolidated basis) and higher year on year employment costs \$6,780,000.

* Refer to note 21(c) for details regarding the restatement.

(b) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2021 and 2020.

(c) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2021 and 2020.

Group structure *continued***25 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

	2021 \$'000	2020 \$'000
Revenue		
Premium revenue	671,335	673,427
Net claims expense		
Claims expense	(597,346)	(626,211)
Risk equalisation and reinsurance recoveries	69,702	74,259
State levies	(3,437)	(3,439)
Total net claims expense	(531,081)	(555,391)
Gross underwriting result	140,254	118,036
Management expenses		
Commission	(15,077)	(13,078)
Employee benefit expense	(27,442)	(26,047)
Marketing	(5,054)	(3,712)
Technology	(10,681)	(10,213)
Other management expenses	(25,151)	(21,921)
Total management expenses	(83,405)	(74,971)
Net underwriting result	56,849	43,065
Investment income	10,638	2,183
Finance costs	(1,738)	(1,904)
Profit before income tax	65,749	43,344
Income tax expense	(19,520)	(12,605)
Profit after income tax	46,229	30,739

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

	2021 \$'000	2020 \$'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	16,235	16,535
Net RESA raised during the year	69,702	74,259
Net RESA received during the year	(64,270)	(74,559)
Balance at the end of the financial year	21,667	16,235

(c) Claims provision (current liabilities)

The amounts of outstanding claims and deferred claims are as follows:

	2021 \$'000	2020 \$'000
Outstanding claims - central estimate including risk equalisation	46,445	46,117
Risk margin	3,700	3,922
Claims handling costs	1,600	1,400
Outstanding claims provision	51,745	51,439
Deferred claims - central estimate including risk equalisation	43,583	32,002
Risk margin	6,263	4,603
Claims handling costs	1,476	1,008
Deferred claims provision	51,322	37,613
Total claims provision	103,067	89,052

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

	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	51,439	63,584
Claims incurred during the year	586,337	581,324
Claims paid during the year	(583,331)	(600,743)
Movement in other components	(2,700)	7,274
Balance at the end of the financial year	51,745	51,439

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

	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	37,613	-
Deferred claims provision incurred during the year	27,471	37,613
Unwinding of provision during the year	(14,248)	-
Movement in other components	486	-
Balance at the end of the financial year	51,322	37,613

(d) Outstanding claims liability

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 an adjusted chain ladder method, except for hospital claims incurred for the June 2021 service month, which is based on the Group's most recent central estimate claims forecast. For hospital claims incurred in or prior to the service month of May 2021, 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 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 7.7% (2020: 8.7%) combined with the central estimate is estimated to equate to a probability of adequacy of at least 95% (2020: at least 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The weighted average expected term to settlement of claims from the balance date is estimated to be 1.8 months (2020: 1.8 months). The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments of \$736 million (2020: \$6.91 million).

Group structure *continued***25 Health insurance financial information** *continued***(d) Outstanding claims liability** *continued***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 \$3.25 million decrease/increase to profit after tax and equity (2020: \$3.23 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.

(e) Deferred claims liability

The deferred claims liability relates to claims deferred due to restrictions imposed on elective surgery and access to ancillary benefits in response to the COVID-19 pandemic. The Company experienced unusually low claims volumes due to the restrictions on health services that were imposed across various states, particularly in Victoria during the period from March up to November 2020 and subsequent short restrictions during May and June 2021.

There is a general expectation that, as 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 is recorded, representing management's estimate of claims that did not occur or have yet to catch up due to the impact of COVID-19.

Risks and uncertainties have been taken into account in the measurement of the liability and are reflected in the key inputs and judgements, which include the following factors:

Judgement	Input
Estimated value of claims that did not occur due to restrictions imposed on elective surgery and access to ancillary benefits, less estimated value of claims caught up to date.	An analysis of the actual underlying claims data versus the expected level of claims projected in the Company's 2020 premium round forecast (for the period 26 March 2020 to 30 June 2020) and 2021 premium round forecast (for the period 1 July 2020 to 30 June 2021).
Estimated deferral rates applied to the difference between the expected and actual claims incurred.	Deferral rates of 82% and 73% (2020: 82% and 73%) applied to the difference between the expected and actual claims incurred for Hospital and Ancillary claims respectively. The deferred percentages are based on expert actuarial and clinical review of underlying claims categories.
Estimated timeframe over which deferred insured surgeries and other procedures will be caught up.	The speed of catch-up claim activity to date, for all states, post lifting of restrictions has been slower than expected, despite there being limited evidence of capacity constraint issues being reported by health service providers. The Company is of the view that this supports the existence of voluntary deferral of services by policyholders after restrictions have been lifted, and as a result has applied a 3 month holding period prior to commencing amortisation of the deferred claims provision over an 18 month period.
Estimated impact of risk equalisation.	The risk equalisation component of the deferred claims liability was estimated using the same methodology used for the risk equalisation component of the outstanding claims liability.

The expected future payments for claims incurred are expected to be settled within less than one year on average, 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 \$5.63 million (2020: \$3.99 million).

The risk margin of 13.9% (2020: 13.9%) is estimated to equate to a probability of adequacy of at least 95% (2020: at least 95%) and was derived based on the historical outstanding claims uncertainty and information from APRA.

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 3% increase/decrease (2020: 2%) in the most recent claims forecast prior to the COVID-19 period would result in a \$4.89 million decrease/increase (2020: \$1.89 million) to profit after tax and equity.
- A 10 percentage point increase/decrease (2020: 10 percentage point) in the estimated deferral rate for hospital deferred claims would result in a \$3.43 million decrease/increase (2020: \$2.42 million) to profit after tax and equity.
- A 10 percentage point increase/decrease (2020: 10 percentage point) in the estimated deferral rate for ancillary deferred claims would result in a \$1.12 million decrease/increase (2020: \$0.90 million) to profit after tax and equity.
- A 5 percentage point increase/decrease (2020: 5 percentage point) in the deferred claims liability risk margin would result in a \$1.58 million decrease/increase (2020: \$1.16 million) 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 2021 (2020: \$nil) at a 75% (2020: 75%) 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 having more confidence that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

26 Bank financial information

The disclosures below relate only to the bank activities of the wholly owned subsidiary Australian Unity Bank Limited.

(a) Financial performance summary

	2021 \$'000	2020 \$'000
Interest income		
Effective interest	26,322	28,179
Other	3,358	2,950
	29,680	31,129
Interest expense	(8,051)	(11,680)
Net interest income	21,629	19,449
Other banking income	1,910	2,547
Total income	23,539	21,996
Operating expenses	(16,932)	(19,329)
Profit before income tax	6,607	2,667
Income tax expense	(1,988)	(810)
Profit after income tax	4,619	1,857

(b) Financial position summary

	2021 \$'000	2020 \$'000
Cash and cash equivalents	23,932	31,080
Financial assets at fair value through profit or loss	170,817	143,669
Other financial assets at amortised cost	43,218	39,246
Loans and advances	905,359	911,793
Other assets	7,480	8,075
Total assets	1,150,806	1,133,863
Interest bearing liabilities	1,065,669	1,055,989
Other liabilities	4,013	2,869
Total liabilities	1,069,682	1,058,858
Net assets (Equity)	81,124	75,005

(c) Capital adequacy

	2021 \$'000	2020 \$'000
Reserves and retained earnings	86,924	80,888
Less regulatory prescribed adjustments	(4,863)	(5,496)
Regulatory capital base	82,061	75,392
Risk weighted exposures	528,226	522,574
Capital adequacy ratio	15.5%	14.4%

Group structure *continued***27 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 2021			
Revenue and other income	1,443,143	-	1,443,143
Direct life insurance premium revenue	-	405	405
Outwards reinsurance expense	-	(193)	(193)
Deposits received - investment contracts with Discretionary Participating Feature (DPF)	-	38,392	38,392
Investment income	-	224,381	224,381
Other	-	(56)	(56)
Total revenue and other income	1,443,143	262,929	1,706,072
Life insurance claims expense	-	(835)	(835)
Benefits and withdrawals paid - investment contracts with DPF	-	(81,481)	(81,481)
Movement in policyholder liabilities	-	(98,055)	(98,055)
Expenses, excluding finance costs	(1,381,586)	(24,668)	(1,406,254)
Total expenses, excluding finance costs	(1,381,586)	(205,039)	(1,586,625)
Finance costs	(37,112)	-	(37,112)
Share of net profits of joint ventures	3,273	-	3,273
Profit before income tax	27,718	57,890	85,608
Income tax benefit/(expense)	5,189	(57,890)	(52,701)
Profit after income tax	32,907	-	32,907
For the year ended 30 June 2020 (Restated *)			
Revenue and other income	1,353,841	-	1,353,841
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	1,353,841	47,075	1,400,916
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	(1,321,240)	(25,371)	(1,346,611)
Total expenses, excluding finance costs	(1,321,240)	(57,182)	(1,378,422)
Finance costs	(41,105)	-	(41,105)
Share of net profits of joint ventures	906	-	906
Loss before income tax	(7,598)	(10,107)	(17,705)
Income tax benefit	16,723	10,107	26,830
Profit after income tax	9,125	-	9,125

* Refer to note 21(c) for details regarding the restatement.

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.

28 Commitments

(a) Capital commitments

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

	2021 \$'000	2020 \$'000
Investment property		
Within one year	135,102	74,717
Later than one year but not later than five years	98,007	64,953
Total capital commitments	233,109	139,670

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 \$21 million – \$25 million.

(b) 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.

	2021 \$'000	2020 \$'000
Irrevocable approved but undrawn loans	34,930	18,560
Revocable loans with balances available for redraw	49,465	45,612
Revocable undrawn lines of credit, credit cards and overdrafts	19,213	19,661
	103,608	83,833

29 Contingencies

Contingent liabilities

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

Guarantees

The Group has entered into bank guarantee arrangements totalling \$69,479,000 (2020: \$52,823,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

The Group had no other contingent assets or liabilities at 30 June 2021.

Unrecognised items *continued***30 Events occurring after the reporting period****Greengate acquisition**

On 7 July 2021, the Group acquired the aged care and retirement living owner-operator Greengate Partnership Pty Ltd (Greengate) for \$95 million. The acquisition includes three recently built and fully operational vertical co-located retirement village and residential aged care precincts (two in Sydney and one in Brisbane) as well as a prime development site in Brisbane that has approval for a vertical retirement village and residential aged care precinct. The three operational sites have added 253 independent living units and 225 residential aged care beds to the Group's Independent & Assisted Living portfolio. The acquisition is part of the Group's strategy of pursuing accelerated growth opportunities in healthy ageing precincts. It has added presence in favourable geographic locations and increased economic scale.

The financial statements of Greengate for the year ended 30 June 2021 are currently in the process of completion and audit. Cash flows in relation to the business acquisition consist of payments for the acquisition price of \$95,000,000 and costs directly related to the acquisition of \$1,325,000, less cash acquired of \$29,145,000. The acquisition-related costs were expensed in the 2020 and 2021 financial years, amounting to \$965,000 and \$360,000 respectively. Except for the respective acquisition-related costs and a deposit of \$4.75 million for the acquisition, the financial effect of the Greengate acquisition has not been brought to account in the financial statements for the 2021 financial year. This will be recognised in subsequent financial reports.

Premium relief to private health insurance policyholders

On 6 September 2021, the board of Australian Unity Health Limited approved additional COVID-19 support for private health insurance (PHI) policyholders through premium relief. In line with claims savings due to the impact of the COVID-19 pandemic, further premium relief of approximately \$6 million will be delivered in the 2022 financial year.

MCI dividend

On 7 September 2021, the board has determined an interim fully franked dividend of \$2.5068 per Australian Unity Mutual Capital Instrument (MCI) to be paid on 15 October 2021.

The financial effects of the above board resolutions in relation to PHI premium relief and the MCI dividend have not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 30 June 2021 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.

31 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 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 32.

(d) Related party transactions

Transactions between the Group and related parties for the financial years ended 30 June 2021 and 2020 were as follows:

- Property development management fees charged to related entities, \$444,955 (2020: \$2,496,921).
- Fees charged by related entities for the construction of aged care and retirement village properties, \$53,103,221 (2020: \$69,106,498).
- Purchase of retirement village units from related entity, \$80,265,284 (2020: \$nil).
- Dividends received from joint ventures, \$1,080,550 (2020: \$1,138,809).
- Investment management fees charged to joint ventures, \$3,118,233 (2020: charged by joint ventures \$825,250).
- Commission, director fees and other costs charged to joint ventures, \$477,271 (2020: charged by joint ventures \$349,376).
- Payments for investments in associates and joint ventures, \$13,149,000 (2020: \$1,848,000).
- Capital returns from joint venture entities, \$10,217,000 (2020: \$nil).
- Proceeds from disposal of investments in joint ventures, \$2,520,000 (2020: \$nil).
- Performance fees charged by joint ventures, \$231,715 (2020: \$2,716,627).
- Donations to a related charity organisation, \$225,632 (2020: \$5,070).
- Investment income from related entities, \$5,716,174 (2020: \$4,607,669).

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:

	2021 \$	2020 \$
<i>Assets</i>		
Cash and cash equivalents	817,196,856	722,637,737
Trade and other receivables	1,000,300	4,119,699
Financial assets at fair value through profit or loss	364,833,766	553,931,228
	1,183,030,922	1,280,688,664
<i>Liabilities</i>		
Trade and other payables	300,309	2,784,543
Loans payable to related entities	5,100,000	42,745,747
	5,400,309	45,530,290

32 Key management personnel disclosures**(a) Key management personnel compensation**

	2021 \$	2020 \$
Short term employee benefits	7,302,514	5,800,141
Post employment benefits	225,988	225,167
Long term benefits	99,975	621,195
Termination benefits	613,085	-
	8,241,562	6,646,503

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.

Other information *continued***33 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

	2021 \$	2020 \$
<i>PricewaterhouseCoopers Australia</i>		
Audit and review of financial statements	1,783,668	1,532,530
Audit of regulatory returns	372,571	393,379
Total remuneration for audit and other assurance services	2,156,239	1,925,909

(b) Taxation and other services

	2021 \$	2020 \$
<i>PricewaterhouseCoopers Australia</i>		
Tax compliance services	18,948	168,597
Tax consulting services	96,375	50,000
Other services	330,555	224,690
Total remuneration for taxation and other services	445,878	443,287
Total auditor's remuneration	2,602,117	2,369,196

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

34 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

	2021 \$'000	2020 \$'000
Life investment contract liabilities	1,538,103	1,303,943
Life insurance contract liabilities - guaranteed element	831,416	889,032
Life insurance contract liabilities - other	650	578
Unvested policyholder liabilities	92,418	97,391
Total policy liabilities	2,462,587	2,290,944
Expected to be realised within 12 months	348,195	268,229
Expected to be realised in more than 12 months	2,114,392	2,022,715
	2,462,587	2,290,944

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

	2021 \$'000	2020 \$'000
Life investment contract liabilities		
Balance at the beginning of the financial year	1,303,943	1,259,311
Increase/(decrease) recognised in the profit or loss	160,572	(15,729)
Premiums recognised as a change in contract liabilities	339,465	250,543
Claims recognised as a change in contract liabilities	(265,877)	(190,182)
Balance at the end of the financial year	1,538,103	1,303,943
Life insurance contract liabilities		
Balance at the beginning of the financial year	889,610	912,851
Increase/(decrease) recognised in the profit or loss	(57,544)	(23,241)
Balance at the end of the financial year	832,066	889,610
Unvested policyholder liabilities		
Balance at the beginning of the financial year	97,391	104,655
Decrease recognised in the profit or loss	(4,973)	(7,264)
Balance at the end of the financial year	92,418	97,391
Net policy liabilities at the end of the financial year	2,462,587	2,290,944

(c) Analysis of policy liability revenue and expenses

	2021 \$'000	2020 \$'000
Revenue and other income		
Total life insurance contract premium revenue	38,797	34,463
Reinsurance expense	(193)	(209)
Life insurance contract claims revenue	38,604	34,254
Interest income	7,321	7,161
Distribution income	128,244	74,497
Realised gains	6,694	6,660
Unrealised gains/(losses)	82,122	(77,652)
Other income	(56)	2,155
Total revenue from life insurance business	262,929	47,075
Expenses		
Total life insurance and participating contract claims expense	82,316	78,045
Life insurance contract claims expense	82,316	78,045
Management fees	24,123	24,847
Other expenses	545	524
Movement in life insurance contract liabilities	(57,544)	(23,241)
Movement in unvested policyholder liabilities	(4,973)	(7,264)
Movement in life investment contract liabilities	160,572	(15,729)
Total expenses from life insurance business	205,039	57,182

Other information *continued***34 Benefit fund policy liabilities** *continued***(d) Actuarial methods and assumptions**

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2021. 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 vested policyholder liabilities which will ultimately be distributed to members or transferred to the management fund (depending on the benefit fund rules).

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2021 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	15.5	2.23%	0.84%	0%	1.39%	70%
Life Assurance Benefit Fund	8.5	1.35%	2.25%	30%	-0.63%	75%
Central Sick and Funeral Fund	9.5	1.51%	2.00%	0%	-0.49%	60%
Funeral and Ancillary Benefit Fund	13.5	1.83%	2.00%	0%	-0.17%	100%
Travel Protection Fund	13.5	1.83%	2.00%	30%	-0.12%	100%
Whole of Life Funeral Fund	11.0	1.60%	1.50%	0%	0.10%	100%

The key assumptions for the policy liability calculations for these 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%

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 judgement. 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 (2020: 2.5 percent) per annum.
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 4.0 percent (2020: 5.0 percent) of deaths will result in claims and the average claim amount is \$1,000 (2020: \$900) inflating at 2.5 percent (2020: 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.

Other information *continued***34 Benefit fund policy liabilities** *continued***(d) Actuarial methods and assumptions** *continued*

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 2021 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)	7.5	0%	2.96%	0%	0%	105%
Capital Guaranteed Funeral Fund (Taxable)	9.0	0%	2.92%	30%	0%	110%
Capital Secured Funeral Fund	6.5	0%	2.98%	0%	0%	120%
Funeral Bond Fund	6.0	0%	1.50%	0%	0%	100%
Prepaid Funeral Fund	6.5	0%	1.50%	0%	0%	110%
Funeral Fund No 2 - Non Taxable	7.0	0%	2.50%	0%	0%	115%
Funeral Fund No 2 - Taxable	8.5	0%	2.50%	30%	0%	115%
Tax Minimiser Funeral Fund	9.0	0%	1.49%	30%	0%	130%

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%

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 2021. 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.

Other information *continued***34 Benefit fund policy liabilities** *continued***(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 2021 and 2020.

For each benefit fund subject to a solvency requirement, the figures in note 35 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 35 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

35 Disaggregated information - Benefit funds

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits \$'000	Investment \$'000	Other \$'000	Claims \$'000	Other \$'000	Before Tax \$'000	After Tax \$'000
30 June 2021							
Non-investment linked benefit funds - Life insurance contracts	212	(2,217)	-	835	(2,557)	(283)	-
Investment linked benefit funds - Life investment contracts with Discretionary Participating Feature (DPF)	38,392	(7,540)	-	81,481	(45,148)	(5,481)	-
Investment contracts without DPF	-	234,138	(56)	-	170,428	63,654	-
Total	38,604	224,381	(56)	82,316	122,723	57,890	-

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)	-

	Assets		Liabilities		Equity \$'000
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	
30 June 2021					
Non-investment linked benefit funds - Life insurance contracts	51,578	415	51,527	466	-
Investment linked benefit funds - Life investment contracts with DPF	843,564	29,554	872,957	161	-
Investment contracts without DPF	1,524,728	64,396	1,538,103	51,021	-
Total	2,419,870	94,365	2,462,587	51,648	-

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	-

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.

Other information *continued*35 Disaggregated information - Benefit funds *continued*

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

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium \$'000	Investment \$'000	Other \$'000	Claims \$'000	Other \$'000	Before Tax \$'000	After Tax \$'000
30 June 2021							
Central sick and funeral fund	-	(325)	-	102	(427)	-	-
Funeral and ancillary benefits fund	3	(666)	-	402	(1,065)	-	-
Funeral fund	-	(775)	-	121	(896)	-	-
Life assurance benefit fund	-	(439)	-	174	(402)	(211)	-
Travel protection fund	65	17	-	16	50	16	-
Other	144	(29)	-	20	183	(88)	-
Total	212	(2,217)	-	835	(2,557)	(283)	-
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	-
	Assets		Liabilities		Capital in excess of prescribed capital amount		Capital adequacy multiple
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	Equity \$'000	\$'000	
30 June 2021							
Central sick and funeral fund	6,924	13	6,906	31	-	221	2
Funeral and ancillary benefits fund	13,969	43	13,969	43	-	1,001	4
Funeral fund	15,450	60	15,536	(26)	-	965	4
Life assurance benefit fund	12,550	139	12,522	167	-	-	1
Travel protection fund	1,503	2	1,236	269	-	261	2
Other	1,182	158	1,358	(18)	-	437	-
Total	51,578	415	51,527	466	-	2,885	
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	

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

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits \$'000	Investment \$'000	Other \$'000	Claims \$'000	Other \$'000	Before Tax \$'000	After Tax \$'000
30 June 2021							
Capital guaranteed bond	62	367	-	5,773	(5,178)	(166)	-
Capital guaranteed funeral bond (taxable)	310	372	-	2,882	(1,876)	(324)	-
Funeral fund no 2	842	701	-	13,277	(11,042)	(692)	-
NextGen investments capital guaranteed fund	7,855	19	-	15,769	(7,798)	(97)	-
Tax minimiser funeral fund	26,867	(10,073)	-	22,649	(1,585)	(4,270)	-
Other	2,456	1,074	-	21,131	(17,669)	68	-
Total	38,392	(7,540)	-	81,481	(45,148)	(5,481)	-

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	-

	Assets		Liabilities		Equity \$'000
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	
30 June 2021					
Capital guaranteed bond	55,975	-	55,707	268	-
Capital guaranteed funeral bond (taxable)	54,841	3,828	57,747	922	-
Funeral fund no 2	173,707	8,752	183,736	(1,277)	-
NextGen investments capital guaranteed fund	41,233	31	41,315	(51)	-
Tax minimiser funeral fund	329,013	13,336	342,824	(475)	-
Other	188,795	3,607	191,628	774	-
Total	843,564	29,554	872,957	161	-

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	-

Other information *continued*35 Disaggregated information - Benefit funds *continued*

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

	Revenue		Expenses	Profit/(loss) for the year	
	Investment \$'000	Other \$'000	Other \$'000	Before Tax \$'000	After Tax \$'000
30 June 2021					
Balanced growth	3,500	(34)	2,568	898	-
Education savings plan	43,735	-	31,872	11,863	-
Managed investment	5,182	-	3,683	1,499	-
NextGen investments	156,254	-	113,614	42,640	-
Select strategies	13,254	-	9,665	3,589	-
Other	12,213	(22)	9,026	3,165	-
Total	234,138	(56)	170,428	63,654	-
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)	-
	Assets		Liabilities		Equity \$'000
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	
30 June 2021					
Balanced growth	22,807	421	21,887	1,341	-
Education savings plan	249,914	29,468	270,965	8,417	-
Managed investment	39,850	327	39,086	1,091	-
NextGen investments	1,038,900	29,430	1,034,711	33,619	-
Select strategies	70,501	1,637	70,069	2,069	-
Other	102,756	3,113	101,385	4,484	-
Total	1,524,728	64,396	1,538,103	51,021	-
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)	-

36 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 2020:

AASB	Title
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework
AASB 2019-3	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
AASB 2019-5	Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
AASB 2020-4	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions

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

Other information *continued***36 Summary of significant accounting policies** *continued***(b) Mutual Capital Instruments** *continued*

Mutual Capital Instruments (MCI) are recognised at the amount of consideration received for securities issued by the Group and reported as equity instruments. Transaction costs, comprising incremental costs directly attributable to MCI transactions, are accounted for as a deduction from equity, net of any income tax benefit. Dividend payments on MCI are recognised directly in equity as a reduction in retained earnings, net of any income tax benefit.

(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 36(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 34.

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.

Other information *continued***36 Summary of significant accounting policies** *continued***(f) Borrowings** *continued*

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.

Securities sold under repurchase agreements are retained on the balance sheet where substantially all of the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within the borrowings when the cash consideration is received.

(g) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(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 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 grants and subsidies will be received and the Group will comply with all attached conditions.

Government grants and subsidies relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants and subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Other information *continued***36 Summary of significant accounting policies** *continued***(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.

Costs incurred in configuring or customising cloud-based software under software as a service (SaaS) arrangements are recognised as intangible assets if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Those costs that do not result in creating an intangible asset are expensed as incurred, unless they are paid to the supplier of the SaaS arrangement to significantly customise the cloud-based software for the entity, in which case the costs are recorded as a prepayment for services and amortised over the expected term of the arrangement.

(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 10 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.

Other information *continued*

36 Summary of significant accounting policies *continued*

(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 36(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.

(t) Investments and other financial assets

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.

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.

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.

Repurchase agreements

Securities sold under repurchase agreements are retained on the balance sheet where substantially all of the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within the borrowings when the cash consideration is received.

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

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.

Other information *continued***36 Summary of significant accounting policies** *continued***(u) Leases** *continued***Group as a lessee** *continued***Initial measurement** *continued*

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.

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.

(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.

Other information *continued***36 Summary of significant accounting policies** *continued***(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 & 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.

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 ongoing 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 uncollectible amounts.

The Group applies the simplified expected credit loss approach in place of the incurred credit loss. Under the expected credit loss approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the impairment loss is recognised in the profit or loss. When a trade receivable for which an impairment provision had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

Other information *continued***36 Summary of significant accounting policies** *continued***(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.

(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 2021 reporting period and have not been adopted by the Group.

AASB	Title	Operative Date ^{*)}
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2023
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 2020-3	Amendments to Australian Accounting Standards – For-Profit Private Sector Entities Annual Improvements 2018–2020 and Other Amendments	1 January 2022
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 – Deferral of Effective Date Covid-19- Related Rent Concessions: Tier 2 Disclosures	1 July 2021
AASB 2020-8	Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2	1 January 2021
AASB 2020-9	Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2)	1 July 2021
AASB 2021-2	Amendments to Australian Accounting Standards – and Other Amendments Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-3	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
AASB 17	Insurance contracts	1 January 2023

^{*)} Operative date is for the annual reporting periods beginning on or after the date shown in the above table, unless otherwise stated.

The Group's assessment on the potential impact of AASB 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.

AASB 17 Insurance contracts

AASB 17 will replace AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* and applies to reporting periods beginning on or after 1 January 2023. The Group's application date will be from 1 July 2023.

The standard will 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 liabilities 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 application of this standard will affect the health insurance and life insurance businesses of the Group, impacting the operation of those businesses, the presentation of financial statements and introducing substantial changes to note disclosures.

The Group's health insurance business plans to use the simplified premium allocation approach under AASB 17 for all health insurance contracts, which is similar in effect to the current measurement basis under AASB 1023. A preliminary report performed to assess the requirements of AASB 17, any gaps in data requirements and options available under AASB 17 identified no significant gaps or system issues.

In addition, a preliminary (unaudited) quantitative analysis of the impact of implementing AASB 17 has been undertaken and investigated the impacts if AASB 17 was applied under a range of scenarios. Based on this analysis, it is expected that AASB 17 will reduce the balance sheet assets and liabilities of the health insurance business, with the impact on net assets and profits expected to be relatively small. AASB 17 is expected to cause variations in individual years' profits, but, due to the short-tailed nature of health insurance liabilities, any changes may be quickly offset. AASB 17 does not change the underlying performance of the health insurance fund.

AASB 17 introduces a different definition of insurance contract to that under AASB 1023 and 1038. Preliminary unaudited analysis evidences that the AASB 17 definition of insurance contract will not apply to the majority of the Group's life insurance business, so from 1 July 2023 it is planned that these contracts will be reported under AASB 9 *Financial Instruments*. The business has identified those products offered to clients which include significant insurance risk and is now reviewing opportunities to rationalise these products in order to conclude on whether the Group's life insurance business could be reported solely on an AASB 9 basis rather than under AASB 17, thus reducing potential financial and operational impacts.

(ak) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 24 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.

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 41 to 121 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 2021 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 36; and
- (c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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



Peter Promnitz
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
7 September 2021

Independent auditor's report to 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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$8.6 million, which represents approximately 1% of the Members' Funds of the Group (Total equity). 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. 	<ul style="list-style-type: none"> Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group is structured into four operating segments, being Retail, Wealth & Capital Markets, Independent & Assisted Living (IAL) and Corporate Functions. 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 segment, which provides payroll, accounts payable and corporate treasury services to the Group. We performed specific risk focused audit procedures over certain account balances, and at a Group level this included the consolidation process and the preparation of the financial report.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of retirement village independent living units (Refer to notes 11 and 12) [\$1,556.4 million]</p> <p>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”).</p> <p>Retirement villages are carried at fair value, which 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:</p> <ul style="list-style-type: none"> • resident turnover rates, including the expected average length of stay based on mortality assumptions and voluntary turnover assumptions • property growth rates • discount rates. <p>At 30 June 2021, the Group engaged an external valuer to review the key assumptions used in the models.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit procedures over the valuation of retirement villages included the following:</p> <ul style="list-style-type: none"> • 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 data inputs used in the models to underlying contracts. • In relation to the review of key valuation assumptions performed by the external valuer, we performed the following procedures amongst others: <ul style="list-style-type: none"> • 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. • Together with our PwC valuation experts, evaluated the appropriateness of the external valuer's methodology. • 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 appropriateness of key assumptions applied in the valuation models. • We assessed the mathematical accuracy of a sample of the models.



Revenue recognition - government grants and subsidies funding aged care, home and disability services

(Refer to note 2) [\$208.4 million]

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 36(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.

Revenue recognition - Independent and assisted living services and other fees

(Refer to notes 2 & 21) [\$224.4 million]

Revenue from services includes revenue from independent and assisted living services and other fees for 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 the volume and complexity of processing these transactions and calculating revenue recognised during the period. This revenue stream was also subject to a restatement during the year as disclosed in Note 21(c).

- 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

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 2021.

For revenues related to home and disability services, we performed the following procedures, amongst others:

- Agreed a sample of subsidy and supplement funds received by the Group to bank statements.
- For a sample of individual customers we agreed services delivered to client statements, customer agreements, rate cards and Medicare statements to assess whether the revenue recognition criteria had been met during the period.
- A significant input into the revenue recognition calculation is the calculation of unspent funds for an individual customer at 30 June 2021. On a sample basis we tested the completeness and accuracy of the calculation of the unspent funds liability at 30 June 2021.
- Obtained an understanding of the reconciliation errors impacting revenue in prior financial years as outlined in Note 21(c)



Valuation of intangible assets (Refer to note 15) [\$313.8 million]

The Group recognised \$313.8 million of intangible assets at 30 June 2021. \$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 cash generating units (CGUs) and assess whether impairment of these intangible assets was required.

The assessment of the valuation of intangible assets in the Home & Disability Services and Wealth Advice Services was a key audit matter due to the judgement required in determining the recoverable amount of these CGUs as outlined in Note 15.

Valuation of actuarially determined health insurance liabilities (Refer to notes 16 and 25) [\$103.1 million]

Actuarially determined insurance liabilities include claims provisions relating to the Group's health insurance business (\$103.1 million).

The claims provisions relating to the Group's health insurance business consists of an outstanding claim liability of \$51.8m and a deferred claim liability of \$51.3m (collectively the 'Group's health insurance claim liability').

to the financial statements. For a sample of the reconciling items, we obtained supporting evidence such as client statements, customer agreements, rate cards or Medicare statements.

- We agreed the calculation of the prior period error to the retrospective restatement in Note 21(c) of the financial statements.

We performed the following procedures, amongst others, to assess the valuation of intangible assets:

- Assessed whether the level at which the impairment assessment was performed was consistent with our knowledge of the Group's operations and internal Group reporting.
- Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU for the purposes of impairment.
- Compared the forecast cash flows used in the impairment assessment to the latest business forecasts.
- Compared the performance of the CGUs against historical forecasts to assess the historical accuracy of previous cash flow forecasts.
- With the assistance of PwC valuation experts, assessed whether the discount rates used in the value in use models appropriately reflected the risks of the CGUs and the specific risk relating to the segments in which they operate.
- Assessed the overall appropriateness 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.

To assess the assumptions used by the Group to determine the value of the Group's health insurance claim liability, 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, (including data reconciliation and the Group's review of the estimate) and tested the operating effectiveness of a sample of these controls throughout the year.



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 2020 to June 2021 (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% (2020: at least 95%).

This was a key audit matter because of the significant judgement required by the Group in estimating the Group's health insurance claim liability, including continued 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.

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.

- 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.
- Assessed the key actuarial assumptions used by the Group in estimating its health insurance liabilities. This included assessing the key actuarial assumptions against the requirements of Australian Accounting Standards and also comparing them to the Group's historical experience, observable market trends, 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 appropriateness 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 year, to the estimate of the Group's health insurance claims provision.
- We assessed the adequacy of the disclosure of the Group's health insurance claim liability against the requirements of the applicable Australian Accounting Standards.

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 2021, 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 33 to 40 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Australian Unity Limited for the year ended 30 June 2021 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.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the same signature.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Andrew Cronin', is written over a faint, larger version of the same signature.

Andrew Cronin
Partner

Melbourne
7 September 2021

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	<i>Corporations Act 2001</i> (Cth)
CSV	Community & Social Value
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ESG	Environmental, Social and Governance
FUM	Funds under management
HCS	Home Care Services
IAL	Independent & Assisted Living
KMP	Key Management Personnel
MCI	Mutual Capital Instrument
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
STARS	Surgical, Treatment and Rehabilitation Service
W&CM	Wealth & Capital Markets



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