

ASX Announcement

30 August 2023

Australian Unity Limited – Full Year Financial Report

Please find **attached** Australian Unity Limited's full year financial report for the year ended 30 June 2023.

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

The Board of Australian Unity Limited

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

Australian Unity Limited

ABN 23 087 648 888

**Annual financial report and directors' report
for the year ended 30 June 2023**

Australian Unity Limited ABN 23 087 648 888
Annual financial report and directors' report - 30 June 2023

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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 2023.

Directors

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

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

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2023.

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 and home care 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

Dividends paid to the holders of Australian Unity Mutual Capital Instruments (MCI) during the financial year were as follows:

	2023 \$'000	2022 \$'000
Dividend for the 2023 financial year of \$2.4932 per MCI paid on 17 April 2023	8,562	-
Dividend for the 2023 financial year of \$2.5068 per MCI paid on 17 October 2022	8,608	-
Dividend for the 2022 financial year of \$2.4932 per MCI paid on 19 April 2022	-	8,562
Dividend for the 2022 financial year of \$2.5068 per MCI paid on 15 October 2021	-	3,008
	17,170	11,570

Operating and financial review

In the year to 30 June 2023, the Australian Unity Group continued advancing its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value supportive of personal and community wellbeing.

The year under review provided a markedly different operating environment compared to the prior year, following the unwinding of most of the COVID-19 pandemic restrictions. In this year, however, the economy, businesses and communities faced the post-pandemic impact of significant investment market disruption and volatility, increasing inflation, rapidly increasing interest rates and policy interventions in industry settings. In this context, Australian Unity delivered a solid financial result.

Profit after tax for the year under review was \$56.8 million, compared to \$45.7 million in the prior year. The current year included a \$17.8 million pre-tax profit on the disposal of the Group's dental activities while the prior year included \$39.4 million of before tax business combination uplifts arising from the acquisition of Greengate Partnership Pty Ltd and obtaining a controlling interest in the Platypus Asset Management business.

Operating and financial review (continued)

Highlights of the year included sound results across the Group's business platforms in aggregate—despite activities of the Home Health and Specialist Care platforms continuing to be adversely affected by the pandemic and those in the Retail and Wealth & Capital Markets (W&CM) platforms by the flow-on effects in financial markets and of regulatory change. The Home Health operating model developed encouragingly, improving its patient and outcome-focused healthcare services, including scaling technology systems effectively to support a larger workforce in the care economy. Results in the Retail and Specialist Care platforms improved over the financial year while those of the W&CM platform were impacted by investment and real estate market volatility and relative performance by the prior year business combination uplifts referred to above. The Group continued to advance its social infrastructure agenda, which included the further growth of funds invested in critical social infrastructure, such as healthcare and aged care facilities, disability accommodation and childcare.

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

As it had throughout the pandemic, Australian Unity sought to respond to conditions by maintaining, and where possible improving, levels of service and responsiveness to the needs and wellbeing of members, customers and employees, while at the same time pursuing efficiency measures to mitigate risks and curtail expenditures. This approach remains in place.

To acknowledge the impact of COVID-19 on health insurance members' access to some health services, Australian Unity announced the deferral of the implementation of the 2023 premium increase for private health insurance (PHI) policyholders from 1 April 2023 to 1 November 2023. Australian Unity now announces that it plans a further deferral of the 2023 premium increase until 1 April 2024. These deferrals add to the package of financial support and relief measures previously provided to support our PHI policyholders through the pandemic in recognition of the impact of restrictions on access to healthcare services.

Initiatives announced in prior periods have also included the provision of premium relief through the application of 'premium-free days'; the implementation of a range of ancillary product benefit improvements; a six-month deferral of the 2020 premium increase; a low, relative to the sector, 2021 premium increase; cover for COVID-19 related hospital admissions; and a range of telehealth services. This newly announced deferral, together with prior initiatives, will bring total support measures to some \$98 million. Further consumer support measures for eligible PHI policyholders will be considered by the board.

The Group's total revenue and other income increased to \$1,858.2 million (2022: \$1,361.3 million) during the year under review. Overall, revenues from operating businesses grew by \$64.1 million (\$85.7 million excluding the already noted current year disposal profit and the prior year's business combination uplifts) while investment earnings lifted by \$50.2 million. Revenues attaching to benefit funds increased by \$382.5 million.

Total expenses, excluding financing costs, were \$1,709.5 million (2022: \$1,356.8 million). Expenses of operating businesses increased by 4.7 percent or \$69.1 million over the prior corresponding period, with higher employee expenses (up \$47.3 million) and banking operation interest expenses (up \$22.1 million) while gross health insurance claims were \$29.9 million lower. Expenses of benefit funds were up \$283.7 million.

The overall outcome represents a strengthening in the aggregate financial position, with operating earnings for the year of \$76.6 million—an increase of \$28.1 million or 58.0 percent on the prior year.

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

In June 2022, the Group announced that the Independent & Assisted Living platform was being divided into two new business areas—Home Health and Specialist Care. Consequently, the Group's operations during the year have been conducted through four business platforms: Home Health; Retail; Specialist Care and W&CM. Key aspects of the operating, financial and strategic performance of each platform during the year to 30 June 2023 are set out below.

Operating and financial review (continued)

Following a review of our aged care operations in light of broad challenges facing the sector, the Group confirmed in June 2023 that it would continue its involvement in this sector. The review revealed and confirmed a number of ongoing challenges regarding the operating circumstances of much of the residential aged care sector—notably, rising demand, pressure on financial sustainability and ongoing uncertainty regarding regulatory and funding settings. Specifically, the review did not identify marketplace approaches suited to support the operation of Australian Unity's Better Together® model of residential aged care on an ongoing and sustainable basis. Given this, Australian Unity is implementing a set of initiatives designed to improve and maintain near-term financial sustainability, while continuing to deliver high quality care. There are no changes planned for day-to-day operations. The Group will also continue to lobby governments to provide a more supportive environment for residential aged care and to meaningfully address the many policy challenges facing the aged care sector in this country.

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

Home Health

The Home Health platform provides a range of home and clinical care services across both community and virtual settings that are designed to meet the ongoing health and wellbeing needs of our customers and support them to live in their preferred setting for longer.

Financial performance - Home Health

	Full year to 30 June 2023 \$million	Full year to 30 June 2022 \$million	Variance
Total segment revenue	\$424.0	\$379.7	11.7%
Operating expenses	\$378.6	\$346.6	(9.3%)
Adjusted EBITDA	\$45.4	\$33.1	36.8%

In its first year of operation, the Home Health platform saw its continued momentum and strategic focus result in a solid financial gain. Total segment revenue of \$424.0 million for the year, represented an increase of 11.7 percent compared to the prior year (2022: \$379.7 million).

Home Health adjusted EBITDA of \$45.4 million represented an increase of 36.8 percent or \$12.3 million on the prior corresponding period. This increase is predominantly related to the ongoing focus on achieving growth in the delivery of safe minutes of care to our customers, combined with the impact of continued cost savings and business transformation initiatives.

Home Health saw more than 178 million safe minutes of care delivered to our customers by 3,259 healthcare workers across community and virtual care services. Recruitment and retention remain an area of focus for the business, heightened by the ongoing challenges and shortage of front-line workforce experienced across the care industry. Despite this workforce shortage, Home Health achieved healthcare employee growth against the industry trend. After a net decline of 224 workers in the prior year, 345 net new employees joined the business in the year under review. With this rate of healthcare employee growth, combined with ongoing improvements in technology functions to support this larger workforce, the business is well positioned for the new financial year.

Total home care packages under management saw significant growth of 7.4 percent, reaching 10,785 at 30 June 2023—an increase of 742 package clients on the prior year (2022: 10,043).

More than 64,000 hours of allied health services were delivered to home care clients of Australian Unity, an increase of 14.3 percent on the prior year (2022: 56,306).

Within Home Health, and included in the total safe minutes of care above, the Aboriginal Home Care business delivered approximately 13.2 million safe minutes of care to our customers.

The platform also delivered 6,973 'hospital substitution' programs in the period, an increase of 14.8 percent on the prior year (2022: 6,074).

Home Health's partner program with the Beyond Blue support service continued during the year under review, completing its first full year of operation. This delivered approximately 206,000 interactions, providing often critical mental health interventions to users of the service.

Operating and financial review (continued)
Home Health (continued)

Ramsay Connect—the joint venture with Ramsay Healthcare—enrolled more than 2,798 patients into community care hospital substitution and rehabilitation programs, representing a 20.0 percent increase in patient numbers on the prior year.

Outlook

The Home Health business remains focused on becoming an integrated healthcare company delivering services across community and virtual settings. The business will continue to leverage the competitive advantage of being a full service provider with the ability to deliver care across clinical and non clinical services, along with a focus on strategic partnerships, to accelerate growth in safe minutes of care.

Workforce growth and transformation of business operations—including a material investment in technology—will continue to be key priority areas, supporting the business to be well positioned to meet the evolving needs and growing demand for services from our customers, along with the broader sector reform likely to accompany the introduction of Support at Home in July 2025.

Following the Fair Work Commission decision, from 1 July 2023 the cost base of the Home Health business materially increased reflecting the decision to increase the wages of care workers by 15%. The Home Health business has subsequently reviewed and amended pricing, which together with proposed government funding, will allow the business to manage the increased costs.

Retail

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

Financial performance - Retail

	Full year to 30 June 2023 \$million	Full year to 30 June 2022 \$million	Variance
Total segment revenue	\$746.0	\$716.1	4.2%
Operating expenses	\$615.4	\$621.2	0.9%
Adjusted EBITDA	\$130.6	\$94.9	37.6%

The Retail platform delivered a strong result for the year, with an adjusted EBITDA of \$130.6 million—37.6 percent higher than the prior year. Overall revenue of \$746.0 million represented a 4.2 percent increase on the prior year.

The PHI deferred claims liability relating to claims deferred due to COVID-19 government restrictions on some private healthcare services was reduced from \$71.0 million at 30 June 2022 to nil at 30 June 2023.

Total operating expenses were \$615.4 million—\$5.7 million or 0.9 percent lower than the prior year. This decrease reflected a \$45.0 million reduction in health insurance claims net of risk equalisation, \$22.1 million increase in banking interest expense, which was related to the increase in interest rates, and a \$17.2 million increase in other operating expenses across the Retail platform.

In the banking business, new lending growth along with increases in Reserve Bank of Australia (RBA) cash rates led to a 11.4 percent increase in net interest income. The average gross loan book of \$1,140.7 million grew 18.3 percent compared to the prior year. A decline in house prices, higher cost of living inflation and higher cash rate led the increase in its Expected Credit Loss provision on loans by \$0.7 million to \$9.1 million.

Australian Unity Health Limited (private health insurance)

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

The number of private health insurance (PHI) policyholders decreased by 3.6 percent to 162,294 at 30 June 2023 (2022: 168,317), while the number of overseas visitor cover policyholders increased by 20.9 percent to 3,915 (2022: 3,238).

Operating and financial review (continued)
Retail (continued)

The Federal Minister for Health and Aged Care approved Australian Unity Health Limited's (AUHL) 2023 Premium Round submission, with an average increase of 3.76 percent. AUHL deferred this premium increase from 1 April 2023 to 1 November 2023. Australian Unity now announces that it plans a further deferral of the 2023 premium increase until 1 April 2024. Further consumer support measures for eligible PHI policyholders will be considered by the board.

In the second half of the financial year, the health insurance business experienced some operational systems and technology issues that unfortunately delayed our ability to process customers' claims. We apologise to these customers for this negative experience, which has since been remedied and we have now achieved operational improvements.

Australian Unity Bank Limited

As at 30 June 2023, Australian Unity Bank had approximately 26,000 customers, with its total assets growing by \$58.2 million to \$1,394.4 million (2022: \$1,336.1 million) during the year under review. The Expected Credit Loss provision on loans was \$9.1 million (2022: \$8.4 million).

Australian Unity Bank achieved lending growth with \$254.1 million of loans funded in a competitive margin environment. The banking business' Gross Loan Portfolio increased by \$41.9 million or 3.8 percent to \$1,156.4 million (2022: \$1,114.5 million).

Australian Unity Bank continued to operate its Kookaburra Securitisation Program at \$225.0 million. This is a self-securitisation structure acting as a contingent liquidity support capability for the bank with 94.9 percent of notes rated as 'AAA' and currently providing 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 environment remains cautiously positive, notwithstanding the continued uncertainties flowing from COVID-19. It is anticipated that health insurance claims will return to close to normal levels and bank credit growth is likely to be impacted over the coming year due to macro economic factors such as increased inflation and higher interest rates.

The Retail platform will leverage and optimise foundations for the delivery of customer growth and member value. The platform continues to pursue several opportunities arising from the health insurance and banking adjacencies, including packages of banking and insurance products; innovative solutions to tackling health and housing affordability; and customer-centred digital platforms that assist the co-ordination of essential financial and health insurance related services.

Specialist Care

Specialist Care provides retirement living and aged care. The platform also provided disability services for the first half of the financial year and direct health services through dental clinics until the end of the financial year.

Financial performance - Specialist Care

	Full year to 30 June 2023 \$million	Full year to 30 June 2022 \$million	Variance
Total segment revenue	\$255.5	\$229.4	11.4%
Other income	\$ -	\$19.1	n/a
Operating expenses	\$198.6	\$182.9	(8.5%)
Adjusted EBITDA	\$56.9	\$65.6	(13.2%)

The Specialist Care platform recorded a sound financial result with total segment revenue of \$255.5 million, representing an increase of 11.4 percent compared to the previous year (2022: \$229.4 million).

During the period under review, the Group divested the Disability Services business unit, with the transition of customers and care workers to another dedicated disability services provider on 12 December 2022.

Specialist Care's adjusted EBITDA of \$56.9 million represented a decrease of 13.2 percent or \$8.6 million on the prior year. The previous year included a \$19.1 million gain related to a business combination uplift arising from the acquisition of Greengate Partnership Pty Ltd—three established integrated retirement and aged care communities in Sydney and Brisbane. Adjusting for this one-off gain, underlying adjusted EBITDA increased by \$10.4 million or 22.6 percent from the prior year.

Operating and financial review (continued)
Specialist Care (continued)

Residential Communities

Residential Communities opened the Walmsley Residential Aged Care Facility in Kilsyth, Victoria, and The Alba in South Melbourne, Victoria during the year, completing two of its largest seniors living precincts to date. The business now owns and operates 11 integrated retirement villages and residential aged care precincts (2022: 9) and 12 standalone retirement villages (2022:13) across New South Wales (NSW), Victoria and Queensland, comprising 2,724 independent living units (ILUs) and 1,215 aged care beds (2022: 2,664 ILUs and 1,007 aged care beds).

Strong, steady sales growth in the aftermath of the COVID-19 lockdowns of the prior two years continued, with a platform record of over \$172.2 million in resale settlements exceeding the prior year's total by just under 14 percent. The 2023 financial year saw an improvement in occupancy levels across the portfolio's mature retirement villages to 94.7 percent at year end, while the mature residential aged care portfolio strengthened occupancy during the course of the year to end at over 97 percent, reflecting the quality of offering and reduced impact from COVID-19.

As highlighted earlier in this report, the Group confirmed in June 2023 that it would continue its involvement in the residential aged care sector, following a review of our aged care operations in light of the broad challenges facing the sector. There are no changes planned for day-to-day operations.

Dental

Australian Unity operated five dental clinics, located in Melbourne CBD (Spring Street), Hughesdale, Moonee Ponds, Rowville and Box Hill. Patient visits increased by 11.9 percent to 51,935 (2022: 46,426). On 30 June 2023, these dental clinics became part of National Dental Care (NDC), a highly regarded dental network operating across Australia. Under this arrangement Australian Unity health insurance members will have access to NDC's extensive national network of dental clinics.

Development

Working closely with the W&CM platform, the business continued to progress its development pipeline of its signature Better Together® small household aged care model. Please refer to the W&CM section of this report for further information on development activities.

Outlook

Following the divestment of the Disability Services and Dental businesses during the 2023 financial year and the transition of the Retirement Communities operations to the W&CM platform effective from 1 July 2023, the focus of the Specialist Care platform in the year ahead will be on optimising outcomes for residential aged care.

In this regard, the second half of the financial year saw a much-improved performance in these operations, with more efficient cost management, particularly in relation to the use of external agency workforce and occupancy increasing to market leading levels. The platform is cautiously confident of maintaining this positive trajectory in the year ahead while continuing to adapt to ongoing changes in the funding and regulatory landscape affecting the entire sector.

Wealth & Capital Markets (W&CM)

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

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

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

The platform has investment expertise in cash, fixed interest, direct and listed property, emerging Australian companies and Australian shares, along with market-leading products in investment bonds, funeral bonds, and education savings plans, that provide access to contemporary, responsible and sustainable investment and savings options for Australians. In addition, the business works with advisers and industry partners to offer 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.

Operating and financial review (continued)
Wealth & Capital Markets (W&CM) (continued)

Financial performance — Wealth & Capital Markets

	Full year to 30 June 2023 \$million	Full year to 30 June 2022 \$million	Variance
Total segment revenue	\$207.4	\$205.4	1.0%
Other income	\$ -	\$20.3	n/a
Operating expenses	\$191.9	\$187.0	(2.6%)
Adjusted EBITDA	\$15.5	\$38.7	(59.9%)

W&CM undertook a review of its business during the financial year to ensure alignment with the Group's strategic objectives. The review resulted in the development of a new target operating model, which will support the focus on key growth investment markets as well as a renewed focus on our vision of enabling real wellbeing for our members, customers and community through our portfolio of commercial and sustainable businesses.

The W&CM platform recorded a modest increase in total segment revenue compared to the previous year, reflecting improvement in funds under management across the platform.

Adjusted EBITDA reduced by 59.9 percent compared to the prior corresponding period. The previous year included a \$20.3 million gain related to the revaluation of the platform's investment in the Platypus Asset Management business on acquisition of a controlling interest. Adjusting for this one-off gain, underlying adjusted EBITDA reduced by \$2.9 million or 15.6 percent from prior year due to an increase in operating expenses reflecting further investment in the target operating model under the platform strategy.

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 \$31.92 billion at 30 June 2023 (2022: \$28.50 billion). Despite challenging markets over the financial year, AUMA increased by 12.0 percent.

Funds Management

The Funds Management business was restructured during the 2023 financial year to support a focus on growth areas. In a challenging market, the business maintained its focus on building long term value for customers and members through the delivery of superior investment and earnings outcomes underpinning business value growth.

Funds under management and advice (FUMA) stood at \$14.73 billion at year end (2022: \$9.90 billion), resulting from bringing \$5.70 billion of FUMA relating to the Diversified Property Fund, Australian Unity Office Fund, Property Income Fund, Healthcare Property Trust and Select Income Fund into the business as well as positive net flows supported by strong relative investment performance from key product lines. The multi-year development pipeline stood at \$483.3 million (2022: \$1.10 billion) with lending and debt facilities on behalf of investors at \$2.14 billion (2022: \$1.86 billion).

Acorn Capital's (joint venture) funds under management (FUM) grew to \$589.5 million (2022: \$492.8 million). The business continued to grow through the expansion of its distribution efforts, and achieved Lonsec Recommended ratings for the NextGen Resources and Micro Opportunities Funds.

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

Platypus Asset Management's FUMA decreased to \$4.16 billion (2022: \$4.33 billion). Despite benefiting from strong market performance over the period, this was offset by a small number of larger institutional outflows. Australian Unity completed its acquisition of Platypus Asset Management over the period.

Healthcare Property Trust (AUHPT) reached \$3.97 billion in gross asset value (2022: \$3.33 billion), with acquisitions during the period totaling \$113.2 million including the purchase of 14 aged care facilities. This was aided by the successful completion of a greater than \$335 million capital raise, an over-raise relative to target, the establishment of new debt funding lines on favourable terms, along with winning the Direct Property category in the SQM Research Fund Manager of the Year Awards. The proceedings issued by NorthWest Healthcare Australia RE Limited (NorthWest) against Australian Unity parties including the fund's responsible entity, Australian Unity Limited and Australian Unity Strategic Holdings Pty Ltd, were settled in July 2023. Australian Unity has agreed to assist NorthWest and its affiliates to divest their units in AUHPT.

Operating and financial review (continued)
Wealth & Capital Markets (W&CM) (continued)

The Australian Unity Select Income Fund delivered strong growth for the year, reaching \$458.1 million in FUM (2022: \$305.8 million).

The Australian Unity Property Income Fund FUM decreased to \$293.1 million (2022: \$360.0 million) over the period, against a backdrop of ongoing tightening monetary policy and restrictive financial conditions.

Assets under management on behalf of the Australian Unity Group, including the Group's prudentially regulated entities and strategic assets, decreased to \$0.99 billion (2022: \$1.06 billion). In the year to 30 June 2023, this portfolio achieved an investment gain of 3.05 percent against a benchmark of 2.89 percent.

Social Infrastructure

Following a reorganisation of the platform during the year, the Group's presence in social infrastructure investment activities were formed into a dedicated business to focus on driving growth in existing areas and executing additional strategies across the Social Infrastructure sector. This business is responsible for managing the Group's property development activities, delivery of the Herston Quarter redevelopment project, and emerging social infrastructure funds activity.

Assets under management were \$407.0 million as at 30 June 2023 (2022: \$4.92 billion) resulting from transferring \$5.70 billion of FUMA relating to Diversified Property Fund, Australian Unity Office Fund, Property Income Fund, Healthcare Property Trust and Select Income Fund to the Funds Management business. Further capital of \$130.0 million has been committed to the social infrastructure funds while the multi-year development pipeline stood at \$676.8 million (2022: \$205.5 million), with lending and debt facilities on behalf of investors of \$213.6 million (2022: \$191.7 million).

Delivery of the multi-year Herston Quarter health precinct in Brisbane continued, with significant in-ground services work completed, allowing for the construction of the 1,164-bay Northern Car Park. Following completion of the restoration work of the Lady Lamington Towers in late financial year 2022, for contemporary use as 695-beds of student accommodation, this asset was valued at \$65.9 million during the year under review. This is a 28.0 percent increase since the valuation at practical completion in February 2022 of \$51.5 million, largely due to the continuing increase in occupancy to 91.6 percent at the end of the period. The Student Accommodation Fund returned 39.5 percent during the year under review.

During the year the emerging social infrastructure funds comprising childcare, specialist disability accommodation, and the future of healthcare strategies raised \$19.0 million. The Childcare Property Fund's total assets reached \$80.2 million across 13 childcare assets with 1,282 places. The fund returned 8.1 percent. The Specialist Disability Accommodation Fund's total assets of \$124.1 million, included 107 dwellings with a further 120 in development. During the year the fund returned 9.0 percent.

The Australian Unity Future of Healthcare Fund continued to make impactful investments into private opportunities aligned to its social and economic purpose.

The Social Infrastructure business continued to work closely with the Group's Specialist Care platform during the year, with the redevelopment of the 120 bed Walmsley Residential Aged Care Facility in Kilsyth, Victoria, and The Alba, a vertically integrated residential aged care and assisted living development in South Melbourne, Victoria comprising 95 aged care beds and 60 assisted living apartments, both of which were completed during the year under review.

Life & Super

The Life & Super business continued as one of Australia's largest investment, education and funeral bonds provider, with \$2.44 billion in funds under management and administration as at 30 June 2023 (2022: \$2.30 billion).

During the financial year, gross inflows across Life & Super products reached \$221.4 million (2022: \$234.8 million), representing a 5.7 percent decrease compared to the prior period. This outcome was an encouraging result given the high inflation and associated cost of living pressures experienced by households across Australia.

Support for Life & Super's products remained strong, particularly in the independent financial adviser network, and the business continued to work with large industry superannuation funds to broaden access to its products through this expanding network. In the direct-to-consumer market, the 10Invest Investment Bond achieved \$98.3 million of FUM as at 30 June 2023 (2022: \$78.4 million). Australian Unity also continued to occupy a leading position in the pre-paid funeral market via its specialised business Funeral Plan Management, with funeral FUM of \$589.8 million (2022: \$624.5 million) across more than 90,000 clients.

Operating and financial review (continued)
Wealth & Capital Markets (W&CM) (continued)

Advice

In the year under review, the Advice business actively contributed to the Federal government's Quality of Advice Review, a review of measures to improve access to high quality financial advice. This included consulting with key government, industry, community and consumer representatives to draft detailed joint submissions.

Client numbers across employed and self-employed businesses grew to more than 31,000 clients (2022: 26,000). Funds under advice (FUA) grew to \$11.16 billion (2022: \$9.99 billion), while personal life insurance premiums in-force increased to \$112.7 million (2022: \$77.0 million). In addition, separately managed investment accounts (SMA) constructed by the Advice business grew in FUM to \$968.4 million (2022: \$798.7 million).

Trustees

The Trustees business experienced a 17.1 percent growth in FUM to \$0.48 billion in the year to 30 June 2023. This was led by a 49.1 percent increase in new client inflows and a resulting 12.3 percent increase in revenue across traditional trustee services. Strategic focus shifted away from internal estate planning to appointment in external independently prepared wills, including through an online provider. This resulted in an increase in first executor appointments compared to the prior year.

Outlook

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

From 1 July 2023 the retirement villages business will be supported by W&CM's Social Infrastructure business, leveraging the strong property and social infrastructure base and continuing to grow its social purpose focus.

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

Matters subsequent to the end of the financial year

MCI dividend

On 30 August 2023, the board has determined a final fully franked dividend of \$2.5068 per Australian Unity Mutual Capital Instrument (MCI) to be paid on 16 October 2023.

Acquisition of IOOF Ltd

On 24 July 2023, the Group announced that it had entered into an agreement to acquire all the shares of friendly society IOOF Ltd and its ~\$1.1 billion investment bond business from the Insignia Financial group. The purchase price to be paid is \$36 million in cash upon completion, plus an additional contingent amount of up to \$4 million payable 12 months after completion, subject to the transition of clients and funds under management.

The acquisition is in line with the Group's strategic priority to provide innovative products and services that meet the health and financial wellbeing needs of our members and customers and will further strengthen our position as the market leader in investment bonds, with a customer base of more than ~180,000 and estimated funds under management of more than \$3.2 billion.

Completion of the acquisition is subject to the satisfaction of conditions precedent, being relevant regulator approvals. The Group has also entered into a Strategic Alliance Agreement with Insignia, in furtherance of our mutual aim of providing financial wellbeing to all Australians.

Merger of Australian Unity Diversified Property Fund and sale of Australian Unity Property Limited

On 7 July 2023, Australian Unity Property Limited (AUPL), a wholly owned subsidiary of the Company and the responsible entity of Australian Unity Diversified Property Fund (AUDPF), announced it had entered into a Merger Implementation Deed with Cromwell Funds Management Limited, as the responsible entity of the Cromwell Direct Property Fund (CDPF), to merge AUDPF and CDPF via a trust scheme to create an unlisted merged fund with a gross asset value of approximately \$1.1 billion. The merger requires the approval of AUDPF unitholders. A notice of meeting and Unitholder Booklet is expected to be issued to AUDPF unitholders in early October 2023 to consider the proposal to merge the two funds.

At the same time, the Company entered into a share sale agreement with Cromwell Corporation Limited (CCL) pursuant to which CCL has agreed to acquire all of the issued shares in AUPL in connection with the proposed merger, subject to the proposed merger being approved and implemented, for a total consideration of \$17.0 million.

Matters subsequent to the end of the financial year (continued)

Sustainability linked loan

On 28 August 2023, Australian Unity Limited and Westpac Banking Corporation entered into a sustainability linked loan for \$50 million for three years, that is linked to the delivery of community and social value, such that the interest rate is adjusted by discounts or penalties depending on the Group's achievement of growth in our community and social value measurement.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2023 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 30 June 2023 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 variety of market risks, particularly financial markets and property markets. Note 23 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 Specialist Care 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.

Our material risks

Australian Unity recognises that sound management of the Group's risks within an effective enterprise risk management framework, a clear and dynamic risk appetite statement and a positive risk culture, underpins the success of the business.

We have implemented a 'three lines of accountability' model across the Group. As part of this, we regularly review our risk profiles, create clear risk and control accountabilities and encourage open and prompt reporting of incidents. This continual review of our existing risks, scanning the horizon for new and emerging risks and seeking to improve the way in which our risks are managed helps us respond in a changing risk environment and contributes to us meeting our strategic objectives.

An example of an emerging risk we closely monitor is the impact of climate change on our portfolio of businesses, particularly for our property business. While we don't currently assess climate risk as material for the Group, the risk is increasing, and we will continue to gather data to better understand potential impacts and plan to mitigate these. The Australian Unity *Our Impact* report outlines the initiatives we are undertaking to understand and mitigate this risk.

The Group's current material risks and how we plan to respond to these risks is summarised in the table below.

Material risks	Risk description	How we respond
Availability of a skilled and experienced workforce	<p>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 the provision of service, growth plans and financial performance.</p> <p>We are currently experiencing this risk in our care workforce due largely to competition for talent and changes to sector workforce dynamics and government funding models.</p>	<ul style="list-style-type: none"> • We provide our employees with a positive employee value proposition. We offer a supportive and fulfilling work environment and listen and respond to employee feedback. • Our people strategy aims to grow our workforce with quality candidates seeking longevity in roles. As part of this strategy, we are investing in skills and leadership capabilities, and evolving our approach to achieving scalable talent sourcing and recruitment.

Our material risks (continued)

Material risks	Risk description	How we respond
Achieving our strategic objectives	<p>We operate businesses across health, wealth and care and have a range of initiatives to help us achieve our strategic ambitions. With the diversity of our businesses, we are exposed to a variety of external events and factors, such as financial market volatility, government interventions or changes to funding policy, pandemic, extreme weather events (such as drought, bushfire, flood and storm), evolving Environmental, Social and Governance (ESG) expectations and other community issues.</p> <p>We may also make strategic or investment decisions that do not achieve the expected outcomes.</p> <p>If we don't identify, understand or respond to our environment and make the right decisions, it may impact our ability to execute our strategy.</p>	<ul style="list-style-type: none"> • Strategic risks and potential impacts on our strategy are identified as part of the annual strategic planning process. We actively consider the risks and rewards associated with an initiative before it is implemented. • We seek opportunities to grow businesses within our portfolio that diversify our revenue and cashflow. • We advocate for policies that sustain the sectors in which we operate. • Regular monitoring and planning for external events that may have an impact on our strategy, including via scenario analysis activities, is used to help us to better understand and plan to mitigate potential impacts to our strategy and financial performance and take advantage of opportunities. • Our board, committees, executives and senior management monitor the execution of strategy.
Cyber security threats	<p>Our businesses are reliant on technology to deliver our products and services. To provide these products and services, we handle large amounts of customer, member and employee data. Cyber security threats are on the rise with growing frequency, sophistication and severity. If the systems we have to detect and prevent cyber-attacks fail, we could experience unauthorised access, modification or loss of confidential information or business disruption due to system unavailability.</p>	<ul style="list-style-type: none"> • We continue to invest in strengthening our cyber security capability to respond to emerging threats. Recently we have undertaken a range of initiatives designed to strengthen our controls on the perimeter, tighten access controls and improve our threat and vulnerability management. • We monitor the external environment for cyber threats and have frameworks, policies, procedures and technology solutions in place to help reduce, monitor, detect and respond to cyber threats. • We educate our employees on cyber risks and actions they can take to avoid compromising security.
Third party providers	<p>Our business models increasingly rely on us partnering with third party providers. If these third parties are not aligned to our purpose and objectives, or fail to deliver services in accordance with contractual arrangements, it may impact our services, damage our reputation and compromise the achievement of our strategic objectives.</p>	<ul style="list-style-type: none"> • We undertake due diligence in accordance with our Vendor Management Framework to assess third parties and ensure appropriate ongoing monitoring of performance and compliance with contracts and regulatory and control assurance requirements. • Recent investments in technology to assist in managing our growing exposure to third party relationships will strengthen our management of associated risks.

Our material risks (continued)

Material risks	Risk description	How we respond
Access to capital	<p>Australian Unity is a mutual entity limited by shares and guarantee. We are unable to issue ordinary shares to raise new capital but can raise capital via the issuance of Mutual Capital Instruments (MCIs), although MCIs are a novel instrument and there is no established deep market. We also rely on external debt markets for a portion of our funding.</p> <p>Changes in the economic and market conditions 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.</p>	<ul style="list-style-type: none"> • We closely monitor funding available plans and incorporate conservative capital buffer settings to manage cash flow constraints. Forecasting and scenario analysis is a key part of our capital planning and management. • Ongoing access to capital is maintained through external debt markets and we have policies and plans in place to monitor and review our capital and liquidity position. • Our APRA-regulated entities have an Internal Capital Adequacy Assessment Process (ICAAP) to maintain capital that meets the regulatory requirements.
Economic conditions	<p>We may be exposed to local and global conditions which could impact our financial performance. For example, current inflationary pressures are leading to rising medical, construction, operational and staffing costs.</p> <p>Adverse economic conditions may also impact the level of credit defaults we experience for the loans we offer, the returns we achieve on our investments, occupancy levels in residential aged care and sales of residential villages.</p>	<ul style="list-style-type: none"> • We conduct ongoing budgeting and forecasting to maintain control of costs and investment, along with regular scenario analysis and stress testing to help us understand and plan for the potential impacts of challenging conditions to our financial prospects. • We monitor product and service design and distribution to ensure that prices remain sustainable.
Providing quality clinical and care services	<p>We provide high-trust services such as health and aged care services in the community. Poor quality clinical services may arise from inadequate policies and procedures, lack of training and supervision or other situational factors.</p> <p>A severe event or series of events could result in mistreatment, injury or death to our customers, sanctions from regulators, reduced government funding, reputational damage and remediation costs.</p>	<ul style="list-style-type: none"> • We design and maintain safe, high quality products and services for our customers and communities. We have frameworks, policies and procedures in place to prevent, monitor and manage the risk of harm. • Our Clinical & Care Governance Framework provides the overarching structures for the delivery, review and continuous improvement of quality clinical and care services. Customer care plans are the foundation of clinical service delivery and minimising clinical risk.
Regulatory complexity and scrutiny	<p>We operate a wide range of business activities which are subject to different laws and regulatory requirements and licence conditions. As regulatory standards and expectations are constantly changing, increased regulation and supervision could require changes to our products or services which may incur significant costs to implement. We may also face regulatory action and reputational damage if we don't comply.</p>	<ul style="list-style-type: none"> • We monitor upcoming changes to laws, regulations and regulatory guidance, participate in industry forums and bodies and consider the impact of potential regulatory change on our business operations. • We maintain a strong relationship with our regulators by taking a proactive, open and honest approach.
Changing customer expectations	<p>We operate in markets where customer expectations are changing rapidly and preferences are shifting to digital engagement channels. The operation of our technology is an important part of how we deliver services to customers. If we are not successful in adapting our products, services and technology to meet changing customer preferences, we may lose customers which may adversely impact our financial performance.</p>	<ul style="list-style-type: none"> • We regularly assess the external environment and allocate business investment to understand and respond to our customers' preferences and develop our digital capability.

Our material risks (continued)

Material risks	Risk description	How we respond
Business disruption	We provide a range of services that are often critical to the wellbeing of our customers. If these services are disrupted by technology failure or other external events (for example, natural disasters or pandemic) our customers could be significantly impacted, or we may experience financial loss and reputational damage.	<ul style="list-style-type: none"> • We perform business continuity planning for disruptions to our critical systems and business operations. • We consider our current and future technology needs on an ongoing basis and maintain and test our systems for service continuity and recoverability.
Workplace hazards and risks	We have a large workforce that could be exposed to workplace injuries or illness. Given the variability of our business activities, locations, conditions and types of care delivered, there is a broad range of risks and hazards that may impact our employees, including manual tasks, ergonomics, slips, trips, falls, driving, mental health and occupational violence. Workplace injuries can impact our ability to service customers, our ability to retain our employees, and increase our costs.	<ul style="list-style-type: none"> • We 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 actively work towards eliminating hazards, managing and investigating incidents and fostering sustainable return to work outcomes for any ill or injured employee.
Growing our Community and Social Value	<p>Community and Social Value (CSV) as a measure of wellbeing outcomes is a core component of our corporate purpose.</p> <p>Changes to our business composition or decisions which don't sufficiently increase CSV or fail to optimise our opportunities to increase CSV, may impact our ability to meet these objectives.</p>	<ul style="list-style-type: none"> • Our CSV outcomes framework seeks to measure where we have a positive and unique social impact on our members, customers, employees and the broader community. Measuring (and forecasting) our unique impact value informs our key business decisions in order to achieve these CSV objectives. • We are seeking to measure and assess our material and strategic decisions, including portfolio structure, strategic investments and operational and product choices under the framework with the aim of supporting decisions that increase our contribution to CSV.
Liquidity demands	<p>There is a risk that Australian Unity's liquidity and funding plans fail to operate effectively, or there may be factors outside Australian Unity's control which could adversely affect these plans.</p> <p>The Group's liquid investments held to support liquidity needs across the Group may not be readily converted to cash, or levels of liquidity may not be sufficient to respond to a circumstance where liquidity demands exceed forecasts. For example, an event that simultaneously leads to a funding need in a number of regulated entities or operating entities may place significant demands on the liquidity and funding position.</p>	<ul style="list-style-type: none"> • 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. • We maintain a level of Group liquidity to support unexpected additional liquidity demands from multiple sources across Group entities.

Information on directors

LISA CHUNG AM, LLB, FIML, FAICD

Ms Chung was appointed to the board of Australian Unity Limited on 30 June 2017 and appointed Chair on 26 October 2022. She is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit Committee, member of the Investment Committee, member of the People Culture & Remuneration Committee and member of the Risk & Compliance Committee. Ms Chung is currently Chair of The Front Project, a director of AVJennings Limited, Warren and Mahoney Limited, Artspace/Visual Arts Centre, Sydney Community Foundation, the Committee for Sydney 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 and appointed Deputy Chair on 26 October 2022. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the People Culture & Remuneration Committee, a member of the Investment Committee and member of 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. She is a member of the Parliamentary Budget Office panel of expert advisors, a member of the Australian Statistical Advisory Council, and a member of the Ministerial Advisory Committee and Skilled Migration. 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 D.C. 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.

ROHAN MEAD, Group Managing Director & CEO

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

LUCINDA BROGDEN, AM, BCom, MOrgPsych, MAICD

Ms Brogden was appointed to the board of Australian Unity Limited effective from 8 September 2022. She is a member of the Audit Committee and member of the Risk & Compliance Committee. She is currently the Chair of the Diabetes Research Foundation, a Governor of Queenwood School for Girls, a director of Be Kind Sydney, Corporate Mental Health Alliance Australia and the National Film and Sound Archive. Ms Brogden is founder and Patron of the Sydney Women's Fund. Ms Brogden served as a Commissioner and Chair of the National Mental Health Commission from 2014-2022. Ms Brogden has over 30 years' commercial experience and has held a number of roles including with Macquarie Group and Ernst & Young. She has worked in trusted advisory roles with some of Australia's leading CEOs, Managing Partners, Ministers and Chairs in investment banking, finance, law and government. Ms Brogden 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 and a member of the Investment Committee. Mr Kirk is currently Managing Director and Founder of Collins Pitt Associates and is a director of the St Kilda Football Club Foundation and the Noel & Carmel O'Brien Family Foundation. 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, St Kilda Football Club 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.

Information on directors (continued)

SU McCLUSKEY, BComm, 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, member of the Investment Committee and member the People, Culture & Remuneration Committee. Ms McCluskey is a director of the Australasian Pork Research Institute, LiveCorp and AWN Rural. Ms McCluskey is also the Special Representative for Australian Agriculture and a Commissioner for the Australian Commission for International Agricultural Research. 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. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

HELEN NOTT, BSc (Hons), PhD, FAICD

Dr Nott was appointed to the board of Australian Unity Limited effective from 8 September 2022. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Audit Committee and a member of the Risk & Compliance Committee. Dr Nott is currently a board member of the New Zealand Accident Compensation Corporation (ACC), and is a director of the QBE Australia Pacific portfolio of entities including QBE Insurance (Australia) Limited, QBE Lenders' Mortgage Insurance Limited and QBE Insurance (International) Pty Limited. She was previously Vice President and director of Paralympics Australia Pty Ltd, a director of QBE Life (Australia) Limited and of Healthdirect Australia. Dr Nott has extensive experience within the insurance industry, holding a number of senior roles with Insurance Australia Group and QBE Australia and New Zealand. Prior to this Dr Nott held roles with Booz Allen Hamilton (now PwC Strategy&), PricewaterhouseCoopers Corporate Finance and Recovery and with CSIRO Mathematics and Information Sciences (now Data 61). She specialises in supporting executives and boards with corporate, operational strategy and financial governance. Dr Nott has not held any directorships of listed entities in addition to those set out above during the last three years.

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

Mr Playoust was appointed to the board of Australian Unity Limited on 1 February 2020. He is chairman of the Investment Committee and member of the Audit, Risk & Compliance, and People & Culture Committees. He has more than 25 years' experience as a director in public and private companies, including ASX-100, SME and social enterprises. He is passionate about sustainable business models for economic and community good, and the arts. He is a proponent of design thinking 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 strategy, transformation, mergers and acquisitions, and capital and asset management. He is a Director of AEH Group; Deputy Chairman of the Art Gallery of NSW Foundation and Chairman of the Finance Committee; Member of the Advisory Board and Chairman of the Investment Committee of The Nature Conservancy, and a 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 Venutra 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 from UNSW (AGSM), 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. Mr Playoust has not held any directorships of listed entities in addition to those set out above during the last three years.

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

Mr Promnitz was appointed Chair of the board of Australian Unity Limited on 30 March 2016 and has retired on 26 October 2022. He has been a Director since 1 January 2013 and was appointed Deputy Chair on 28 July 2015. He is Chair of Flinders Investment Partners Limited and a director of Warakirri Asset Management Limited and Warakirri Holdings Pty Ltd. Mr Promnitz was previously Chair of NULIS Nominees (Australia) Limited and 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. Mr Promnitz has not held any directorships of listed entities in addition to those set out above during the last three years.

Information on directors (continued)

GREGORY WILLCOCK, BCom, FCPA, FAICD

Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012 and has retired on 7 September 2022. 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 Bank of Australia in the areas of risk management, strategy and change management. Mr Willcock was previously a director of the Customer Owned Banking Association (COBA) and was a director and chairman of Big Sky Credit Union. Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

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

Ms Melinda 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 5 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 Group Companies in 2004. She has over 25 years of involvement with the Australian Unity Limited company secretarial function.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2023, 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
Lisa Chung	10	10	4	4	4	5	3	4	4	4
Melinda Cilento	10	10	-	-	5	5	4	4	4	4
Rohan Mead	9	10	4	4	5	5	4	4	4	4
Lucinda Brogden	8	8	3	3	2	2	-	-	-	-
Paul Kirk	10	10	4	4	-	-	3	3	4	4
Su McCluskey	9	10	4	4	5	5	1	1	4	4
Helen Nott	8	8	2	3	2	2	-	-	-	-
Julien Playoust	10	10	4	4	4	5	4	4	-	-
Peter Promnitz	3	3	1	1	3	3	1	1	2	2
Gregory Willcock	2	2	1	1	2	2	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

Leave of absence had been granted in all cases where the directors were unable to attend meetings.

Remuneration report

Dear Member

On behalf of the board, I am pleased to present Australian Unity's Remuneration Report for the year ended 30 June 2023.

Performance and Compensation outcomes for the 2023 financial year

FY23 was a year in which we continued to make good progress in advancing our strategic objectives for long lasting and sustaining impact for the Group. We observed extraordinary efforts right across our business to protect the safety and wellbeing of our customers, members and employees while maintaining strong business performance and effective risk management.

Against a challenging economic and policy backdrop, we completed building two residential aged care communities, established and progressed significantly our Home Health platform, and continued to grow our financial products and funds under management. More broadly, we grew our impact across our priority areas of lifelong wellness, economic empowerment, and our contribution to strong communities.

The board acknowledges these efforts and the resulting outcomes and has made awards of variable compensation for FY23. These are in accordance with the principles set out in our compensation framework and recognise both financial and non-financial outcomes. This decision reflects the value we place on the contributions and achievements of our people and acknowledges the important role they collectively played in confronting the many challenges over the period.

Future Focus

In an era of a dynamic and constantly changing employment markets, the board will continue to assess the effectiveness of our compensation arrangements to ensure they are consistent with the long-term interests of Australian Unity and its members, and that we are able to attract, motivate, and retain talent across our diverse businesses.

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

Yours faithfully

Melinda Cilento
Chair - People, Culture & Remuneration Committee

Section 1 - Key Management Personnel

This Remuneration Report outlines the compensation arrangements in place and outcomes achieved for Australian Unity's Key Management Personnel (KMP) during 2023.

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).

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.

The following table includes names and positions of the individuals who were KMP during 2023.

Non-executive Directors	Position	Term
Lisa Chung ¹	Chair	Full year
Melinda Cilento ²	Deputy Chair	Full year
Lucinda Brogden ³	Non-executive Director	Part year
Paul Kirk	Non-executive Director	Full year
Su McCluskey	Non-executive Director	Full year
Helen Nott ⁴	Non-executive Director	Part year
Julien Playoust	Non-executive Director	Full year
Peter Promnitz ⁵	Chair	Part year
Greg Willcock ⁶	Non-executive Director	Part year

Remuneration report (continued)

Key Management Personnel	Position	Term
Rohan Mead	Group Managing Director & CEO	Full year
Prudence Bowden ⁷	Group Executive - Home Health	Part year
Esther Kerr-Smith	CEO Wealth & Capital Markets	Full year
Darren Mann	Group Executive Finance & Strategy	Full year
Christine Yates	CEO Retail	Full year
Kevin McCoy ⁸	CEO Independent & Assisted Living	Part year

¹ Lisa Chung appointed as Chair 26 October 2022.

² Melinda Ciento appointed as Deputy Chair 26 October 2022.

³ Lucinda Brogden appointed as Non-executive Director 8 September 2022.

⁴ Helen Nott appointed as Non-executive Director 8 September 2022.

⁵ Peter Promnitz retired as Chair and Non-executive Director 26 October 2022.

⁶ Gregory Willcock retired as Non-executive Director 7 September 2022.

⁷ Prudence Bowden commenced in the position of Group Executive - Home Health 12 September 2022.

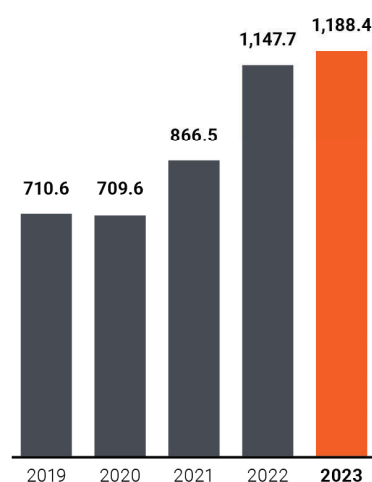
⁸ Kevin McCoy ceased employment as the CEO Independent & Assisted Living on 9 September 2022.

Table 2 - Five year Performance

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

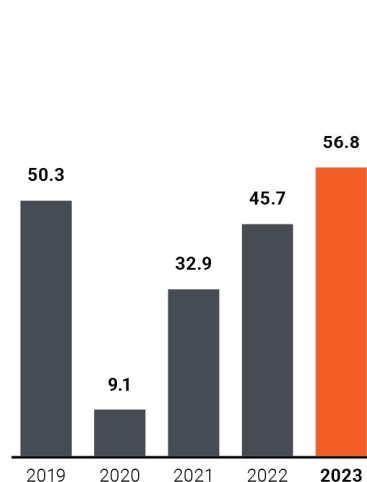
Members' funds (\$m)[‡]

\$1,188.4 million



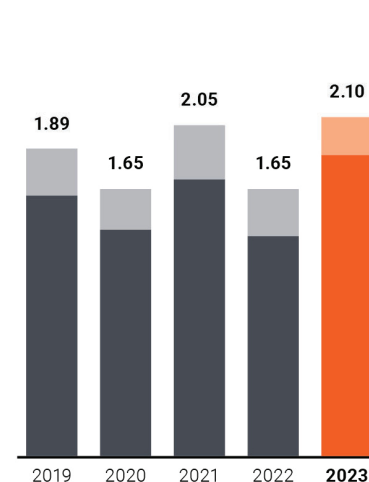
Profit after income tax (\$m)

\$56.8 million



Revenues (\$b)[†]

\$2.10 billion



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

[†] Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the 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.

Remuneration report (continued)

Section 2 - Compensation Framework Overview

2.1 Guiding Principles

Our senior executive compensation framework is designed to:



Align with member and customer value creation



Attract, motivate, and retain senior executive talent as a key component of our broader employee value proposition



Focus on the achievement of a balance of financial and non-financial outcomes aligned to our strategic direction



Support prudent risk management and conduct

2.2 Compensation Structure

Our senior executive compensation structure comprises both fixed and variable components, including short-and-long-term variable compensation. The structure seeks to ensure a balance between individual compensation and the long-term sustainability of the Group while also supporting applicable regulatory expectations.

Australian Unity also makes available certain other non-monetary benefits through salary packaging, 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 section 4.2.

The following sections 2.3 to 2.5 set out additional information related to fixed and variable compensation.

2.3 Fixed Compensation

The following table outlines details relating to senior executive fixed compensation.

Feature	Description
Purpose	<ul style="list-style-type: none"> Provides market competitive compensation to attract and retain talent while reflecting role scope and accountabilities
What	<ul style="list-style-type: none"> Composed of base salary and benefits including superannuation Paid regularly during performance year
How	<ul style="list-style-type: none"> Set on commencement in role at a market competitive level for role scope and accountabilities and individual experience Reviewed annually

2.4 Short Term Variable Compensation Key Features

The following table outlines key features of the 2023 financial year short term variable compensation award (referred to as the Senior Leader Variable Compensation Program) for senior executives.

Feature	Description
Purpose	<ul style="list-style-type: none"> Recognise achievement of a balance of financial and non-financial performance goals on an annual basis.
Participants	<ul style="list-style-type: none"> Group Managing Director and Senior Executives
Percentage Opportunity	<ul style="list-style-type: none"> In the year under review, Senior Executive opportunity ranged from 56.5% to 75.0% of fixed compensation consistent with individual contracts of employment.
Performance Assessment	<ul style="list-style-type: none"> Assessment of achievement of individual performance goals and given a rating of either 'not delivering', 'delivering', 'exceeding' or 'inspiring'.

Remuneration report (continued)

Feature	Description
Values Assessment	<ul style="list-style-type: none"> Assessment of demonstration of behaviours aligned to Australian Unity's values.
Risk and Conduct Assessment	<ul style="list-style-type: none"> Assessment of whether individual has 'met expectations,' 'partially met expectations' or 'not met expectations' of the risk and conduct requirements for their role. A risk assessment outcome less than 'met expectations' results in variable compensation being reduced to zero.
Funding	<ul style="list-style-type: none"> Each year the Australian Unity Board determines available short-term variable compensation funding for the financial year based on Group performance assessed equally on financial and non-financial indicators of performance set annually by the board. Performance indicators are not formulaic in determination of Group performance and short-term variable compensation funding but inform the judgement of the board. Financial affordability checks apply to ensure minimum financial performance requirements are met prior to any funding being made available to ensure Australian Unity's long term financial soundness and consistent with the attainment of risk appetite.
Calculation of Outcome	Fixed Compensation X Percentage Opportunity X Individual Performance Multiple X Group Performance Multiple
Deferral	<ul style="list-style-type: none"> Short-term variable compensation deferral takes into consideration any long-term variable compensation awarded ensuring the total amount of variable compensation deferred meets applicable regulatory requirements (e.g., Banking Executive Accountability Regime). Short-term 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 paid in future years.
Cessation of Employment	<ul style="list-style-type: none"> In general, unless otherwise determined by the board, a senior executive who ceases employment due to: <ul style="list-style-type: none"> Resignation or termination of employment for cause by Australian Unity, will forfeit eligibility to short-term variable compensation for the current financial year and forfeit any deferred variable compensation amounts from prior years. Redundancy or retirement will remain eligible to receive short-term variable compensation for the current financial year. Any deferred variable compensation amounts from prior years, that have not yet met the applicable deferral end date will remain payable subject to those existing restrictions (including deferral dates timings).

2.5 Long Term Variable Compensation Key Features

The following table outlines key features of the 2023 financial year long term variable compensation award for senior executives.

Feature	Description
Purpose	<ul style="list-style-type: none"> Drives collective focus on achievement of long-term strategic objectives aligned with member and customer value creation.
Participants	<ul style="list-style-type: none"> Group Managing Director and Senior Executives, as determined at each grant by the board.
Opportunity	<ul style="list-style-type: none"> A Senior Executive's long-term variable compensation quantum is determined at the discretion of the board on an annual basis and does not form part of individual contractual arrangements.
Instrument	<ul style="list-style-type: none"> Rights to Mutual Capital Instruments which convert to Mutual Capital Instruments upon satisfaction of the Vesting Conditions at the Vesting Date.
Vesting Period	<ul style="list-style-type: none"> The Vesting Date is four years from the date the grant of the Right to an MCI as approved by the board (or such other period prescribed by law or regulatory authority).

Remuneration report (continued)

Feature	Description
Vesting Conditions	<ul style="list-style-type: none"> • Unless otherwise determined by the board at its discretion or forfeited in accordance with the terms and conditions of the program, a Right to an MCI will vest and convert into an MCI subject to the continued employment (or following redundancy or retirement) of the senior executive at the Vesting Date.
Dividend Entitlement	<ul style="list-style-type: none"> • Rights to Mutual Capital Instruments do not carry any rights to receive dividends prior to the Vesting Date. • Unless otherwise determined by the board, on the vesting date, the participant will be entitled to receive a dividend equivalent payment in cash for the relevant number of Rights to Mutual Capital Instruments that vest. • The payment will be calculated by reference to the actual dividends paid on Mutual Capital Instruments from the date of the issue of the Right to relevant Mutual Capital Instruments to the Vesting Date.
Cessation of Employment	<ul style="list-style-type: none"> • In general, unless otherwise determined by the board, a senior executive who ceases employment due to: <ul style="list-style-type: none"> - Resignation or termination of employment for cause by Australian Unity, will forfeit eligibility to any Rights to Mutual Capital Instruments that have not met relevant vesting conditions. - Redundancy or retirement will remain eligible to receive any Rights to Mutual Capital Instruments that have not met relevant Vesting Conditions subject to the terms and conditions of the Program (including Vesting Dates, and clawback / malus provisions).

Section 3 – Compensation Governance and Risk

3.1 Governance

The Australian Unity Board is responsible for our compensation framework and its effective application. The board is also responsible for making decisions on the compensation of senior executives and does so with the assistance and advice of the People, Culture & Remuneration Committee (PCR Committee).

The PCR Committee is a committee of the Board of Australian Unity Limited and oversees the performance management framework and overall compensation arrangements for Australian Unity in accordance with the Australian Unity Remuneration Policy and the PCR Committee Charter which sets out the committee's responsibilities and processes.

3.2 External Advisors

The PCR Committee may engage with external advisors to assist when making compensation decisions.

Except for a review supporting the letter attached to this report from Guerdon Associates that compensation paid to KMP is appropriate-the board did not use compensation consultants during FY23.

3.3 Compensation and Risk

We seek to implement and govern effective compensation practices that compensate performance in a manner that is appropriate and consistent with member, customer, and regulatory expectations, including the requirements under Australian Prudential Regulation Authority (APRA) Prudential Standard CPS 511 Remuneration (CPS 511) and the Banking Executive Accountability Regime (BEAR).

We manage risks associated with delivering, assessing, and rewarding short-term and long-term performance by:

- Allowing the board to adjust variable compensation outcomes downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of Australian Unity, to respond to significant unexpected or unintended consequences that were not foreseen, or in response to instances of systemic risk and conduct failures leading to reputational or financial damage.
- The PCR Committee jointly meet with the Risk & Compliance Committee at least once per calendar year to discuss risk and compliance matters including, but not limited to, risk culture, consequence management issues, 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 will make appropriate adjustment to variable compensation outcomes commensurate with the management of those risks.

Remuneration report (continued)

- Ensuring that all senior executives have a stand-alone risk and conduct assessment included in their overall performance assessment (referred to as Risk and Conduct Gateway). Assessment indicates whether the individual has 'met expectations,' 'partially met expectations' or 'not met expectations' of the risk and conduct requirements for their role. A risk assessment outcome less than 'met expectations' results in variable compensation being reduced to zero.
- The deferral of an appropriate portion of the variable compensation of individuals with senior executive responsibility for functions which may affect the financial soundness or reputation of the Group (including those prescribed under BEAR) and individuals who may receive a significant proportion of total compensation as variable compensation.
- Allowing the board to reduce (including to zero) deferred variable compensation amounts not yet paid (malus) or recover variable compensation amounts already paid (clawback) subject to applicable legal limitations.

Section 4 – 2023 Senior Executive Compensation

4.1 Short-term variable compensation outcomes

The following table shows details of 2023 short-term variable compensation awarded, payable and deferred.

Name	Variable compensation opportunity \$	2023 Actual			
		Actual as a percent of opportunity %	Total \$	Payable \$	Deferred ¹ \$
<i><u>Executive director</u></i>					
Rohan Mead	966,300	64%	618,000	618,000	-
<i><u>Other executive KMP</u></i>					
Prudence Bowden ²	353,224	85%	301,943	301,943	-
Esther Kerr-Smith	539,000	49%	266,000	266,000	-
Darren Mann	406,000	68%	276,000	276,000	-
Christine Yates	469,000	32%	150,000	150,000	-

¹ Maximum payable subject to ongoing performance.

² The variable compensation disclosed for Ms Bowden is the portion that relates to her activities since being appointed a KMP.

Remuneration report (continued)

4.2 Senior executive statutory compensation disclosures for the year ended 30 June 2023

Name	Year	Fixed			Variable			Termination benefits	Total statutory compensation	Increase/ (decrease) in long service leave provision ³
		Cash salary ¹	Non-monetary benefits ^{1,4}	Superannuation contributions ²	Cash payable (current year) ¹	Cash payable (prior years' deferred) ³	Rights to deferred MCI ⁵			
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive director										
Rohan Mead, Group Managing Director	2023	1,255,252	1,000	25,292	618,000	-	205,628	-	2,105,172	(6,709)
	2022	1,224,554	1,000	23,568	750,773	-	51,596	-	2,051,491	(46,559)
Other executive KMP										
Prudence Bowden (appointed Group Executive - Home Health 12 September 2022) ⁶	2023	455,890	-	18,969	301,943	-	73,977	-	850,779	11,153
Esther Kerr-Smith	2023	739,657	1,000	25,292	266,000	-	122,288	-	1,154,237	11,244
	2022	718,057	1,000	23,568	416,826	-	30,683	-	1,190,134	4,152
Darren Mann	2023	606,605	-	25,292	276,000	-	92,147	-	1,000,044	6,721
	2022	535,191	-	23,568	314,047	-	23,122	-	895,928	(6,417)
Christine Yates	2023	631,491	-	25,292	150,000	-	100,505	-	907,288	3,646
	2022	585,988	-	23,568	321,185	-	25,218	-	955,959	960
Executive KMP whose employment ceased in 2023										
Kevin McCoy (ceased as Chief Executive Officer - Independent & Assisted Living 9 September 2022)	2023	142,867	192	6,323	-	-	24,443	118,374	292,199	(80,831)
	2022	738,376	1,000	23,568	254,829	-	51,639	742,910	1,812,322	(40,069)
Total	2023	3,831,762	2,192	126,460	1,611,943	-	618,988	118,374	6,309,719	(54,776)
	2022	3,802,166	3,000	117,840	2,057,660	-	182,258	742,910	6,905,834	(87,933)

¹ Short-term benefits

² Post-employment benefits

³ Long-term benefits

⁴ Non-monetary benefits refers to salary packaged benefits such as motor vehicles, and some health insurance and car parking deductions.

⁵ Rights to deferred MCI granted under the executive long-term variable compensation scheme are expensed over the performance period, which includes the year to which the grant relates and the subsequent vesting period of the rights.

⁶ The compensation disclosed for Ms Bowden is the portion that relates to her activities since being appointed a KMP.

From time-to-time KMP 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.

Remuneration report (continued)

4.3 Performance related compensation statutory table

The table below provides an analysis of the non-performance related fixed compensation and performance related variable compensation components of the compensation mix of executive KMP as detailed in the statutory remuneration table at section 4.2.

Name	Year	Fixed compensation	Performance related			
			Cash short-term variable	Deferred short-term variable	Deferred long-term variable	Total performance related
		%	%	%	%	%
<u>Executive director</u>						
Rohan Mead	2023	61	29	0	10	39
	2022	61	37	0	2	39
<u>Other executive KMP</u>						
Prudence Bowden	2023	56	35	0	9	44
Esther Kerr-Smith	2023	66	23	0	11	34
	2022	62	35	0	3	38
Darren Mann	2023	63	28	0	9	37
	2022	62	35	0	3	38
Christine Yates	2023	72	17	0	11	28
	2022	64	34	0	2	36
<u>Executive KMP whose employment ceased in 2023</u>						
Kevin McCoy	2023	86	0	0	14	14
	2022	71	24	0	5	29

¹ The performance related compensation disclosed for Ms Bowden is the portion that relates to her activities since being appointed a KMP.

Remuneration report (continued)

4.4 Overview of deferred short-term variable compensation

The following table shows details of deferred variable compensation that has been awarded but which has yet to vest, including their maximum value on vesting

Name	Deferred variable short-term compensation				
	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 %
<u>Executive director</u>					
Rohan Mead	1 September 2021	2025	215,739	-	-
<u>Other executive KMP</u>					
Prudence Bowden	1 September 2021	2025	84,760	-	-
Esther Kerr-Smith	1 September 2021	2025	116,435	-	-
Darren Mann	1 September 2021	2025	93,500	-	-
Christine Yates	1 September 2021	2025	86,250	-	-
<u>Executive KMP whose employment ceased in 2023</u>					
Kevin McCoy ¹	7 September 2022	2024	119,886	-	-
	1 September 2021	2025	122,250	-	-

¹ The deferred short-term variable compensation granted to Mr McCoy prior to his ceasing to be a KMP will be retained until the applicable deferred variable vesting date.

Remuneration report (continued)

4.5 Overview of deferred long-term variable compensation – rights to deferred MCI

The following table shows details of rights to deferred MCI granted, vested, and forfeited during the year.

Name	Grant date	Granted rights No.	Granted value \$	Vested No.	Vested %	Forfeited No.	Forfeited %	Financial year for vesting
<u>Executive director</u>								
Rohan Mead	28 October 2022	4,153	361,269	-	-	-	-	2027
	31 January 2022	911	93,833	-	-	-	-	2026
	31 January 2022	2,733	281,499					2025
<u>Other executive KMP</u>								
Prudence Bowden ¹	28 October 2022	2,031	176,677	-	-	-	-	2027
	31 January 2022	386	39,758	-	-	-	-	2026
	31 January 2022	1,158	119,274					2025
Esther Kerr-Smith	28 October 2022	2,470	214,865	-	-	-	-	2027
	31 January 2022	541	55,723	-	-	-	-	2026
	31 January 2022	1,626	167,478					2025
Darren Mann	28 October 2022	1,861	161,888	-	-	-	-	2027
	31 January 2022	408	42,024	-	-	-	-	2026
	31 January 2022	1,225	126,175					2025
Christine Yates	28 October 2022	2,030	176,590	-	-	-	-	2027
	31 January 2022	445	45,835	-	-	-	-	2026
	31 January 2022	1,336	137,608					2025
<u>Executive KMP whose employment ceased in 2023</u>								
Kevin McCoy ²	31 January 2022	185	19,055	-	-	-	-	2026
	31 January 2022	557	57,371	-	-	-	-	2025

There has been no alteration to the terms and conditions of the grants since the grant dates.

¹ The rights granted to Ms Bowden in January 2022 were granted prior to her appointment as a KMP.

² The rights granted to Mr McCoy prior to his ceasing to be a KMP will be retained until the applicable deferred MCI vesting date.

Remuneration report (continued)

4.6 Executive KMP MCI holdings

The following table provides details of the number of MCI held (directly and nominally) by each executive KMP of Australian Unity or their related parties (their close family members or any entity they, or their close family members, control or significantly influence).

Name	Balance at the beginning of the year No.	Received during the year on vesting of rights to deferred MCI No.	Other changes during the year No.	Balance at the end of the year No.
<i><u>Executive director</u></i>				
Rohan Mead, Group Managing Director	2,000	-	-	2,000
<i><u>Other executive KMP</u></i>				
Prudence Bowden	-	-	-	-
Esther Kerr-Smith	-	-	-	-
Darren Mann	100	-	-	100
Christine Yates	-	-	-	-

4.7 Employment arrangements

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

Name	Contract type ¹	Employee initiated notice period	Employer initiated notice period ²	Termination benefits ³
Rohan Mead, Group Managing Director	Permanent	6 months	12 months	none
Prudence Bowden	Permanent	6 months	6 months	none
Esther Kerr-Smith	Permanent	6 months	6 months	none
Darren Mann	Permanent	6 months	6 months	none
Christine Yates	Permanent	6 months	6 months	none

¹ A permanent contract continues until notice is given by either party.

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 sections 2.4 and 2.5 above.

Section 5 - Non-Executive Directors' Compensation

5.1 Fee policy and pool

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 (compensation) 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 considering 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 2021 annual general meeting on 27 October 2021. At that meeting members approved the sum of up to \$1.9 million in aggregate fees per financial year. This increase in the sum approved took effect from 1 January 2022.

Remuneration report (continued)

The total directors' fees for the year ended 30 June 2023 was \$1.6 million.

Details of individual non-executive director allowances, payments and entitlements are set out in following tables.

5.2 Non-executive director compensation for the year ended 30 June 2023

Name	Year	Fixed			Total compensation \$
		Cash fees ¹ \$	Non-monetary benefits ^{1,3} \$	Superannuation contributions ² \$	
<u>Chair</u>					
Lisa Chung, Chair (<i>appointed Chair 26 Oct 2022</i>)	2023	296,511	231	23,136	319,878
	2022	161,364	-	16,136	177,500
<u>Other non-executive directors</u>					
Melinda Cilento, Deputy Chair (<i>appointed Deputy Chair 26 October 2022</i>)	2023	171,946	-	18,054	190,000
	2022	161,364	-	16,136	177,500
Lucinda Brogden	2023	143,509	-	15,068	158,577
Paul Kirk	2023	211,443	-	22,176	233,619
	2022	200,341	-	20,034	220,375
Su McCluskey	2023	174,416	-	15,584	190,000
	2022	162,545	-	13,655	176,200
Helen Nott	2023	147,363	-	15,468	162,831
Julien Playoust	2023	172,918	-	18,054	190,972
	2022	161,364	-	16,136	177,500
<u>Non-executive directors who ceased in 2023</u>					
Peter Promnitz (<i>retired 26 October 2022</i>)	2023	113,234	307	9,618	123,159
	2022	331,432	1,000	23,568	356,000
Gregory Willcock (<i>retired 7 September 2022</i>)	2023	32,074	192	3,368	35,634
	2022	161,364	1,000	16,136	178,500
Total non-executive director remuneration	2023	1,463,414	730	140,526	1,604,670
	2022	1,339,774	2,000	121,801	1,463,575

¹ Short-term benefits

² Post-employment benefits

³ Non-monetary benefits refers to salary packaged benefits such as health insurance deductions.

Remuneration report (continued)

In addition to the amounts above, Mr. Willcock received director fees from Australian Unity Investments Real Estate Limited (AUIREL), a related entity, during the relevant periods.

Mr. Willcock was specifically appointed as 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 during his time as a KMP 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 fees ¹ \$	Superannuation contributions ² \$	
<i><u>Non-executive directors</u></i>				
Gregory Willcock (<i>retired 7 September 2022</i>) ³	2023	16,533	1,736	18,269
	2022	87,568	6,996	94,564
Total Non-executive directors	2023	16,533	1,736	18,269
	2022	87,568	6,996	94,564

¹Short-term benefits

²Post-employment benefits

³Mr Willcock retired as an Australian Unity KMP on 7 September 2022 but remains a director of AUIREL. The 2023 remuneration disclosed in the above table relates to the period when he was an Australian Unity KMP.

5.3 Non-executive director MCI holdings

The following table provides details of the number of MCI held (directly and nominally) by each non-executive director of Australian Unity or their related parties (their close family members or any entity they, or their close family members, control or significantly influence).

Name	Balance at the beginning of the year No.	Changes during the year No.	Balance at the end of the year No.
<i><u>Chair</u></i>			
Lisa Chung	750	-	750
<i><u>Other non-executive director</u></i>			
Lucinda Brogden	-	-	-
Melinda Cilento	-	-	-
Paul Kirk	-	-	-
Su McCluskey	1,600	-	1,600
Helen Nott	-	-	-
Julien Playoust	-	-	-

Remuneration report (continued)



PRIVATE AND CONFIDENTIAL

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

25 August 2023

Dear Ms Cilento,

The General Counsel, Company Secretary and Chief Risk Officer of Australian Unity Limited engaged Guerdon Associates to undertake a high-level review of Australian Unity's remuneration arrangements in respect of key management personnel ("KMP"), including executives and non-executive directors (NEDs), having regard for any material changes that may have occurred during the year and movements in the market.

We did not carry out a comprehensive benchmarking of market remuneration. Guerdon Associates reviewed the most recent benchmarking work, remuneration policies and practices, and reviewed and compared AUL KMP remuneration with statutory disclosures of similar and comparable companies to determine the extent to which the remuneration is reasonable.

No material increases were made during FY23 to NED remuneration. The FY23 NED fees paid are positioned within the member-approved fee pool. The overall remuneration, considering the absence of committee and subsidiary board fees, is not excessive.

No material increases were made during FY23 to executive fixed remuneration. The increases were considered reasonable in the context of market conditions and the high inflation environment. The maximum short-term incentive (STI) and maximum long-term incentive (LTI) opportunities as a percentage of fixed remuneration were unchanged and are not excessive when compared to market practices.

The advice provided by Guerdon Associates does not constitute a "remuneration recommendation" for the purposes of section 9B of the *Corporations Act 2001* as our work relates to the provision of information and data on market practices and the above statements of advice. 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 members of the KMP that the advice related to.

Yours sincerely

Martin Morrow
Principal

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 34.

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:

	2023 \$	2022 \$
PricewaterhouseCoopers Australia		
Audit of regulatory returns	551,286	457,085
Other assurance services	469,695	161,987
Tax compliance services	40,000	76,463
Tax consulting services	266,065	-
Other services	2,500	9,690
Total remuneration for non-audit services	1,329,546	705,225

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 33.

Rounding of amounts

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

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



Lisa Chung
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
30 August 2023



Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Limited for the year ended 30 June 2023, 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'.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
30 August 2023

Australian Unity Limited ABN 23 087 648 888
Financial report - 30 June 2023

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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 page 1 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 30 August 2023.

Australian Unity Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Revenue and other income	2	1,858,162	1,361,327
Expenses, excluding finance costs	3	<u>(1,709,526)</u>	(1,356,753)
Operating profit		148,636	4,574
Finance costs	3	(50,375)	(41,429)
Share of net profit of joint ventures		<u>2,797</u>	955
Profit/(loss) before income tax		101,058	(35,900)
Income tax benefit/(expense)	4	<u>(44,280)</u>	81,619
Profit after income tax		56,778	45,719
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges	20(a)	(1,544)	34,225
Income tax relating to this item	20(a)	463	(10,268)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations	20(a)	<u>38</u>	(2,571)
Other comprehensive income for the year, net of tax		(1,043)	21,386
Total comprehensive income for the year		55,735	67,105
Profit for the year is attributable to:			
Members of Australian Unity Limited		<u>56,778</u>	45,719
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		<u>55,735</u>	67,105

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 28.

Australian Unity Limited
Consolidated balance sheet
As at 30 June 2023

	Notes	2023 \$'000	2022 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	1,004,257	1,086,445
Trade and other receivables		136,329	142,909
Current tax assets		37,291	6,949
Loans and advances	6	23,575	28,793
Financial assets at fair value through profit or loss	7	2,238,763	2,024,638
Other financial assets at amortised cost	8	52,858	70,505
Other current assets		42,847	41,187
Total current assets		<u>3,535,920</u>	<u>3,401,426</u>
Non-current assets			
Loans and advances	6	1,129,283	1,083,019
Financial assets at fair value through profit or loss	7	158,686	122,347
Investments in associates and joint ventures		20,311	18,655
Investment properties	12	2,024,336	1,904,376
Property, plant and equipment	13	503,686	490,028
Right-of-use assets	14	97,137	109,881
Intangible assets	15	353,100	362,439
Other non-current assets		39,375	41,678
Total non-current assets		<u>4,325,914</u>	<u>4,132,423</u>
Total assets		<u>7,861,834</u>	<u>7,533,849</u>
LIABILITIES			
Current liabilities			
Trade and other payables		162,696	165,805
Borrowings	9	1,291,353	1,156,166
Lease liabilities	14	15,979	17,306
Provisions	16	143,518	189,588
Other current liabilities	10	1,956,089	1,854,117
Benefit fund policy liabilities	36	258,057	251,431
Total current liabilities		<u>3,827,692</u>	<u>3,634,413</u>
Non-current liabilities			
Borrowings	9	388,209	488,830
Lease liabilities	14	99,999	108,977
Deferred tax liabilities	17	107,370	26,281
Provisions		24,814	21,110
Benefit fund policy liabilities	36	2,225,374	2,106,557
Total non-current liabilities		<u>2,845,766</u>	<u>2,751,755</u>
Total liabilities		<u>6,673,458</u>	<u>6,386,168</u>
Net assets		<u>1,188,376</u>	<u>1,147,681</u>
EQUITY			
Members' balances		255,919	255,919
Mutual Capital Instruments	18	342,127	342,127
Reserves	20(a)	30,035	28,948
Retained earnings	20(b)	560,295	520,687
Equity attributable to members of Australian Unity Limited		<u>1,188,376</u>	<u>1,147,681</u>
Total equity		<u>1,188,376</u>	<u>1,147,681</u>

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

Australian Unity Limited
Consolidated statement of changes in equity
For the year ended 30 June 2023

	Notes	Members' balances \$'000	Mutual Capital Instruments \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2021		255,919	116,897	7,140	486,538	866,494
Mutual Capital Instruments issued	18	-	225,230	-	-	225,230
Profit for the year		-	-	-	45,719	45,719
Other comprehensive income						
- Cash flow hedges	20(a)	-	-	23,957	-	23,957
- Post-employment benefits	20(a)	-	-	(2,571)	-	(2,571)
Total comprehensive income		-	-	21,386	45,719	67,105
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	18	-	-	-	(11,570)	(11,570)
MCI-based payments		-	-	422	-	422
		-	-	422	(11,570)	(11,148)
Balance at 30 June 2022		255,919	342,127	28,948	520,687	1,147,681

	Notes	Members' balances \$'000	Mutual Capital Instruments \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2022		255,919	342,127	28,948	520,687	1,147,681
Mutual Capital Instruments issued	18	-	-	-	-	-
Profit for the year		-	-	-	56,778	56,778
Other comprehensive income						
- Cash flow hedges	20(a)	-	-	(1,081)	-	(1,081)
- Post-employment benefits	20(a)	-	-	38	-	38
Total comprehensive income		-	-	(1,043)	56,778	55,735
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	18	-	-	-	(17,170)	(17,170)
MCI-based payments		-	-	2,130	-	2,130
		-	-	2,130	(17,170)	(15,040)
Balance at 30 June 2023		255,919	342,127	30,035	560,295	1,188,376

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

Australian Unity Limited
Consolidated statement of cash flows
For the year ended 30 June 2023

	2023	2022
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,465,582	1,500,640
Payments to suppliers and employees (inclusive of goods and services tax)	(990,576)	(972,862)
Health insurance claims and benefits paid	(539,528)	(502,329)
Life investment contracts - Contributions received	277,676	319,559
Life investment contracts - Withdrawals	(255,425)	(250,451)
Life insurance - Premiums received	143	199
Life insurance - Policy claims paid	(756)	(980)
Net payments of loan assets	(41,831)	(200,291)
Net receipts of deposits liability	72,529	176,136
Interest received	60,565	30,824
Dividends and distributions received	17,984	8,197
Interest and finance charges paid	(43,358)	(21,975)
Income tax payments	(322)	(11,646)
Net cash inflow from operating activities	21 22,683	75,021
Cash flows from investing activities		
Payments for business acquisitions, net of cash receipts	(193)	(79,648)
Payments for investments	(956,769)	(1,031,373)
Payments for investment properties	(143,372)	(114,638)
Payments for property, plant and equipment	(20,218)	(24,508)
Payments for intangible assets	(19,592)	(26,802)
Payments for investments in associates and joint ventures	-	(50)
Receipts from investments	880,684	932,963
Proceed from sale of dental practices business component	16,009	-
Proceeds from sale of investment properties	49,813	114,253
Dividends received from joint ventures	-	2,955
Proceeds from disposal of property, plant and equipment	3,179	-
Net cash outflow from investing activities	(190,459)	(226,848)
Cash flows from financing activities		
Receipts from Mutual Capital Instruments (MCI) issues, net of issuance costs	-	223,234
Receipts from borrowings	-	18,601
Net receipts from refundable lease deposits and resident liabilities	141,704	30,820
Payments of borrowings	(38,946)	(31,460)
Payments of MCI dividend	(17,170)	(11,570)
Net cash inflow from financing activities	85,588	229,625
Net increase/(decrease) in cash and cash equivalents	(82,188)	77,798
Cash and cash equivalents at the beginning of the year	1,086,445	1,008,647
Cash and cash equivalents at the end of the year	5 1,004,257	1,086,445

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

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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 four customer-facing business platforms which are Home Health, Specialist Care, Retail and Wealth & Capital Markets; and the Corporate functions.

The table below summarises the reportable operating segments.

Home Health	Provision of home care and health services.
Retail	Provision of health insurance and operation of Approved Deposit-taking Institution.
Specialist Care	Owns and operates retirement communities and residential aged care facilities.
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.

1 Segment information (continued)

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2023 is as follows:

2023	Retail \$'000	Home Health \$'000	Specialist Care \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
Total segment revenue	745,997	423,970	255,478	207,400	(15,832)	1,617,013
Inter-segment revenue	-	(1,888)	(3,132)	-	5,020	-
Revenue from external customers	745,997	422,082	252,346	207,400	(10,812)	1,617,013
Other income*	-	-	-	-	17,799	17,799
Adjusted EBITDA*	130,616	45,352	56,943	15,517	(86,889)	161,539
Depreciation and amortisation						(63,600)
Interest expense						(50,387)
Investment income						22,945
Other expenses						(3,524)
Income tax expense						(10,195)
Profit after income tax						56,778
Share of profit after tax from joint ventures (included in adjusted EBITDA)						2,797
Total segment assets include:						
Income producing assets	1,806,308	67,329	83,632	49,154	215,118	2,221,541
Working capital assets	85,619	36,442	17,740	108,407	83,647	331,855
Non-interest bearing assets	9,116	280,575	512,553	330,232	192,126	1,324,602
Total segment assets	1,901,043	384,346	613,925	487,793	490,891	3,877,998
Total segment liabilities include:						
Borrowings and net inter-segment lending	1,289,125	79,501	64,162	89,334	275,759	1,797,881
Working capital liabilities	210,756	118,993	116,726	53,873	55,824	556,172
Non-interest bearing liabilities	20,643	17,617	235,144	29,448	32,717	335,569
Total segment liabilities	1,520,524	216,111	416,032	172,655	364,300	2,689,622

* Based on the measures reported internally to directors, Other income and adjusted EBITDA of Corporate functions included a gain of \$17,799,000 arising from the sale of a business component that operates dental practices which is not a separate major line of the Group's business.

1 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2022 is as follows:

2022	Retail \$'000	Home Health \$'000	Specialist Care \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
Total segment revenue	716,061	379,689	229,416	205,425	(13,890)	1,516,701
Inter-segment revenue	-	(1,866)	(3,168)	-	5,034	-
Revenue from external customers	716,061	377,823	226,248	205,425	(8,856)	1,516,701
Other income*	-	-	19,107	20,329	-	39,436
Adjusted EBITDA*	94,938	33,142	65,571	38,713	(88,090)	144,274
Depreciation and amortisation						(55,437)
Interest expense						(41,425)
Investment income						(12,685)
Other expenses						(5,890)
Income tax benefit						16,882
Profit after income tax						45,719
Share of profit after tax from joint ventures (included in adjusted EBITDA)						955
Total segment assets include:						
Income producing assets	1,739,747	101,595	56,629	74,423	222,896	2,195,290
Working capital assets	74,158	36,467	(3,733)	86,404	87,139	280,435
Non-interest bearing assets	30,225	274,883	579,702	306,445	190,443	1,381,698
Total segment assets	1,844,130	412,945	632,598	467,272	500,478	3,857,423
Total segment liabilities include:						
Borrowings and net inter-segment lending	1,241,788	68,434	150,751	87,672	225,957	1,774,602
Working capital liabilities	260,416	140,309	119,699	52,077	70,253	642,754
Non-interest bearing liabilities	17,947	41,571	177,021	24,796	31,051	292,386
Total segment liabilities	1,520,151	250,314	447,471	164,545	327,261	2,709,742

* Based on the measures reported internally to directors, Other income and adjusted EBITDA of Wealth & Capital Markets included a revaluation gain of \$20,329,000 arising from a business combination (note 29), while those of Specialist Care included a gain on acquisition of \$19,107,000.

(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 loans and advances.

1 Segment information (continued)

(c) Other segment information (continued)

Segment revenue reconciles to total revenue as follows:

	2023 \$'000	2022 \$'000
Total segment revenue	1,617,013	1,516,701
Dividends and distributions (note 2)	18,140	9,412
Loss on investments in financial instruments (note 2)	(4,447)	(23,432)
Other interest income (note 2)	9,447	3,443
Gain on sale of dental practices business component	17,799	-
Impairment loss on investment property (note 12)	-	(5,523)
Revaluation gain from business combination achieved in stages	-	20,329
Gain on business acquisition (note 29)	-	19,107
Other	(543)	3,061
Revenue and other income attributable to members of Australian Unity Limited (note 28)	1,657,409	1,543,098
Revenue from benefit funds (note 28)	200,753	(181,771)
Total revenue and other income	1,858,162	1,361,327

(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:

	2023 \$'000	2022 \$'000
Adjusted EBITDA	161,539	144,274
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	(56,574)	(55,437)
Impairment of goodwill	(7,026)	-
	(63,600)	(55,437)
Interest expense		
Finance costs (note 3)	(50,375)	(41,429)
Other	(12)	4
	(50,387)	(41,425)
Investment income:		
Dividend and distribution income (note 2)	18,140	9,412
Impairment loss on investment property (note 12)	-	(5,523)
Loss on investments in financial instruments (note 2)	(4,447)	(23,432)
Other interest income (note 2)	9,447	3,512
Impairment of joint venture	(737)	-
Other	542	3,346
	22,945	(12,685)
Other income/(expenses):		
Merger and acquisition expenses	-	(5,269)
Other	(3,524)	(621)
	(3,524)	(5,890)
Profit before income tax attributable to members of Australian Unity Limited (note 28)	66,973	28,837
Profit/(loss) before income tax of benefit funds (note 28)	34,085	(64,737)
Profit/(loss) before income tax	101,058	(35,900)

1 Segment information (continued)

(c) Other segment information (continued)

(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:

	2023 \$'000	2022 \$'000
Segment assets	3,877,998	3,857,423
Resident liabilities and refundable lease deposits	1,704,038	1,570,630
Retirement Village Property Fund consolidation	86,508	78,178
Netting of eligible deferred tax balances	(205,815)	(247,147)
Netting of inter-segment loan balances	(90,140)	(86,844)
Other reclassifications between assets and liabilities	(838)	(4,585)
Total assets attributable to members of Australian Unity Limited	5,371,751	5,167,655
 Benefit fund assets (note 37)	 2,492,515	 2,380,347
Netting of eligible deferred tax balances	(2,432)	(2,152)
Total assets	7,861,834	7,545,850

(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:

	2023 \$'000	2022 \$'000
Segment liabilities	2,689,622	2,709,742
Resident liabilities and refundable lease deposits	1,704,038	1,570,630
Retirement Village Property Fund consolidation	86,508	78,178
Netting of eligible deferred tax balances	(205,815)	(247,147)
Netting of inter-segment loan balances	(90,140)	(86,844)
Other reclassifications between assets and liabilities	(838)	(4,585)
Total liabilities attributable to members of Australian Unity Limited	4,183,375	4,019,974
 Benefit fund policy liabilities (note 36)	 2,483,431	 2,357,988
Benefit fund other liabilities (note 37)	9,084	22,359
Netting of eligible deferred tax balances	(2,432)	(2,152)
Total liabilities	6,673,458	6,398,169

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 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:

	2023 \$'000	2022 \$'000
Health insurance net premium revenue	690,448	688,330
Revenue from services		
Specialist care and home health services, and other fees	337,932	285,330
Government grants and subsidies funding aged care, home care services	223,631	220,700
Management and performance fees revenue	103,552	101,552
Brokerage and commission	83,440	78,468
Healthcare services revenue	62,001	49,665
	<u>810,556</u>	<u>735,715</u>
Interest income of bank	52,070	27,451
Investment earnings		
Fair value gains, net of impairment loss, on investment property	37,057	20,565
Dividends and distributions	18,140	9,412
Other interest income	9,447	3,512
Loss on investments in financial instruments	(4,447)	(23,432)
	<u>60,197</u>	<u>10,057</u>
Benefit funds income (note 36(c))	200,753	(181,771)
Other income	44,138	81,545
	<u>1,858,162</u>	<u>1,361,327</u>

(a) Health insurance net premium revenue

Premium revenue increased during the financial year reflecting the April 2022 health insurance premium rate increase of 2.73%, despite a reduced number of policy holders and the decision to defer the April 2023 health insurance premium rate increase of 3.76% for seven months, together with changes in business and product mix.

(b) Other income

In the 2023 financial year, Other income included a gain of \$17,799,000 arising from the sale of a business component that operates dental practices (Australian Unity Health Care Pty Ltd) which is not a separate major line of the Group's business. In prior year, Other income included a revaluation gain arising from the step acquisition of Platypus Asset Management Pty Ltd, a joint venture entity, of \$20,329,000 and a gain on acquisition of Greengate retirement living and aged care business of \$19,107,000.

(c) Disaggregation of revenue

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.

2 Revenue and other income (continued)

Disaggregation of revenue from services for each business segment for the year ended 30 June 2023 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

2023	Retail \$'000	Home Health \$'000	Specialist Care \$'000	Wealth & Capital Markets \$'000	Corporate Functions \$'000	Total \$'000
Health insurance net premium revenue	690,448	-	-	-	-	690,448
Revenue from services						
Specialist care and home health services, and other fees	-	224,625	120,562	4,261	(11,516)	337,932
Government grants and subsidies funding aged care, home care services	-	142,285	81,346	-	-	223,631
Management and performance fees revenue	-	-	(25)	105,764	(2,187)	103,552
Brokerage and commission	2,759	-	2,579	78,102	-	83,440
Healthcare services revenue	-	52,253	7,837	-	1,911	62,001
	2,759	419,163	212,299	188,127	(11,792)	810,556
Interest income of bank	52,070	-	-	-	-	52,070
Investment earnings						
Fair value gains, net of impairment loss, on investment property	-	-	38,123	(1,066)	-	37,057
Dividends and distributions	12,209	-	-	2,530	3,401	18,140
Other interest income	2,474	2,203	1,825	354	2,591	9,447
Gain/(loss) on investments in financial instruments	(1,047)	-	(4,931)	807	724	(4,447)
	13,636	2,203	35,017	2,625	6,716	60,197
Benefit funds income	-	-	-	200,753	-	200,753
Other income	1,220	2,897	4,800	16,036	19,185	44,138
Revenue and other income	760,133	424,263	252,116	407,541	14,109	1,858,162
Reconciliation to revenue from external customers in segment reporting						
<i>Items added to/(excluded from) the segment revenue</i>						
Dividends and distributions	(12,209)	-	-	(2,530)	(3,401)	(18,140)
Other investment income	(1,427)	(2,203)	3,106	(1,161)	(3,315)	(5,000)
Other income - profit on sale of Dental business	-	-	-	-	(17,799)	(17,799)
Other	(500)	22	(2,876)	4,303	(406)	543
Revenue from benefit funds	-	-	-	(200,753)	-	(200,753)
	(14,136)	(2,181)	230	(200,141)	(24,921)	(241,149)
Revenue from external customers in segment reporting	745,997	422,082	252,346	207,400	(10,812)	1,617,013

2 Revenue and other income (continued)

2022	Retail \$'000	Home Health \$'000	Specialist Care \$'000	Wealth & Capital Markets \$'000	Corporate Functions \$'000	Total \$'000
Health insurance net premium revenue	688,330	-	-	-	-	688,330
Revenue from services						
Specialist care and home health services, and other fees	-	182,962	108,265	1,010	(6,907)	285,330
Government grants and subsidies funding aged care, home care services	-	147,015	73,685	-	-	220,700
Management and performance fees revenue	-	-	(24)	103,975	(2,399)	101,552
Brokerage and commission	2,593	-	2,347	73,528	-	78,468
Healthcare services revenue	-	44,337	6,330	-	(1,002)	49,665
	2,593	374,314	190,603	178,513	(10,308)	735,715
Interest income of bank	27,451	-	-	-	-	27,451
Investment earnings						
Fair value gains, net of impairment loss, on investment property	-	-	21,631	(1,066)	-	20,565
Dividends and distributions	6,807	-	-	1,308	1,297	9,412
Other interest income	25	-	21	9	3,457	3,512
Gain/(loss) on investments in financial instruments	(17,318)	-	(2,644)	(1,799)	(1,671)	(23,432)
	(10,486)	-	19,008	(1,548)	3,083	10,057
Benefit funds income	-	-	-	(181,771)	-	(181,771)
Other income	1,033	3,586	30,497	44,770	1,659	81,545
Revenue and other income	708,921	377,900	240,108	39,964	(5,566)	1,361,327
Reconciliation to revenue from external customers in segment reporting						
<i>Items added to/(excluded from) the segment revenue</i>						
Dividends and distributions	(6,807)	-	-	(1,308)	(1,297)	(9,412)
Other investment income	17,362	-	2,623	1,790	(1,786)	19,989
Other income - business combination revaluation gain	-	-	-	(20,329)	-	(20,329)
Other income - gain on business acquisition	-	-	(19,107)	-	-	(19,107)
Other	(3,415)	(77)	2,624	3,537	(207)	2,462
Revenue from benefit funds	-	-	-	181,771	-	181,771
	7,140	(77)	(13,860)	165,461	(3,290)	155,374
Revenue from external customers in segment reporting	716,061	377,823	226,248	205,425	(8,856)	1,516,701

3 Expenses

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

	2023 \$'000	2022 \$'000
Client care costs	75,705	66,928
Commission expense	81,232	77,646
Computer and equipment costs	54,640	44,560
Depreciation and amortisation expense	56,574	55,437
Employee benefits expense	610,680	563,365
Expenses in relation to benefit funds (note 36(c))	166,668	(117,034)
Fund manager and administration fees	19,126	16,002
Health insurance claims expense	561,619	591,498
Health insurance claims recoveries - Net Risk Equalisation Special Account	(83,805)	(68,689)
Impairment of assets	7,763	-
Interest expense of bank	27,206	5,080
Legal and professional fees	36,091	22,098
Marketing expenses	17,438	17,486
Occupancy costs	29,550	23,614
Other expenses	49,039	58,762
	1,709,526	1,356,753
<i>Depreciation and amortisation</i>		
Depreciation of property, plant and equipment	16,269	16,192
Depreciation of right-of-use assets	14,659	14,622
Amortisation of intangible assets	25,646	24,623
	56,574	55,437
<i>Finance costs</i>		
Interest and finance charges on borrowings	17,135	17,877
Notional interest on leases and related accounts	33,240	23,552
Finance costs expensed	50,375	41,429

4 Income tax benefit/(expense)

(a) Income tax benefit/(expense)

	2023 \$'000	2022 \$'000
Current tax	32,848	15,486
Current tax - benefit funds	(10,065)	(17,358)
Deferred tax	(43,791)	(8,456)
Deferred tax - benefit funds	(29,739)	86,093
Adjustments for current tax of prior periods	839	2,848
Adjustments for current tax of prior periods - benefit funds	5,719	(3,997)
Other	(91)	7,003
Income tax benefit/(expense)	(44,280)	81,619
Deferred income tax benefit/(expense) included in income tax expense comprises:		
Increase/(decrease) in deferred tax assets	(35,786)	68,781
Decrease/(increase) in deferred tax liabilities	(37,744)	8,855
	(73,530)	77,636

4 Income tax benefit/(expense) (continued)

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

	2023 \$'000	2022 \$'000
Profit/(loss) before income tax	101,058	(35,900)
Less: Loss/(profit) in benefit funds	(34,085)	64,737
Profit before income tax for the year	<u>66,973</u>	<u>28,837</u>
Tax at the Australian tax rate of 30% (2022: 30%)	(20,092)	(8,651)
Non-assessable income	9,978	26,171
Other assessable amounts	(11)	(1,281)
Non-deductible expenditures	(3,287)	(5,919)
Other deductible expenditures	2,481	1,641
Other deferred tax adjustments	22	(77)
Under provision in prior years	(1,554)	(291)
Tax credits/(offsets)	(711)	1,313
Tax in benefit funds	(34,085)	64,737
Other	2,979	3,976
Income tax benefit/(expense)	<u>(44,280)</u>	<u>81,619</u>

Franking credits

As at 30 June 2023, the franking credits available for future years at 30% adjusted for debits and credits arising from the payment of income tax payable and from recognised dividends receivable or payable is \$37.6 million (30 June 2022: \$43.3 million).

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

	2023 \$'000	2022 \$'000
Cash at bank and on hand	25	27
Bank balances	120,181	92,101
Deposits at call	884,051	994,317
	<u>1,004,257</u>	<u>1,086,445</u>

The balance of cash and cash equivalents as at 30 June 2023 included the Parent Entity's accounts totalling \$122,966,000 (30 June 2022: \$136,451,000) and amounts held by benefit funds totalling \$349,138,000 (30 June 2022: \$380,741,000).

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 23.

6 Financial assets - Loans and advances

	2023 \$'000	2022 \$'000
Current		
Mortgage loans	28,283	32,477
Personal loans	4,317	4,627
Provision for impairment	(9,025)	(8,311)
Total - current	23,575	28,793
Non-current		
Mortgage loans	1,121,878	1,077,644
Personal loans	6,382	4,184
Provision for impairment	(120)	(71)
Advances	1,143	1,262
Total - non-current	1,129,283	1,083,019
Total loans and advances	1,152,858	1,111,812

(a) Mortgage loans

Mortgage loans are provided to customers by the Group's authorised deposit-taking institution, Australian Unity Bank Limited (AUBL). The mortgage loans are secured on real property. These loans mature at various dates up to 30 June 2053 and earn interest at annual rates between 1.84% and 9.50% (2022: between 1.84% and 6.83%).

(b) Personal loans

AUBL also provides personal loans to customers. The personal loans mature at various dates up to 23 June 2030 and earn interest at annual rates between 5.99% and 15.18% (2022: between 5.99% and 15.18%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans above. It is calculated based on an expected credit loss (ECL) model. The provision for impairment totalling to \$9.1 million as at 30 June 2023 (2022: \$8.4 million) consisted of \$6.6 million on loans in the Stage 1 twelve-month ECL category (2022: \$5.7 million), \$1.1 million on loans in the Stage 2 lifetime ECL not credit impaired category (2022: \$0.6 million), and \$1.4 million on loans in the Stage 3 lifetime ECL credit impaired category (2022: \$2.1 million).

(d) Past due but not impaired

At 30 June 2023, loans and advances that were past due but not impaired amounted to \$34,300,000 (2022: \$38,118,000). 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 23.

7 Financial assets at fair value through profit or loss

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

	2023 \$'000	2022 \$'000
Securities held by benefit funds	2,033,616	1,827,908
Securities held by subsidiaries	363,833	319,077
	<u>2,397,449</u>	<u>2,146,985</u>

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:

	2023 \$'000	2022 \$'000
Equity trusts	1,507,999	1,305,628
Fixed interest and other debt security trusts	457,442	449,785
Mortgage trusts	27,514	16,664
Property syndicates and trusts	40,661	55,831
	<u>2,033,616</u>	<u>1,827,908</u>

(b) Securities held by subsidiaries comprise the following:

	2023 \$'000	2022 \$'000
Equity trusts	22,389	25,019
Fixed interest and other debt security trusts	225,695	176,962
Mortgage trusts	1	1,380
Property syndicates and trusts	115,748	115,716
	<u>363,833</u>	<u>319,077</u>

(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:

	2023 \$'000	2022 \$'000
Current	2,238,763	2,024,638
Non-current	158,686	122,347
	<u>2,397,449</u>	<u>2,146,985</u>

(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 23.

8 Financial assets - Other financial assets at amortised cost

	2023 \$'000	2022 \$'000
Other financial assets at amortised cost - Bank bills and term deposits	52,858	70,505

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 23.

9 Financial liabilities - Borrowings

	2023 \$'000	2022 \$'000
Current		
<u>Secured interest bearing liabilities</u>		
Retirement Village Investment Notes	33,210	-
RBA term funding facilities	18,389	25,193
Total secured interest bearing liabilities	51,599	25,193
<u>Unsecured interest bearing liabilities</u>		
Call deposits	588,289	645,492
Loan payable to related entity	5,100	5,100
Mortgage offset savings accounts	162,927	168,546
Negotiable certificates of deposit	41,521	-
Term deposits	441,917	311,835
Total unsecured interest bearing liabilities	1,239,754	1,130,973
Total current borrowings	1,291,353	1,156,166
Non-current		
<u>Secured interest bearing liabilities</u>		
Development finance loan	14,048	18,601
RBA term funding facilities	-	18,389
Retirement Village Investment Notes	18,401	51,611
Total secured interest bearing liabilities	32,449	88,601
<u>Unsecured interest bearing liabilities</u>		
Series C Australian Unity Bonds		
Face value	115,019	115,019
Valuation at amortised cost	(877)	(1,245)
At amortised cost	114,142	113,774
Series D Australian Unity Bonds		
Face value	207,000	207,000
Valuation at amortised cost	(1,463)	(2,078)
At amortised cost	205,537	204,922
Bank Loans	-	9,200
Term deposits	36,081	72,333
Total unsecured interest bearing liabilities	355,760	400,229
Total non-current borrowings	388,209	488,830
Total borrowings	1,679,562	1,644,996

9 Financial liabilities - Borrowings (continued)

(a) Series C and Series D Australian Unity Bonds

On 15 October 2019, the Company issued 1,150,192 Series C and 2,070,000 Series D Australian Unity Bonds - Tranche 1 of \$100 each pursuant to the prospectus dated 9 September 2019, raising \$322,019,200 in total. Series C and Series D Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHC and AYUHD respectively). Series C Australian Unity Bonds have a five-year term maturing on 15 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 2023, the Covenant Gearing Ratio was 25% (30 June 2022: 25%).

(b) Retirement Village Investment Notes (RVIN)

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

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

As at 30 June 2023, the total amount of RVIN on issue reported as interest bearing liabilities was \$51,611,000 (30 June 2022: \$51,611,000).

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June 2023 \$'000	30 June 2022 \$'000
RVIN - Series 6	1	31 July 2023	5.00%	33,210	-
Interest bearing RVIN - current				33,210	-
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				18,401	51,611
Total RVIN				51,611	51,611

9 Financial liabilities - Borrowings (continued)

(c) Development finance loans

Development finance loan reported under non-current borrowings of \$14,048,000 (30 June 2022: \$18,601,000) represented a loan facility for the development of retirement and aged care facilities in Victoria. This loan is secured by the first ranking securities over the respective properties and the refundable accommodation deposits relating to the aged care facilities. The loan bears interest at 5.00% per annum at 30 June 2023 (2022: 1.80% per annum).

(d) Bank loans

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

(e) 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 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 2023 was \$18,389,000 (2022: \$43,582,000) with average interest at 0.10% per annum (2022: 0.19% 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:

	2023 \$'000	2022 \$'000
Carrying amount of transferred assets under repurchase agreement	23,650	50,360
Carrying amount of associated liabilities	18,389	43,582
Net position	<u>5,261</u>	<u>6,778</u>

(f) Call deposits

Call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2023, the interest rate ranged between 0.01% and 5.10% (2022: between 0.01% and 1.10%).

(g) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2023 ranging between 0.49% and 5.61% (2022: between 0.15% and 4.35%).

(h) Negotiable certificates of deposit

During the year the Company issued transferable certificates of deposit at discounted amounts with various maturities within 365-day term. The deposits are payable on maturity at their face value totalling \$42,000,000.

(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 2023 this rate amounted to 6.35% (2022: 3.14%).

(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 23.

10 Other current liabilities

	2023 \$'000	2022 \$'000
Financial liabilities		
Refundable accommodation deposits	469,848	433,181
Resident loan liabilities	1,320,698	1,215,661
	<u>1,790,546</u>	<u>1,648,842</u>
Non-financial liabilities		
Unearned income	152,261	194,638
Other	13,282	10,637
	<u>165,543</u>	<u>205,275</u>
Total other current liabilities	<u>1,956,089</u>	<u>1,854,117</u>

(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 estimated amount owing to the residents, comprising the initial ingoing contribution plus residents' share of capital gains less accrued deferred management and other 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 23.

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 2023.

11 Fair value measurements (continued)

(i) Fair value hierarchy

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

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,
- level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2023 and 2022 on a recurring basis.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2023				
<i>Recurring fair value measurement</i>				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	7,983	1,522,405	-	1,530,388
Fixed interest and other debt security trusts	-	683,137	-	683,137
Mortgage trusts	-	27,515	-	27,515
Property syndicates and trusts	13,181	143,228	-	156,409
Interest rate swaps	-	29,402	-	29,402
Other financial assets	-	-	6,893	6,893
Total financial assets	21,164	2,405,687	6,893	2,433,744
Non-financial assets				
Investment properties	-	-	2,024,336	2,024,336
Total non-financial assets	-	-	2,024,336	2,024,336
Financial liabilities				
Life investment contract policy liabilities	-	1,718,396	-	1,718,396
Resident loan liabilities	-	-	1,320,698	1,320,698
Total financial liabilities	-	1,718,396	1,320,698	3,039,094
30 June 2022				
<i>Recurring fair value measurement</i>				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	8,694	1,321,953	-	1,330,647
Fixed interest and other debt security trusts	-	626,747	-	626,747
Mortgage trusts	-	18,044	-	18,044
Property syndicates and trusts	22,111	149,436	-	171,547
Interest rate swaps	-	30,946	-	30,946
Other financial assets	-	-	6,964	6,964
Total financial assets	30,805	2,147,126	6,964	2,184,895
Non-financial assets				
Investment properties	-	-	1,903,226	1,903,226
Total non-financial assets	-	-	1,903,226	1,903,226
Financial liabilities				
Life investment contract policy liabilities	-	1,555,007	-	1,555,007
Resident loan liabilities	-	-	1,215,661	1,215,661
Total financial liabilities	-	1,555,007	1,215,661	2,770,668

11 Fair value measurements (continued)

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

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

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

Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

Investment properties

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

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

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

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

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

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

11 Fair value measurements (continued)

(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 2023:

	Other financial assets \$'000	Investment properties \$'000	Total \$'000
Opening balance 1 July 2021	6,994	1,646,704	1,653,698
Acquisition of subsidiaries	-	231,840	231,840
Additions	-	162,845	162,845
Commercial property rent received in advance movements	-	1,082	1,082
Retirement living properties sold	-	(158,660)	(158,660)
Gains/(losses) recognised in other income*	(31)	20,565	20,534
Closing balance 30 June 2022	6,963	1,904,376	1,911,339
Opening balance 1 July 2022	6,963	1,904,376	1,911,339
Additions	-	143,372	143,372
Commercial property rent received in advance movements	-	1,066	1,066
Retirement living properties sold	-	(49,813)	(49,813)
Transfers to property, plant and equipment	-	(11,722)	(11,722)
Gains/(losses) recognised in other income*	(70)	37,057	36,987
Closing balance 30 June 2023	6,893	2,024,336	2,031,229
*Included in the gain recognised in other income: Unrealised gain/(loss) recognised in the profit or loss attributable to assets held at the end of the financial year			
2023	(70)	37,057	36,987
2022	(31)	20,565	20,534

Investment properties valuation inputs and relationships to fair value

Due to the current economic climates there is a degree of uncertainty in the inputs used in investment property valuation. While demand for retirement village properties may fluctuate in the short-term, the Group continues to expect long term demand to be strong commensurate with the growth in the aging population. The valuation has been determined based on the available information at 30 June 2023 and other relevant information arising since then. The Group has a recent independent assessment on the key assumptions used in the property valuation.

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.

11 Fair value measurements (continued)

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

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 2023 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties, excluding non-retirement village development sites	\$1,878,740	Discount rate	12.75% - 14.0%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -\$25.5 million/+\$28.0 million
		Property growth rate	2.0% - 4.0%	Increase/decrease in property growth rate by +/- 50 basis points would change the fair value by +\$46.7 million/-\$42.5 million
		Average length of residents' stay	5-8 years for serviced apartments, 5-16 years for other independent living units	The higher the average length of stay, the lower the fair value.

Valuation processes

The Group's Specialist Care 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 Specialist Care, 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 Specialist Care 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 which fair values differ from their amortised cost are as follows:

	2023		2022	
	Amortised cost \$'000	Fair value \$'000	Amortised cost \$'000	Fair value \$'000
Current and non-current assets				
Mortgage loans	1,141,016	1,140,539	1,101,740	1,101,276
Advances	1,143	916	1,262	1,170
	1,142,159	1,141,455	1,103,002	1,102,446
Current and non-current liabilities				
Australian Unity Bonds	319,679	321,789	318,696	306,782
Bank loans	14,048	13,704	27,801	27,193
RBA funding facilities	18,389	18,389	43,582	43,061
Retirement Village Investment Notes	51,611	50,086	51,611	52,655
Term deposits	477,998	476,622	384,168	382,119
	881,725	880,590	825,858	811,810

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

Non-financial assets and liabilities

12 Non-financial assets - Investment properties

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

	2023 \$'000	2022 \$'000
Retirement village independent living units	1,734,892	1,637,640
Development sites - retirement village independent living units	143,848	147,638
Development sites - Herston Quarter	143,448	118,016
Commercial property	40,897	40,897
Commercial property rent received in advance*	(38,749)	(39,815)
	<u>2,024,336</u>	<u>1,904,376</u>

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

(a) Movements of investment properties

	2023 \$'000	2022 \$'000
At fair value		
Balance at the beginning of the period	1,904,376	1,646,704
Acquisition of subsidiaries	-	231,840
Additions	143,372	162,845
Commercial property rent received in advance movements	1,066	1,082
Retirement living properties sold	(49,813)	(158,660)
Net fair value movements	37,057	26,088
Transfers to property, plant and equipment	(11,722)	-
Impairment loss	-	(5,523)
Balance at the end of the year	<u>2,024,336</u>	<u>1,904,376</u>

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

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

	2023 \$'000	2022 \$'000
Revenue	62,694	56,256
Expenses	(49,679)	(33,597)
Changes in fair value recognised in profit or loss	37,057	20,565
	<u>50,072</u>	<u>43,224</u>

13 Non-financial assets - Property, plant and equipment

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold assets \$'000	Total \$'000
At 1 July 2021					
Cost	39,260	273,477	39,019	44,872	396,628
Accumulated depreciation	-	(21,541)	(25,379)	(31,874)	(78,794)
Net book amount	39,260	251,936	13,640	12,998	317,834

Year ended 30 June 2022					
Opening net book amount	39,260	251,936	13,640	12,998	317,834
Acquisition of subsidiaries	-	152,204	6,252	5,363	163,819
Additions	-	21,012	1,915	1,656	24,583
Transfers from/(to) intangibles	-	-	402	(418)	(16)
Depreciation charge	-	(8,941)	(4,444)	(2,807)	(16,192)
Closing net book amount	39,260	416,211	17,765	16,792	490,028

At 30 June 2022					
Cost	39,260	446,694	47,647	51,473	585,074
Accumulated depreciation	-	(30,483)	(29,882)	(34,681)	(95,046)
Net book amount	39,260	416,211	17,765	16,792	490,028

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold assets \$'000	Total \$'000
Year ended 30 June 2023					
Opening net book amount	39,260	416,211	17,765	16,792	490,028
Additions	-	16,300	3,794	124	20,218
Transfers from/(to) investment properties	9,424	2,267	31	-	11,722
Disposals	(1,050)	(231)	(729)	(3)	(2,013)
Depreciation charge	-	(8,872)	(5,023)	(2,374)	(16,269)
Closing net book amount	47,634	425,675	15,838	14,539	503,686

At 30 June 2023					
Cost	47,634	464,926	47,164	50,189	609,913
Accumulated depreciation	-	(39,251)	(31,326)	(35,650)	(106,227)
Net book amount	47,634	425,675	15,838	14,539	503,686

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 sub-lease 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 2023 was immaterial.

(a) Amounts recognised in the consolidated balance sheet

The following are assets and liabilities recognised under AASB 16:

	30 June 2023 \$'000	30 June 2022 \$'000
Right-of-use assets		
Buildings	92,910	105,557
Vehicles	4,227	4,324
Total assets	97,137	109,881
Lease liabilities		
Current	15,979	17,306
Non-current	99,999	108,977
Total liabilities	115,978	126,283

Additions to the right-of-use assets during the financial year ended 30 June 2023 were \$2,852,000 (2022: \$13,274,000, included assets from the acquisition of subsidiaries of \$4,778,000).

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

	2023 \$'000	2022 \$'000
Depreciation charge of right-of-use assets	14,659	14,622
Interest expense (included in Finance costs)	5,719	5,980
Expenses relating to short-term leases or leases of low value assets (included in Other expenses)	4,779	5,270
	25,157	25,872

Total cash outflow for leases in the financial year ended 30 June 2023 was \$22,522,000 (2022: \$22,808,000).

15 Non-financial assets - Intangible assets

	Goodwill \$'000	Computer software \$'000	Aged care bed and other licences \$'000	Management rights and other intangible assets \$'000	Total \$'000
At 1 July 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
Year ended 30 June 2022					
Opening net book amount	182,047	58,628	10,740	62,375	313,790
Acquisition of subsidiaries	47,081	73	-	-	47,154
Additions	-	26,797	-	-	26,797
Transfers from property plant and equipment	-	16	-	-	16
Disposals	(427)	(110)	-	(158)	(695)
Amortisation charge and impairment	-	(15,801)	(2,913)	(5,909)	(24,623)
Closing net book amount	228,701	69,603	7,827	56,308	362,439
At 30 June 2022					
Cost	234,701	176,852	12,655	112,376	536,584
Accumulated amortisation and impairment	(6,000)	(107,249)	(4,828)	(56,068)	(174,145)
Net book amount	228,701	69,603	7,827	56,308	362,439
Year ended 30 June 2023					
Opening net book amount	228,701	69,603	7,827	56,308	362,439
Acquisition of subsidiaries	5,159	-	-	-	5,159
Additions	-	19,193	-	-	19,193
Transfer within intangibles	(15,203)	-	-	15,203	-
Disposals	(734)	(285)	-	-	(1,019)
Amortisation charge and impairment	(7,026)	(15,449)	(3,922)	(6,275)	(32,672)
Closing net book amount	210,897	73,062	3,905	65,236	353,100
At 30 June 2023					
Cost	223,923	194,566	12,655	127,579	558,723
Accumulated amortisation and impairment	(13,026)	(121,504)	(8,750)	(62,343)	(205,623)
Net book amount	210,897	73,062	3,905	65,236	353,100

15 Non-financial assets - Intangible assets (continued)

The management rights and other intangible assets include those with an indefinite life of \$30,427,000 as at 30 June 2023 and 2022. The management rights are related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are expected to continue their operations on a going concern basis.

(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	2023 \$'000	2022 \$'000
Home Health (formerly Home & Disability Services)	145,124	141,116
Wealth Assets Management	76,814	81,189
Trustee Services	8,399	8,399
Wealth Advice Services	2,137	9,163
Residential Communities	8,850	8,850
Health Services	-	4,741
	241,324	253,458

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.

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 9.0% to 13.0% were applied to cash flow projections of the relevant CGU (2022: 9.1% - 12.1%). 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 (2022: 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 17.2% (2022: 12.1%) would not cause the recoverable amount of goodwill and intangible assets with an indefinite life to fall below its carrying amount, except for Wealth Advice Services CGU as disclosed in the following section. The following section describes the Home Health, Trustee Services and Wealth Advice Services CGUs that are prone to the changes in key assumptions.

15 Non-financial assets - Intangible assets (continued)

Home Health CGU

The value in use calculation for Home Health 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, strategic growth initiatives and changing demographic opportunities that will see a continual increase in demand from ageing Australians who require Home Health services.

In determining the growth in customer contracts, consideration has been given to the environmental context in which the business operates, including the current government policy relating to the Home Care Packages (HCP) and the Commonwealth Home Support Programme (CHSP) as well as the ongoing Royal Commission submissions and recommendations that are expected to consider potential alternative future models of government funding under the new Support at Home Program.

Revenue growth assumptions for the CGU average 7.3% per annum over the five-year projection period. The key assumptions that underpin the recoverable amount are revenue growth and achievement of forecast operating margins. The business has implemented a number of commercial and transformational initiatives to improve operating margins and leverage the branch network performance.

The forecasts reflect commercial opportunities faced by the 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.

- (ii) Discount rates for the purpose of impairment testing - the pre-tax discount rate applied to cash flow projections is 9.7%. A one percentage point change in the discount rate would not alter the outcome 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% which reflects the impact of inflation and projected industry growth over the long term. A percentage point change in the terminal growth rate would not alter the outcome of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be \$273.4 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, however, there remains reasonable uncertainty around the pace 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 10.3%. A one percentage point change in the discount rate would not alter the outcome 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 terminal growth rate would not alter the outcome of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be \$13.7 million higher than its carrying amount.

15 Non-financial assets - Intangible assets (continued)

Wealth Advice Services CGU

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

- (i) The Group has built its wealth advice business over a number of years, both organically and through acquisition. This includes growth in the number of new clients for employed advisers, recruitment of self-employed practices and growth in revenue derived from Separately Managed Accounts. The business derives its income primarily from license fees and fees for services. The CGU's net revenue growth assumptions are underpinned by achievement of forecast operating margins arising from significant commercial opportunities. The Group acknowledges that there are uncertainties around the pace and nature of growth, and when it 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 13%.
- (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%.

As a result of the impairment test, an impairment of \$7.0 million has been recognised in the Consolidated statement of comprehensive income and reported under "Impairment of assets" (refer note 3). As there is no headroom in the impairment model, any change to key assumptions would result in further impairment.

16 Non-financial liabilities - Provisions

	2023 \$'000	2022 \$'000
Current provisions		
Employee benefits provision	58,757	59,536
Health insurance claims provision	70,526	122,406
Self insurance provision	6,160	-
Other provisions	8,075	7,646
	143,518	189,588

Health insurance claims provision

Health insurance claims provision represents provision made for outstanding claims and deferred claims. Provision is made for claims outstanding at the end of the 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. Since 30 June 2020, a specific claims liability was recorded for deferred claims that were a result of surgeries and other health services being restricted for policyholders as the impact of the COVID-19 pandemic. There was a general expectation that as these restrictions are lifted there will be a catch up of procedures and benefits claimed in the future. As the restrictions were ceased, there was no additional deferred claims provision raised during the 2023 financial year. During this reporting period the Group recorded the unwinding of the remaining balance of the deferred claims provision of \$70,965,000 (2022: \$19,175,000).

17 Non-financial liabilities - Deferred tax balances

	2023 \$'000	2022 \$'000
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Accrued expenses	17,821	16,681
Fixed assets	25,822	12,616
Capitalised expenditure	4,961	4,630
Leases	6,327	6,342
Policy bonus credits	42,695	48,395
Provisions	32,632	53,624
Risk Equalisation Special Account	720	480
Tax losses	30,135	31,455
Trust distribution	13,805	9,796
Unrealised losses	30,779	60,415
Other assessable items	119	3,896
Total deferred tax assets	<u>205,816</u>	<u>248,330</u>
Deferred tax liabilities		
Fixed assets and investment properties	200,201	177,517
Intangible assets	16,615	13,094
Risk Equalisation Special Account	12,046	8,329
Tax deferred	5,741	4,473
Unrealised gains	58,263	48,108
Other deductible items	20,320	23,090
Total deferred tax liabilities	<u>313,186</u>	<u>274,611</u>
Net Deferred tax liabilities	<u>107,370</u>	<u>26,281</u>

18 Mutual Capital Instruments

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

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

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

18 Mutual Capital Instruments (continued)

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

During the year, the Company paid fully-franked dividends as follows:

	2023 \$'000	2022 \$'000
Dividend for the 2023 financial year of \$2.4932 per MCI paid on 17 April 2023	8,562	-
Dividend for the 2023 financial year of \$2.5068 per MCI paid on 17 October 2022	8,608	-
Dividend for the 2022 financial year of \$2.4932 per MCI paid on 19 April 2022	-	8,562
Dividend for the 2022 financial year of \$2.5068 per MCI paid on 15 October 2021	-	3,008
	17,170	11,570

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.

19 Mutual Capital Instruments based payments

Under the Group's long term variable compensation award scheme, senior executives may be invited to receive a part of their compensation in the form of rights to deferred MCI of Australian Unity Limited. The scheme commenced in 2022. Each right converts to one MCI on vesting subject to the continued employment of the senior executive at the vesting date. The rights to deferred MCI do not carry any rights to receive dividends prior to the vesting date. If the senior executive ceases to be employed by the Group within the vesting period the rights will be forfeited, except in limited circumstances that are approved by the board.

The fair value of the rights at the grant date was the market price of the Company's MCIs on the grant date. No adjustment has been made for the present value of expected dividends that will not be received by the senior executives on their rights during the vesting period on the basis that the offer document indicates that participants may, at the discretion of the board, be entitled to receive a dividend equivalent payment at the vesting date.

Details of each right to deferred MCI in force are:

Grant date	Vesting date	Grant date fair value
28 October 2022	1 December 2026	\$86.99
31 January 2022	1 December 2025 (25%)	\$103.00
31 January 2022	1 December 2024 (75%)	\$103.00

The following table shows the rights to deferred MCI outstanding at the beginning and end of the reporting period and movements during the reporting period:

19 Mutual Capital Instruments based payments (continued)

	2023 Number of rights	2022 Number of rights
Balance at the beginning of the reporting period	29,816	-
Granted during the year	38,721	29,816
Vested during the year	-	-
Forfeited during the year	(618)	-
Balance at the end of the reporting period	<u>67,919</u>	<u>29,816</u>
Weighted average remaining contractual life of the deferred rights outstanding and the end of the reporting period	<u>3.10 years</u>	<u>2.67 years</u>

The expense for each tranche of rights to deferred MCI granted is recognised in the Consolidated statement of comprehensive income on a straight-line basis, adjusted for forfeitures, over the vesting period of the rights. Total expenses arising from the granting of rights to deferred MCI recognised during the reporting period as part of Employee benefits expense were \$2,130,000 (2022: \$422,000).

20 Equity

(a) Reserves

	2023 \$'000	2022 \$'000
Asset revaluation reserve	2,462	2,462
Cash flow hedges reserve	20,581	21,662
MCI-based payment reserve	2,552	422
Post-employment benefit reserve	4,440	4,402
	<u>30,035</u>	<u>28,948</u>
Movements:		
<i>Asset revaluation reserve</i>		
Balance at the beginning of the year	2,462	2,462
Balance at the end of the year	<u>2,462</u>	<u>2,462</u>
<i>Cash flow hedges reserve (i)</i>		
Balance at the beginning of the year	21,662	(2,295)
Movements in hedging value during the year	(1,544)	34,225
Deferred tax	463	(10,268)
Balance at the end of the year	<u>20,581</u>	<u>21,662</u>
<i>MCI-based payment reserve (ii)</i>		
Balance at the beginning of the year	422	-
MCI-based payments expenses	2,130	422
Balance at the end of the year	<u>2,552</u>	<u>422</u>
<i>Post-employment benefit reserve (iii)</i>		
Balance at the beginning of the year	4,402	6,973
Remeasurement of net defined benefit obligations	38	(2,571)
Balance at the end of the year	<u>4,440</u>	<u>4,402</u>

20 Equity (continued)

(a) Reserves (continued)

(i) 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 as finance costs when the associated hedged transaction affects profit or loss. The hedge transaction costs are also recognised as finance costs in the profit or loss. There was no hedge ineffectiveness recognised in the profit or loss. The fair values of the respective derivative financial instruments used for cash flow hedge are reported as part of Other non-current assets as at 30 June 2023 and 2022.

(ii) MCI-based payment reserve

The amount recognised in the MCI-based payment reserve is the grant date fair value of rights to deferred MCI granted to employees but not yet vested.

(iii) 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.

(b) Retained earnings

Movements in retained earnings were as follows:

	2023 \$'000	2022 \$'000
Balance at the beginning of the financial year	520,687	486,538
Profit for the year	56,778	45,719
Dividends paid	(17,170)	(11,570)
Balance at the end of the financial year	<u>560,295</u>	<u>520,687</u>

21 Cash flow information

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

	2023 \$'000	2022 \$'000
Profit after income tax for the year	56,778	45,719
Depreciation and amortisation expense	41,915	40,815
Gain on sale of dental practices business component	(17,799)	-
Gain on business acquisitions	-	(39,436)
Fair value gains on investment property	(38,123)	(21,647)
Loss on investments	4,447	23,432
Gain on disposal of assets	(2,273)	(3,105)
Share of net profit or loss of joint ventures	(2,797)	(955)
Impairment of assets	7,763	-
Business combination expenses	-	4,973
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(18,822)	28,024
Increase in loans and advances	(41,046)	(204,521)
Increase in current tax assets	(30,355)	(6,949)
Decrease in other operating assets	10,950	8,899
Increase/(decrease) in trade and other payables	3,625	(23,959)
Increase in deposits liability	72,529	176,136
Decrease in current tax liabilities	-	(6,472)
Increase/(decrease) in deferred tax liabilities	77,421	(87,903)
Increase/(decrease) in provisions	(40,029)	36,855
Increase/(decrease) in benefit fund policy liabilities	(12,447)	133,064
Decrease in other operating liabilities	(49,054)	(27,949)
Net cash inflow from operating activities	<u>22,683</u>	<u>75,021</u>

21 Cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities \$'000	Other liabilities \$'000	Total \$'000
Opening balance as at 1 July 2021	462,972	1,304,976	1,767,948
Cash flows			
- Repayments of bank loans	(31,460)	-	(31,460)
- Receipts of development finance loans	18,601	-	18,601
- Payments of resident loan liabilities	-	(106,971)	(106,971)
- Receipts of refundable lease deposits	-	137,791	137,791
	(12,859)	30,820	17,961
- Acquisition of subsidiaries	-	313,046	313,046
Closing balance as at 30 June 2022	450,113	1,648,842	2,098,955
	Interest bearing liabilities \$'000	Other liabilities \$'000	Total \$'000
Opening balance as at 1 July 2022	450,113	1,648,842	2,098,955
Cash flows			
- Repayments of bank loans	(9,200)	-	(9,200)
- Repayments of RBA term funding facilities	(25,193)	-	(25,193)
- Repayments of development finance loans	(4,553)	-	(4,553)
- Receipts from resident loan liabilities	-	105,037	105,037
- Receipts of refundable lease deposits	-	36,667	36,667
	(38,946)	141,704	102,758
- Acquisition of subsidiaries	-	-	-
Closing balance as at 30 June 2023	411,167	1,790,546	2,201,713

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.

22 Critical accounting estimates and judgements

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

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

(a) Critical accounting estimates and assumptions

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

(i) *Fair value of financial instruments*

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

(ii) *Estimated impairment of loans and advances*

The accounting policy requires the Group to assess impairment at least at the end of each reporting period. The provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on experienced judgement. 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.

22 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(v) *Recoverability assessment of Herston Quarter development costs*

Herston Quarter is an approximately five-hectare site being developed to create a landmark Brisbane destination and a global benchmark for health precincts. The Group is the master developer for this site and is committed under agreements with the Queensland government to renew the precinct and deliver various assets on the site, including redeveloping heritage buildings, public health facilities, student accommodation, car parks, infrastructure, and public realm areas. In return for the successful completion of a number of critical development milestones, the government will grant the Group a 99-year lease over certain land holdings within the Herston precinct for nil consideration. Subject to further conditions and necessary approvals on future developments, the Group will be able to further develop these land holdings and benefit from the commercial outcomes achieved from these activities.

At 30 June 2023, the Group has achieved substantial progress towards achieving the critical milestones under these agreements and has capitalised work in progress of \$144 million at this date. The recoverability of this work in progress is assessed against the long-term cash flow projections prepared by the Group, which includes cash flows from the successful development of land holdings to be granted to the Group. The development work in progress is reported as part of Investment property (refer to note 12).

At the end of each reporting period the Group makes an assessment on the recoverability of the development costs through a review of the future cash flows of the project and other associated cash flows. Assumptions and judgements are applied in estimating the future cash flows associated with the remaining stages of the development plan. Several elements of the project need to be completed before the assumed future cash flows associated with these remaining stages of the development plan can be realised. While the Group is able to utilise available resources and continues to advance development activities, there is a degree of uncertainty associated with the development stages due to their dependency on achieving satisfactory commercial arrangements with third parties, meeting project milestones and market conditions, including inflationary pressures.

The current forecast cashflows represent a base case that was formed after considering a range of potential future developments and operating outcomes. These cashflows developed by the Group reflect best estimates having due regard to market evidence and the input of third parties. These assumptions may fluctuate depending on movements in interest rates, contracted prices once the approach to development stages are finalised and commercial arrangements being progressed as the project continues.

(vi) *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.

(vii) *Insurance liabilities*

The estimates, assumptions and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 26 and 36.

(viii) *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*. Judgements are applied in classifying a life insurance liability into the appropriate category in line with the requirements as set out in the accounting policy note.

22 Critical accounting estimates and judgements (continued)

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

(ii) Interest in subsidiaries, associates and joint ventures

The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy, the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 24. 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 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 of investments represent a joint venture as the Group does not have power to control the entities.

23 Financial risk management

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

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

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

In addition, the Group Board has established the Investment Committee to provide oversight and guidance to management, as appropriate, in connection with and in relation to the Group's investment governance framework and for the promotion of a robust risk culture in respect of the Group's investment management activities.

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 and 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.

23 Financial risk management (continued)

(a) Market risk (continued)

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% (2022: 14%) 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.

Judgements of reasonably possible movements	Impact on post-tax profit		Impact on equity	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Securities prices +14% (2022: +14%)	5,404	5,804	5,404	5,804
Securities prices -14% (2022: -14%)	(5,404)	(5,804)	(5,404)	(5,804)

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

(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 2023 and 2022, 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:

	2023 \$'000	2022 \$'000
Financial assets		
Cash and cash equivalents	655,119	705,704
Financial assets at fair value through profit or loss	288,453	265,644
Loans and advances	628,526	572,779
	1,572,098	1,544,127
Financial liabilities		
Australian Unity Bonds	322,019	322,019
Call deposits	580,612	636,778
Development finance loans	14,048	18,601
Bank loans	-	9,200
Loan payable to related entity	5,100	5,100
Interest rate swap, at notional principal amounts	(397,019)	(367,019)
	524,760	624,679
Net position	1,047,338	919,448

23 Financial risk management (continued)

(a) Market risk (continued)

The Group analyses its interest rate exposure on a regular 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 30 June 2023, 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 resulting in total interest rates of 5.65% (2022: 2.33%) for Series C and 5.80% (2022: 2.48%) for Series D. The Group entered into interest rate swap for a total notional amount of \$322,019,000 to hedge the variable interest component of these bonds for the periods up to the maturity dates of the respective bonds, at rates ranging from 0.90% to 0.95% for Series C and 1.12% to 1.13% for Series D, resulting in overall fixed rates of 2.9% to 3.3% per annum for the bonds. The Group also hedge the variable rates of deposits via interest rate swaps for a total notional amount of \$75,000,000 maturing on various dates in 2024.

As at the end of the reporting period, if interest rates had increased or decreased by 0.70% (2022: 0.60%), with all other variables held constant, the impact would have been as follows:

Judgements of reasonably possible movements	Impact on post-tax profit		Impact on equity	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Interest rates +0.70% (2022: +0.60%)	3,897	1,598	3,897	1,598
Interest rates -0.70% (2022: -0.60%)	(3,897)	(1,598)	(3,897)	(1,598)

(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.

23 Financial risk management (continued)

(b) Credit risk (continued)

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

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

The Group applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss as permitted by the standard. Under the simplified ECL approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Group conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. The 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. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans and advances, net of any provisions for impairment. To mitigate the risk of potential losses that may arise from any default, loans to customers are largely secured by physical property. The Company holds collateral when required, as security for its residential, commercial and personal loans, thus reducing the amount of financial loss that may arise from any defaults. Lenders mortgage insurance is generally taken out for any residential mortgages with a Loan to Value Ratio in excess of 80%, which further reduces the credit risk exposures. 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.

At each reporting date, the Group makes an assessment whether there is a significant increase in credit risk since origination. The Group considers historical loss experience and adjust 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 were primarily driven by model assumptions on forward looking scenarios, including the trends of loans in arrears and management's view on macro-economic conditions in the foreseeable future.

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.

23 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	Past due and impaired	Total
	High grade \$'000	Other grade \$'000	\$'000	\$'000	\$'000
At 30 June 2023					
Cash and cash equivalents	655,119	-	-	-	655,119
Trade and other receivables	1,395	104,445	6,190	2,731	114,761
Financial assets at fair value through profit or loss	225,695	138,138	-	-	363,833
Other financial assets at amortised cost	52,858	-	-	-	52,858
Loans and advances	1,057,240	63,209	34,300	7,255	1,162,004
Other financial assets	-	49,740	-	-	49,740
	1,992,307	355,532	40,490	9,986	2,398,315
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade \$'000	Other grade \$'000	\$'000	\$'000	\$'000
At 30 June 2022					
Cash and cash equivalents	705,704	-	-	-	705,704
Trade and other receivables	605	88,800	4,778	3,115	97,298
Financial assets at fair value through profit or loss	176,962	142,115	-	-	319,077
Other financial assets at amortised cost	70,505	-	-	-	70,505
Loans and advances	1,021,068	55,011	38,118	5,997	1,120,194
Other financial assets	-	47,466	-	-	47,466
	1,974,844	333,392	42,896	9,112	2,360,244

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 \$47,876,000 (2022: \$44,645,000).

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.

23 Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2023, the Group's total current assets were lower than total current liabilities by \$292 million (2022: \$245 million). This is not an indication of a liquidity issue as current liabilities include \$1,791 million (2022: \$1,649 million) of refundable accommodation deposits and resident loan liabilities (refer to note 10) which the Group classifies as current, reflecting contractual requirements for the Group to repay an exiting resident within 12 months. However, experience is that only a minority of residents will exit within the next 12 months and accordingly the majority of the liabilities will not be payable within that period. The Group regularly reviews business strategy and funding requirements and allocates capital as required to ensure that it has the ability to meet all financial obligations.

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 2023 (refer to notes 30 and 31), 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 2023						
Trade and other payables	162,696	-	-	-	-	162,696
Interest bearing liabilities						
Australian Unity Bonds	5,066	5,066	340,637	-	-	350,769
Bank loan	351	351	14,575	-	-	15,277
Call deposits	589,495	-	-	-	-	589,495
Loan payable to related entity	162	5,262	-	-	-	5,424
Mortgage offset savings accounts	162,927	-	-	-	-	162,927
Negotiable certificates of deposits	39,000	3,000	-	-	-	42,000
RBA term funding facilities	9	18,398	-	-	-	18,407
Retirement Village Investment Notes	33,804	455	18,781	-	-	53,040
Term deposits	310,058	151,523	44,637	-	-	506,218
	1,140,872	184,055	418,630	-	-	1,743,557
Lease liabilities	8,335	10,058	58,860	70,165	-	147,418
Benefit fund policy liabilities	204,118	258,057	-	-	2,021,256	2,483,431
Other liabilities	1,465	-	-	-	1,797,363	1,798,828
Total liabilities	1,517,486	452,170	477,490	70,165	3,818,619	6,335,930

23 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	Over 5 years \$'000	No specific maturity \$'000	Total \$'000
At 30 June 2022						
Trade and other payables	177,805	-	-	-	-	177,805
Interest bearing liabilities						
Australian Unity Bonds	5,066	5,066	350,769	-	-	360,901
Bank loan	252	252	28,458	-	-	28,962
Call deposits	645,726	-	-	-	-	645,726
Loan payable to related entity	97	5,197	-	-	-	5,294
Mortgage offset savings accounts	168,546	-	-	-	-	168,546
RBA term funding facilities	41	25,222	18,407	-	-	43,670
Retirement Village Investment Notes	1,286	1,286	53,039	-	-	55,611
Term deposits	217,037	122,034	94,211	-	-	433,282
	1,038,051	159,057	544,884	-	-	1,741,992
Lease liabilities	9,003	8,638	62,475	83,218	-	163,334
Benefit fund policy liabilities	116,180	135,251	-	-	2,106,557	2,357,988
Other liabilities	1,221	-	718	-	1,657,540	1,659,479
Total liabilities	1,342,260	302,946	608,077	83,218	3,764,097	6,100,598

(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 2023 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.

23 Financial risk management (continued)

(e) Insurance risk (continued)

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.

24 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 Australian Unity Bank Limited Australian Unity Finance Limited Australian Unity Funds Management Limited Australian Unity Group Services Pty Ltd Australian Unity Health Limited Australian Unity Investments Strategic Holdings Pty Ltd Australian Unity Personal Financial Services Limited Australian Unity Property Limited Australian Unity Retirement Living Holdings Pty Ltd Australian Unity Retirement Living Investments Limited Australian Unity Retirement Living Services Limited Australian Unity Strategic Holdings Pty Limited Australian Unity Strategic Investments Pty Ltd Herston Company Pty Ltd Lifeplan Australia Friendly Society Limited Remedy Healthcare Group Pty Ltd	Albert Road Development Manager Pty Ltd Australian Unity Aged Care Investments Pty Ltd Australian Unity Aged Care Trust #1 Australian Unity Aged Care Trust #2 Australian Unity Aged Care Trust #4 Australian Unity Aged Care Trust #5 Australian Unity Albert Road Retirement Village Land Trust Australian Unity Aurora Land Owner Trust Australian Unity Aurora Operations Trust Australian Unity Campbell Place Aged Care Land Trust Australian Unity Campbell Place Retirement Village Land Trust Australian Unity Care Services Pty Ltd Australian Unity Carlton Aged Care Trust Australian Unity Carlton Retirement Trust #1 Australian Unity Carlton Retirement Trust #2 Australian Unity Herston Quarter Aged Care Land Holdings Pty Ltd Australian Unity Herston Quarter Retirement Community Land Holdings Pty Ltd Australian Unity Home Care Service Pty Ltd Australian Unity Investment Real Estate Limited Australian Unity Investment Trust Australian Unity Mornington Development Trust Australian Unity Peninsula Grange RACF Land Trust 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 Greengate Care Pty Ltd Greengate Partnership Pty Ltd Herston Development Company Pty Ltd Herston Quarter Aged Care Developer Pty Ltd Herston Quarter Retirement Community Developer Pty Ltd Hunters Hill Sub-Trust Kookaburra Securitisation Trust 2021-1R Platypus Asset Management Pty Ltd St Brigid's Green Retirement Village Pty Ltd St Faber's Green Retirement Village Pty Ltd St Luke's Green Retirement Village Pty Ltd St Patrick's Green Retirement Village Pty Ltd The Governor's Retirement Resort Pty Ltd Victoria Grange Sub Trust

25 Parent entity financial information

(a) Summary financial information

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

	2023 \$'000	2022 \$'000
Balance sheet		
Cash and cash equivalents	122,966	136,451
Other current assets	242,713	282,288
Current assets	365,679	418,739
Non-current assets	1,159,323	1,089,543
Total assets	1,525,002	1,508,282
Current liabilities	103,720	51,461
Non-current liabilities	309,107	377,885
Total liabilities	412,827	429,346
Members' balances	255,625	255,625
Mutual Capital Instruments	342,148	342,127
Reserves	21,382	20,218
Retained earnings	493,020	460,966
Total equity	1,112,175	1,078,936
Profit for the year	49,224	4,139
Total comprehensive income for the year	49,224	4,139

(b) Contingent assets and liabilities of the Parent entity

The Parent entity has entered into bank guarantee arrangements totalling \$93,288,000 (2022: \$69,475,000) 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 Parent entity had no other contingent assets or liabilities as at 30 June 2023.

(c) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2023 and 2022.

26 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

	2023 \$'000	2022 \$'000
Revenue		
Premium revenue	690,448	688,330
Net claims expense		
Claims expense	(563,508)	(593,365)
Risk equalisation and reinsurance recoveries	83,805	68,689
State levies	(3,538)	(3,611)
Total net claims expense	(483,241)	(528,287)
Gross underwriting result	207,207	160,043
Management expenses		
Commission	(16,048)	(17,546)
Employee benefits	(37,595)	(27,788)
Marketing	(5,804)	(4,785)
Technology	(9,681)	(11,314)
Other management expenses	(26,269)	(26,453)
Total management expenses	(95,397)	(87,886)
Net underwriting result	111,810	72,157
Investment income	14,162	(7,075)
Finance costs	(2,395)	(2,162)
Profit before income tax	123,577	62,920
Income tax expense	(36,691)	(18,931)
Profit after income tax	86,886	43,989

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

	2023 \$'000	2022 \$'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	20,480	21,667
Net RESA raised during the year	83,805	68,689
Net RESA paid during the year	(75,058)	(69,876)
Balance at the end of the financial year	29,227	20,480

26 Health insurance financial information (continued)

(c) Claims provision (current liabilities)

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

	2023 \$'000	2022 \$'000
Outstanding claims - central estimate including risk equalisation	62,184	46,180
Risk margin	5,942	3,661
Claims handling costs	2,400	1,600
Outstanding claims provision	<u>70,526</u>	<u>51,441</u>
Deferred claims - central estimate including risk equalisation	-	60,200
Risk margin	-	8,660
Claims handling costs	-	2,105
Deferred claims provision	<u>-</u>	<u>70,965</u>
Total claims provision	<u>70,526</u>	<u>122,406</u>

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

	2023 \$'000	2022 \$'000
Balance at the beginning of the financial year	51,441	51,745
Claims incurred during the financial year	628,920	570,495
Claims paid during the financial year	(615,387)	(574,026)
Movements in other components	5,552	3,227
Balance at the end of the financial year	<u>70,526</u>	<u>51,441</u>

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

	2023 \$'000	2022 \$'000
Balance at the beginning of the financial year	70,965	51,322
Deferred claims provision incurred during the financial year	-	38,818
Unwinding of provision during the financial year	(70,163)	(17,871)
Movements in other components	(802)	(1,304)
Balance at the end of the financial year	<u>-</u>	<u>70,965</u>

(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.

26 Health insurance financial information (continued)

(d) Outstanding claims liability (continued)

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 2023 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 2023, 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 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 9.2% (2022: 7.7%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2022: at least 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The weighted average expected term to settlement of claims from the balance date is estimated to be 2.2 months (2022: 1.8 months). The estimated costs of claims include allowances for Risk Equalisation Special Account (RESA) adjustments of \$10.93 million (2022: \$7.28 million).

Impact of changes in key variables

The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A 10% increase/decrease in the central estimate would result in a \$4.35 million decrease/increase to profit after tax and equity (2022: \$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 during the 2020 to 2022 financial years due to restrictions imposed on elective surgery in response to the COVID-19 pandemic. Due to the pandemic, the Group experienced unusually low claims volumes due to the restrictions on health services that were imposed across various states, particularly in Victoria and New South Wales. There was a general expectation that, as restrictions were lifted, there would be a catch up of procedures and benefits claimed in the future. As a result, a specific deferred claims liability was recorded representing management's estimate of claims that did not occur or had yet to catch up. The Group has also recorded the unwinding of deferred claims in each of the reporting period.

Since the restrictions were ceased, there was no additional deferred claims provision raised and the unwinding of the full outstanding amounts of deferred claims of \$70,163,000 was recorded in the profit or loss by the Group during the 2023 financial year.

(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 2023 (2022: \$nil) at a 75% (2022: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Company accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

27 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

	2023 \$'000	2022 \$'000
Interest income:		
Effective interest	40,156	22,980
Other	9,580	2,307
	<u>49,736</u>	<u>25,287</u>
Interest expense	(27,229)	(5,084)
Net interest income	<u>22,507</u>	<u>20,203</u>
Other banking income	3,465	280
Net operating income	<u>25,972</u>	<u>20,483</u>
Operating expenses	(27,387)	(23,208)
Reversal/(addition) of loan impairment provision	(785)	4,230
Profit/(loss) before income tax	<u>(2,200)</u>	<u>1,505</u>
Income tax benefit/(expense)	742	(457)
Profit/(loss) after income tax	<u>(1,458)</u>	<u>1,048</u>

(b) Financial position summary

	2023 \$'000	2022 \$'000
Cash and cash equivalents	37,734	19,207
Financial assets at fair value through profit or loss	133,906	123,120
Other financial assets at amortised cost	49,895	64,513
Loans and advances	1,151,715	1,110,551
Other assets	21,159	18,737
Total assets	<u>1,394,409</u>	<u>1,336,128</u>
Interest bearing liabilities	1,289,124	1,241,788
Other liabilities	16,091	8,302
Total liabilities	<u>1,305,215</u>	<u>1,250,090</u>
Net assets (Equity)	<u>89,194</u>	<u>86,038</u>

(c) APRA Capital adequacy

	2023 \$'000	2022 \$'000
Reserves and retained earnings	95,516	92,438
Less regulatory prescribed adjustments	(5,456)	(5,369)
Regulatory capital base	<u>90,060</u>	<u>87,069</u>
Risk weighted exposures	<u>556,339</u>	<u>578,822</u>
APRA Capital adequacy ratio	<u>16.2%</u>	<u>15.0%</u>

28 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 2023			
Revenue and other income	1,657,409	-	1,657,409
Direct life insurance premium revenue	-	357	357
Outwards reinsurance expense	-	(214)	(214)
Deposits received - investment contracts with Discretionary Participating Feature (DPF)	-	38,854	38,854
Investment income	-	160,814	160,814
Other	-	942	942
Total revenue and other income	1,657,409	200,753	1,858,162
Life insurance claims expense	-	(756)	(756)
Benefits and withdrawals paid - investment contracts with DPF	-	(75,511)	(75,511)
Movement in policyholder liabilities	-	(66,535)	(66,535)
Expenses, excluding finance costs	(1,542,858)	(23,866)	(1,566,724)
Total expenses, excluding finance costs	(1,542,858)	(166,668)	(1,709,526)
Finance costs	(50,375)	-	(50,375)
Share of net profits of joint ventures	2,797	-	2,797
Profit before income tax	66,973	34,085	101,058
Income tax expense	(10,195)	(34,085)	(44,280)
Profit after income tax	56,778	-	56,778
For the year ended 30 June 2022			
Revenue and other income	1,543,098	-	1,543,098
Direct life insurance premium revenue	-	390	390
Outwards reinsurance expense	-	(191)	(191)
Deposits received - investment contracts with Discretionary Participating Feature (DPF)	-	30,776	30,776
Investment income	-	(212,688)	(212,688)
Other	-	(58)	(58)
Total revenue and other income	1,543,098	(181,771)	1,361,327
Life insurance claims expense	-	(980)	(980)
Benefits and withdrawals paid - investment contracts with DPF	-	(71,182)	(71,182)
Movement in policyholder liabilities	-	214,113	214,113
Expenses, excluding finance costs	(1,473,787)	(24,917)	(1,498,704)
Total expenses, excluding finance costs	(1,473,787)	117,034	(1,356,753)
Finance costs	(41,429)	-	(41,429)
Share of net profits of joint ventures	955	-	955
Profit before income tax	28,837	(64,737)	(35,900)
Income tax benefit	16,882	64,737	81,619
Profit after income tax	45,719	-	45,719

29 Business combination

Acquisition of Platypus Asset Management Pty Ltd

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

The preliminary accounting for the step acquisition was reported in prior year. The following summary has included the additional payment made for the exercise of the share option, the identifiable intangible assets, goodwill, and share-based payment liability recognised in the final accounting during the 2023 financial year:

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

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.

30 Commitments

(a) Capital commitments

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

	2023 \$'000	2022 \$'000
Financial assets at fair value through profit or loss		
Within one year	5,068	3,200
Later than one year but not later than five years	-	3,200
	5,068	6,400
Investment properties		
Within one year	58,951	88,188
Later than one year but not later than five years	6,149	32,900
	65,100	121,088
Total capital commitments	70,168	127,488

The Group is engaged in a social infrastructure development project in Brisbane, Queensland, being the Herston Quarter Redevelopment Project which is developed and operated by Herston Development Company Pty Ltd (HDC - a wholly-owned subsidiary of the Group). Included in the Group's commitments for investment properties above is a capital commitment amounting to \$13 million from HDC to acquire Stage 9 development rights from Australian Unity Healthcare Property Trust, a trust managed by the Group's subsidiary. This amount was paid in July 2023.

In addition to the Group's capital commitments above, HDC has also committed to deliver various contractual milestones for each stage of the project under the overarching Development Agreement between HDC and the Metro North Hospital and Health Service. The major milestones are anticipated to be completed within the next two years with capital expenditure in the range of \$34 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.

	2023 \$'000	2022 \$'000
Irrevocable approved but undrawn loans	47,876	44,645
Revocable loans with balances available for redraw	55,470	51,371
Revocable undrawn lines of credit, credit cards and overdrafts	16,925	18,376
	120,271	114,392

31 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.

31 Contingencies (continued)

Guarantees

The Group has entered into bank guarantee arrangements totalling \$97,409,000 (2022: \$77,244,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

The Group had no other contingent assets or liabilities at 30 June 2023.

32 Events occurring after the reporting period

MCI dividend

On 30 August 2023, the board has determined a final fully franked dividend of \$2.5068 per Australian Unity Mutual Capital Instrument (MCI) to be paid on 16 October 2023.

Acquisition of IOOF Ltd

On 24 July 2023, the Group announced that it had entered into an agreement to acquire all the shares of friendly society IOOF Ltd and its ~\$1.1 billion investment bond business from the Insignia Financial group. The purchase price to be paid is \$36 million in cash upon completion, plus an additional contingent amount of up to \$4 million payable 12 months after completion, subject to the transition of clients and funds under management.

The acquisition is in line with the Group's strategic priority to provide innovative products and services that meet the health and financial wellbeing needs of our members and customers and will further strengthen our position as the market leader in investment bonds, with a customer base of more than ~180,000 and estimated funds under management of more than \$3.2 billion.

Completion of the acquisition is subject to the satisfaction of conditions precedent, being relevant regulator approvals. The Group has also entered into a Strategic Alliance Agreement with Insignia, in furtherance of our mutual aim of providing financial wellbeing to all Australians.

Merger of Australian Unity Diversified Property Fund and sale of Australian Unity Property Limited

On 7 July 2023, Australian Unity Property Limited (AUPL), a wholly owned subsidiary of the Company and the responsible entity of Australian Unity Diversified Property Fund (AUDPF), announced it had entered into a Merger Implementation Deed with Cromwell Funds Management Limited, as the responsible entity of the Cromwell Direct Property Fund (CDPF), to merge AUDPF and CDPF via a trust scheme to create an unlisted merged fund with a gross asset value of approximately \$1.1 billion. The merger requires the approval of AUDPF unitholders. A notice of meeting and Unitholder Booklet is expected to be issued to AUDPF unitholders in early October 2023 to consider the proposal to merge the two funds.

At the same time, the Company entered into a share sale agreement with Cromwell Corporation Limited (CCL) pursuant to which CCL has agreed to acquire all of the issued shares in AUPL in connection with the proposed merger, subject to the proposed merger being approved and implemented, for a total consideration of \$17.0 million.

Sustainability linked loan

On 28 August 2023, Australian Unity Limited and Westpac Banking Corporation entered into a sustainability linked loan for \$50 million for three years, that is linked to the delivery of community and social value, such that the interest rate is adjusted by discounts or penalties depending on the Group's achievement of growth in our community and social value measurement.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2023 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 30 June 2023 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.

33 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 24.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 34.

(d) Related party transactions

Transactions between the Group and related parties for the financial years ended 30 June 2023 and 2022 were as follows:

- Property development management fees charged to related entities, \$117,814 (2022: \$702,826).
- Dividends received from joint ventures, \$nil (2022: \$2,955,304).
- Investment management fees charged by joint ventures, \$862,044 (2022: charged to joint ventures \$2,682,205).
- Commission, director fees and other costs charged to joint ventures, \$91,470 (2022: \$459,168).
- Payments for investments in associates and joint ventures, \$370,000 (2022: \$50,000).
- Performance fees charged by joint ventures, \$nil (2022: \$15,669).
- Investment income from related entities, \$5,000,294 (2022: loss from related entities \$19,989,283).

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:

	2023 \$	2022 \$
Assets		
Cash and cash equivalents	646,859,572	862,081,350
Trade and other receivables	759,049	661,614
Financial assets at fair value through profit or loss	374,542,047	353,684,358
	<u>1,022,160,668</u>	<u>1,216,427,322</u>
Liabilities		
Trade and other payables	208,105	256,419
Loans payable to related entities	5,100,000	5,100,000
	<u>5,308,105</u>	<u>5,356,419</u>

34 Key management personnel disclosures

(a) Key management personnel compensation

	2023 \$	2022 \$
Short term employee benefits	6,910,041	7,204,600
Post employment benefits	266,986	239,641
Long term benefits	(54,776)	(87,933)
Termination benefits	118,374	742,910
MCI-based payments	618,988	182,258
	<u>7,859,613</u>	<u>8,281,476</u>

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.

35 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

	2023 \$	2022 \$
PricewaterhouseCoopers Australia		
Audit and review of financial statements	2,495,167	2,197,975
Audit of regulatory returns	551,286	457,085
Other assurance services	469,695	161,987
Total remuneration for audit and other assurance services	<u>3,516,148</u>	<u>2,817,047</u>

(b) Taxation and other services

	2023 \$	2022 \$
PricewaterhouseCoopers Australia		
Tax compliance services	40,000	76,463
Tax consulting services	266,065	-
Other services	2,500	9,690
Total remuneration for taxation and other services	<u>308,565</u>	<u>86,153</u>

Total auditors' remuneration	<u>3,824,713</u>	<u>2,903,200</u>
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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.

36 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

	2023 \$'000	2022 \$'000
Life investment contract liabilities	1,718,396	1,555,007
Life insurance contract liabilities - guaranteed element	681,705	717,751
Life insurance contract liabilities - other	694	701
Unvested policyholder liabilities	82,636	84,529
Total policy liabilities	2,483,431	2,357,988
Expected to be realised within 12 months	258,057	251,431
Expected to be realised in more than 12 months	2,225,374	2,106,557
	2,483,431	2,357,988

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

	2023 \$'000	2022 \$'000
Life investment contract liabilities		
Balance at the beginning of the financial year	1,555,007	1,538,103
Increase/(decrease) recognised in the profit or loss	104,481	(92,610)
Premiums recognised as a change in contract liabilities	238,822	288,783
Claims recognised as a change in contract liabilities	(179,914)	(179,269)
Balance at the end of the financial year	1,718,396	1,555,007
Life insurance contract liabilities		
Balance at the beginning of the financial year	718,452	832,066
Increase/(decrease) recognised in the profit or loss	(36,053)	(113,614)
Balance at the end of the financial year	682,399	718,452
Unvested policyholder liabilities		
Balance at the beginning of the financial year	84,529	92,418
Decrease recognised in the profit or loss	(1,893)	(7,889)
Balance at the end of the financial year	82,636	84,529
Net policy liabilities at the end of the financial year	2,483,431	2,357,988

36 Benefit fund policy liabilities (continued)

(c) Analysis of policy liability revenue and expenses

	2023 \$'000	2022 \$'000
Revenue and other income		
Total life insurance contract premium revenue	39,211	31,166
Reinsurance expense	(214)	(191)
Life insurance contract premium revenue	<u>38,997</u>	<u>30,975</u>
Interest income	13,650	9,280
Distribution income	75,001	128,257
Realised gains/(losses)	(2,663)	(23,350)
Unrealised gains/(losses)	74,826	(326,875)
Other income	942	(58)
Total revenue from life insurance business	<u>200,753</u>	<u>(181,771)</u>
Expenses		
Total life insurance and participating contract claims expense	<u>76,267</u>	<u>72,162</u>
Life insurance contract claims expense	<u>76,267</u>	<u>72,162</u>
Management fees	23,860	24,606
Other expenses	6	311
Net movements in:		
- life insurance contract liabilities	(36,053)	(113,614)
- unvested policyholder liabilities	(1,893)	(7,889)
- life investment contract liabilities	104,481	(92,610)
Total expenses from life insurance business	<u>166,668</u>	<u>(117,034)</u>

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2023. 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*.

36 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

Policy liabilities are valued using the projection method (with the exception of the Personal Risk Insurance Fund and the Accident Funds). Under the projection method, estimates of future cash flows (i.e. premiums, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows. Allowance has been made for tax and fees where appropriate. The balance of the benefit fund represents unvested policyholder liabilities, which will ultimately be distributed to members or transferred to the management fund (depending on the benefit fund rules).

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2023 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 ALT2018-20) ²
Funeral Fund	12.5	4.47%	1.71%	0%	2.77%	70%
Life Assurance Benefit Fund	6.0	3.93%	2.25%	30%	1.18%	75%
Central Sick and Funeral Fund	6.0	3.93%	2.00%	0%	1.93%	60%
Funeral and Ancillary Benefit Fund	11.0	4.04%	2.00%	0%	2.04%	100%
Travel Protection Fund	10.5	4.02%	2.00%	30%	1.41%	100%
Whole of Life Funeral Fund	8.5	3.98%	1.50%	0%	2.48%	100%

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2022 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 ALT2018-20) ²
Funeral Fund	13.0	4.19%	1.55%	0%	2.64%	70%
Life Assurance Benefit Fund	6.5	3.51%	2.25%	30%	0.88%	75%
Central Sick and Funeral Fund	7.0	3.55%	2.00%	0%	1.55%	60%
Funeral and Ancillary Benefit Fund	12.0	3.75%	2.00%	0%	1.75%	100%
Travel Protection Fund	11.5	3.73%	2.00%	30%	1.21%	100%
Whole of Life Funeral Fund	9.0	3.66%	1.50%	0%	2.16%	100%

Notes:

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

² ALT2018-20 refers to Australian Life Tables (Male and Female) 2018-2020.

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

The following additional assumptions apply:

- For the Funeral and Ancillary Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5% (2022: 2.5%) per annum;
- Also for the Funeral and Ancillary 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 3.5% (2022: 4.0%) of deaths will result in claims and the average claim amount is \$1,100 (2022: \$1,000) inflating at 2.5% (2022: 2.5%) per annum.

36 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

- In addition, policy liabilities are held in the Management Fund in relation to non-contactable members of the Assurance Benefit Fund and the Funeral Fund for which insufficient data exists to accurately calculate a member level liability.

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

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

The defined contribution funds comprise the following:

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

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

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

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

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

36 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

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 2023 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2018-20) ¹
Capital Guaranteed Funeral Bond (Non Taxable)	6.5	2.96%	0%	0%	100%
Capital Guaranteed Funeral Bond (Taxable)	8.5	2.92%	30%	0%	105%
Capital Secured Funeral Bond	5.5	2.98%	0%	0%	110%
Funeral Bond	5.0	1.50%	0%	0%	100%
Prepaid Funeral Fund	5.5	1.50%	0%	0%	120%
Funeral Fund No 2 - Non Taxable	6.0	2.50%	0%	0%	115%
Funeral Fund No 2 - Taxable	7.5	2.50%	30%	0%	115%
Tax Minimiser Funeral Fund	8.5	1.49%	30%	0%	130%

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2022 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2018-20) ¹
Capital Guaranteed Funeral Bond (Non Taxable)	6.5	2.96%	0%	0%	105%
Capital Guaranteed Funeral Bond (Taxable)	8.5	2.92%	30%	0%	110%
Capital Secured Funeral Bond	5.5	2.98%	0%	0%	120%
Funeral Bond	5.5	1.50%	0%	0%	100%
Prepaid Funeral Fund	5.5	1.50%	0%	0%	120%
Funeral Fund No 2 - Non Taxable	6.5	2.50%	0%	0%	115%
Funeral Fund No 2 - Taxable	7.5	2.50%	30%	0%	115%
Tax Minimiser Funeral Fund	9.0	1.49%	30%	0%	130%

Note:

¹ALT2018-20 refers to Australian Life Tables (Male and Female) 2018-2020.

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

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 Bond (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.

36 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

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 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 2023. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

36 Benefit fund policy liabilities (continued)

(e) Nature of risks arising from insurance contracts (continued)

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 2023 and 2022.

For each benefit fund subject to a solvency requirement, the figures in note 37 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 37 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

37 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 2023							
Non-investment linked benefit funds - Life insurance contracts	143	(98)	9	756	(546)	(156)	-
Investment linked benefit funds - Life investment contracts with Discretionary Participating Feature (DPF)	38,854	11,465	987	75,511	(24,403)	198	-
Investment contracts without DPF	-	149,447	(54)	-	115,350	34,043	-
Total	38,997	160,814	942	76,267	90,401	34,085	-
30 June 2022							
Non-investment linked benefit funds - Life insurance contracts	199	(7,996)	-	980	(8,096)	(681)	-
Investment linked benefit funds - Life investment contracts with Discretionary Participating Feature (DPF)	30,776	(80,872)	-	71,182	(99,223)	(22,055)	-
Investment contracts without DPF	-	(123,820)	(58)	-	(81,877)	(42,001)	-
Total	30,975	(212,688)	(58)	72,162	(189,196)	(64,737)	-

	Assets		Liabilities		Equity
	Investments \$'000	Other \$'000	Life Insurance \$'000	Other \$'000	\$'000
30 June 2023					
Non-investment linked benefit funds - Life insurance contracts	38,124	1,842	39,744	222	-
Investment linked benefit funds - Life investment contracts with DPF	660,899	71,470	725,291	7,078	-
Investment contracts without DPF	1,647,100	73,080	1,718,396	1,784	-
Total	2,346,123	146,392	2,483,431	9,084	-
30 June 2022					
Non-investment linked benefit funds - Life insurance contracts	39,974	1,790	41,663	101	-
Investment linked benefit funds - Life investment contracts with DPF	715,173	48,022	761,318	1,877	-
Investment contracts without DPF	1,440,306	135,082	1,555,007	20,381	-
Total	2,195,453	184,894	2,357,988	22,359	-

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.

37 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 2023							
Central sick and funeral fund	-	74	-	62	12	-	-
Funeral and ancillary benefits fund	2	(120)	-	408	(525)	(1)	-
Funeral fund	-	(207)	-	66	(273)	-	-
Life assurance benefit fund	-	106	-	200	(56)	(38)	-
Travel protection funeral	40	29	-	-	116	(47)	-
Other	101	20	9	20	180	(70)	-
Total	143	(98)	9	756	(546)	(156)	-

30 June 2022							
Central sick and funeral fund	-	(1,009)	-	94	(1,103)	-	-
Funeral and ancillary benefits fund	3	(2,307)	-	480	(2,784)	-	-
Funeral fund	-	(3,041)	-	154	(3,195)	-	-
Life assurance benefit fund	-	(1,434)	-	205	(1,124)	(515)	-
Travel protection funeral	38	(100)	-	5	(30)	(37)	-
Other	158	(105)	-	42	140	(129)	-
Total	199	(7,996)	-	980	(8,096)	(681)	-

	Assets		Liabilities		Equity	Capital in excess of prescribed capital amount	Capital adequacy multiple
	Investments \$'000	Other \$'000	Life insurance \$'000	Other \$'000	\$'000	\$'000	
30 June 2023							
Central sick and funeral fund	5,579	25	5,582	22	-	49	1
Funeral and ancillary benefits fund	9,190	176	9,323	43	-	354	2
Funeral fund	11,462	180	11,721	(79)	-	-	-
Life assurance benefit fund	10,434	475	10,844	65	-	-	1
Travel protection fund	1,074	72	1,040	106	-	278	2
Other	385	914	1,234	65	-	456	-
Total	38,124	1,842	39,744	222	-	1,137	

30 June 2022							
Central sick and funeral fund	5,671	33	5,675	29	-	-	1
Funeral and ancillary benefits fund	10,308	196	10,444	60	-	968	3
Funeral fund	11,674	321	11,994	1	-	-	-
Life assurance benefit fund	10,645	496	11,137	4	-	-	1
Travel protection fund	1,217	83	1,148	152	-	357	2
Other	459	661	1,265	(145)	-	441	-
Total	39,974	1,790	41,663	101	-	1,766	

37 Disaggregated information - Benefit funds (continued)

(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 2023							
Capital guaranteed bond	47	1,605	-	4,310	(2,962)	304	-
Capital guaranteed funeral bond (taxable)	282	(56)	4	3,406	(2,621)	(555)	-
Funeral fund no 2	785	(555)	782	13,935	(12,064)	(859)	-
NextGen investments capital guaranteed fund	2,016	1,084	-	5,337	(2,519)	282	-
Tax minimiser funeral fund	33,056	5,539	-	27,548	10,910	137	-
Other	2,668	3,848	201	20,975	(15,147)	889	-
Total	38,854	11,465	987	75,511	(24,403)	198	-
30 June 2022							
Capital guaranteed bond	54	(16)	-	5,001	(4,816)	(147)	-
Capital guaranteed funeral bond (taxable)	210	(6,037)	-	2,847	(6,442)	(2,232)	-
Funeral fund no 2	776	(24,965)	-	12,608	(31,224)	(5,573)	-
NextGen investments capital guaranteed fund	2,823	15	-	7,549	(4,694)	(17)	-
Tax minimiser funeral fund	25,393	(42,072)	-	24,349	(27,040)	(13,988)	-
Other	1,520	(7,797)	-	18,828	(25,007)	(98)	-
Total	30,776	(80,872)	-	71,182	(99,223)	(22,055)	-

	Assets		Liabilities		Equity
	Investments \$'000	Other \$'000	Life insurance \$'000	Other \$'000	\$'000
30 June 2023					
Capital guaranteed bond	47,413	86	46,856	643	-
Capital guaranteed funeral bond (taxable)	40,095	6,207	46,095	207	-
Funeral fund no 2	119,875	12,624	133,139	(640)	-
NextGen investments capital guaranteed fund	34,042	848	33,887	1,003	-
Tax minimiser funeral fund	273,529	48,176	317,739	3,966	-
Other	145,945	3,529	147,575	1,899	-
Total	660,899	71,470	725,291	7,078	-
30 June 2022					
Capital guaranteed bond	50,426	113	50,415	124	-
Capital guaranteed funeral bond (taxable)	44,850	5,368	49,942	276	-
Funeral fund no 2	136,181	11,729	148,590	(680)	-
NextGen investments capital guaranteed fund	36,483	734	36,550	667	-
Tax minimiser funeral fund	285,950	26,203	311,233	920	-
Other	161,283	3,875	164,588	570	-
Total	715,173	48,022	761,318	1,877	-

37 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 2023					
Education savings plan	22,765	-	18,061	4,704	-
Funeral plan bond	2,409	-	1,888	521	-
Managed investment	1,708	-	1,404	304	-
NextGen investments	110,662	-	84,714	25,948	-
Select strategies	5,623	-	4,347	1,276	-
Other	6,280	(54)	4,936	1,290	-
Total	149,447	(54)	115,350	34,043	-

30 June 2022					
Education savings plan	(17,747)	-	(11,794)	(5,953)	-
Funeral plan bond	(2,815)	-	(1,880)	(935)	-
Managed investment	(3,073)	-	(2,027)	(1,046)	-
NextGen investments	(90,503)	-	(59,763)	(30,740)	-
Select strategies	(5,385)	-	(3,816)	(1,569)	-
Other	(4,297)	(58)	(2,597)	(1,758)	-
Total	(123,820)	(58)	(81,877)	(42,001)	-

	Assets		Liabilities		Equity
	Investments \$'000	Other \$'000	Life insurance \$'000	Other \$'000	\$'000
30 June 2023					
Education savings plan	248,181	33,312	282,443	(950)	-
Funeral plan bond	55,460	2,475	57,649	286	-
Managed investment	29,325	748	29,861	212	-
NextGen investments	1,195,524	31,524	1,224,961	2,087	-
Select strategies	51,719	3,514	54,872	361	-
Other	66,891	1,507	68,610	(212)	-
Total	1,647,100	73,080	1,718,396	1,784	-

30 June 2022					
Education savings plan	227,798	49,600	274,623	2,775	-
Funeral plan bond	41,471	2,303	43,666	108	-
Managed investment	31,885	1,971	33,337	519	-
NextGen investments	1,012,530	70,306	1,069,513	13,323	-
Select strategies	51,385	7,313	57,670	1,028	-
Other	75,237	3,589	76,198	2,628	-
Total	1,440,306	135,082	1,555,007	20,381	-

38 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 AASB 2020-3 *Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments* for the first time for the annual reporting period commencing 1 July 2022.

The adoption of these amendments did not have material impact to the Group's financial statements.

(b) Mutual Capital Instruments

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.

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.

38 Summary of significant accounting policies (continued)

(c) Principles of consolidation (continued)

(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 38(p).

(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.

38 Summary of significant accounting policies (continued)

(d) Benefit fund policy liabilities (continued)

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 36.

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

(iii) Claims expense

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

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

(e) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(f) Borrowings

Borrowings are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition or issue of the borrowings. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

38 Summary of significant accounting policies (continued)

(f) Borrowings (continued)

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) Business combinations

The acquisition method of accounting is used to account for all business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the Group's share of the net identifiable assets of the subsidiary acquired, and the measurement of all amounts has been reviewed, the difference is recognised directly in the profit or loss as a gain on acquisition (bargain purchase).

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

(h) 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.

(i) 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.

(j) 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.

38 Summary of significant accounting policies (continued)

(j) Derivatives and hedging activities (continued)

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 as part of the Finance costs 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 as part of the Finance costs.

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.

(k) 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.

38 Summary of significant accounting policies (continued)

(k) Employee benefits (continued)

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.

(l) 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.

(m) 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.

(n) Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grant and subsidies will be received and the Group will comply with all attached conditions.

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

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

(o) 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.

38 Summary of significant accounting policies (continued)

(o) Health insurance (continued)

(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.

(p) 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.

(q) 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.

38 Summary of significant accounting policies (continued)

(q) Income tax (continued)

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.

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 38(g). 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

Prior to 1 October 2021, bed licences for aged care facilities were assessed as having an indefinite useful life as they were issued for an unlimited period and therefore were not amortised. Following on the government announcement in 2021 that the residential aged care bed licence and the Aged Care Approval Rounds will be abolished from 1 July 2024, the carrying amount of bed licences are amortised from 1 October 2021 until 30 June 2024.

38 Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(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) arrangement 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.

(s) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in and first out basis.

(t) 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 38(w)) 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.

(u) 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.

38 Summary of significant accounting policies (continued)

(u) Investments and other financial assets (continued)

Classification (continued)

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.

38 Summary of significant accounting policies (continued)

(u) Investments and other financial assets (continued)

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.

38 Summary of significant accounting policies (continued)

(v) 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.

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.

38 Summary of significant accounting policies (continued)

(v) Leases (continued)

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.

(w) 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.

(x) 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.

38 Summary of significant accounting policies (continued)

(y) 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.

(z) 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.

(aa) Refundable accommodation 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.

(ab) 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.

(ac) 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.

38 Summary of significant accounting policies (continued)

(ad) 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.

(ae) 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 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.

Specialist Care and Home Health services fees

The services fees are revenue generated from the provision of home health 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.

38 Summary of significant accounting policies (continued)

(ae) Revenue recognition (continued)

Healthcare services revenue

Healthcare services revenue represents fees charged for dental, physiotherapy and other healthcare services provided to customers. Revenue is recognised after the delivery of services to the customers.

Assets and liabilities recognised from contracts with customers

As a result of the contracts with customers, the Group recognises Trade receivables and a number of contract assets and liabilities. Trade receivables are recognised when the Group has the right to consideration that is unconditional (no change in accounting policy). Contract assets are recognised when the Group has a conditional right to consideration for the services that have been provided to customers. Contract liabilities are recognised when the Group receives payments in advance for the services that will be provided to customers. The Group also capitalises incremental costs in obtaining contracts with customers.

Accrued and deferred income

Customer contracts generally include arrangements for payments dependent upon the nature and type of services being provided. Customer payments may be required at the inception of the contract (advance payment) or regular payments for ongoing service delivery or at the end of the contract (in arrears) or a combination of these with varied amounts. Accrued income is recognised as a contract asset for unbilled service revenue. Deferred income is recognised as a contract liability where a customer pays in advance or pays a deposit prior to the delivery of the contracted services. On the balance sheet, accrued income is presented as part of Trade and other receivables, while deferred income is presented as part of Trade and other payables.

Capitalised costs to obtain a contract

The incremental costs of obtaining a contract with a customer are capitalised as an asset to the extent to which the costs are expected to be recovered over a period of more than one year. The asset is amortised on a systematic basis that is consistent with the timing of recognition of the relevant revenue. The asset is subject to an impairment assessment through a review of the recoverability against the remaining future revenue, net of respective future expenses. The capitalised costs to obtain a contract are presented as part of Intangible assets on the balance sheet.

In determining the amount of capitalised costs to obtain a contract, management forms a number of key judgements and assumptions which include an assessment of the incremental costs, whether such costs should be expensed as incurred or capitalised, and the period of amortisation of the capitalised costs. These judgements may inherently be subjective, and cover future events such as the recoverability of the capitalised costs through future net income streams over a certain period.

Deferred management fee

Deferred management fee (DMF) is a contracted fee charged to a resident of a managed retirement village. The amount of DMF is linked either to the ingoing contribution the resident paid on entry to the retirement village or to the turnover value of a unit on exiting the village and is expressed as a percentage charge per annum over the period of occupancy. The number of years the DMF can be charged is usually capped to a specific period of time. DMF revenue is recognised at the time of unit turnover from one resident to another.

(iv) Interest income (AASB 9)

Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(v) Dividends and distributions (AASB 9)

Dividends and distributions are recognised when the Group's right to receive the income is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(vi) Benefit funds - Life insurance premiums and fees (AASB 1038)

For life insurance contract liabilities and participating investment contract liabilities, premium revenue is recognised when the liabilities arising from them are created. For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities on the balance sheet (rather than being included in the profit or loss).

(af) 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.

38 Summary of significant accounting policies (continued)

(af) Risk Equalisation Special Account (continued)

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.

(ag) 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.

(ah) 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.

(ai) 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.

(aj) 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.

(ak) 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 2023 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 2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5	Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
AASB 2022-6	Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2023
AASB 2022-7	Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards	1 January 2023
AASB 2022-8	Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments	1 January 2023
AASB 2022-10	Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2023
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.

38 Summary of significant accounting policies (continued)

(ak) New standards and interpretations not yet adopted (continued)

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.

(i) AASB 17 Insurance Contracts

AASB 17 has been issued as a replacement for AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* and applies to annual reporting periods beginning on or after 1 January 2023. The application of AASB 17 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.

AASB 17 has significantly different entries for insurance contracts on the balance sheet and statement of comprehensive income to current practice. This will change the presentation and disclosure of insurance line items in the financial statements, introducing new line items on the balance sheet and statement of comprehensive income. There will be increased disclosure requirements compared with existing reporting requirements.

Transition

AASB 17 will apply to the Group's financial statements for the year ending 30 June 2024, with comparative information on an AASB 17 basis for the reporting year ending 30 June 2023. This means that the date of initial application is 1 July 2023, and the transition date is 1 July 2022. Under AASB 17, the comparative year, being that for the 2023 financial year, is required to be restated when reporting for the 2024 financial year.

The Group will apply the Full Retrospective Approach (FRA) on transition to AASB 17 for all groups of insurance contracts, unless impracticable. If the FRA is impracticable, the Group will choose between the Modified Retrospective Approach and Fair Value Approach.

The Group will determine impracticability of applying the FRA for a group of insurance contracts by considering if sufficient historic data, assumptions and models are available, and the degree of hindsight which would be required to set historic parameters applicable to AASB 17. If primary historic data is not available, the Group will consider if estimation is possible and appropriate.

The Group will determine a date prior to which an FRA cannot be applied due to the factors outlined.

Health insurance contracts

The Group will use the simplified premium allocation approach under AASB 17 for all health insurance contracts, which is broadly similar to the current measurement basis under AASB 1023 for this business. Limited systems changes are required; a number of new processes and reports have been developed. Due to the speed with which health insurance contracts are resolved, the Group is implementing AASB 17 using the full retrospective approach on transition.

The Group expects that AASB 17 will reduce both the health insurance assets and liabilities in the balance sheet. On a net basis, the key change will be a reduction in 2023 net assets of \$12,091,000 related to a decision to expense Deferred acquisition costs under AASB 17. This reduction will comprise a reduction to the 2023 opening net assets of \$14,614,000 and a \$2,523,000 lower commission expense during 2023. Further, the restatement requirement will result in the 2022 Deferred claims liability (DCL) of \$70,965,000 being reclassified to equity in the 2023 opening net assets, however, as the DCL was fully reversed during 2023, the transition reclassification will result in a net change of nil to 2023 net assets. Other implementation adjustments are being finalised. AASB 17 does not change the underlying performance of insurers. The timing of when revenue, expenses, and profit are recognised may change under AASB 17, but due to the short-term nature of the Group's health insurance liabilities, any changes in timing are anticipated to be small. In addition to the changes in presentation of the financial statements, changes to the disclosures are expected.

Life insurance contracts vs life investment contracts with discretionary participation features (DPF)

AASB 17 applies to insurance contracts that transfer significant insurance risk to the issuer, and also to investment contracts with DPF that do not transfer insurance risk, as long as the issuing entity also issues insurance contracts.

The majority of life contracts within the Group are Investment Bonds and Funeral Bonds that do not transfer significant insurance risk. Investment Bonds and Funeral Bonds with only capital guaranteed participating investment benefits meet the definition of "investment contracts with discretionary participation features" and will be accounted for under AASB 17. Investment Bonds and Funeral Bonds with only market linked investment benefits are financial instruments will be accounted for under AASB 9 Financial Instruments. Investment Bonds and Funeral Bonds with both components will be assessed to determine if those components can be split and measured independently, in which case each component will be treated as set out above.

Remaining contracts are traditional life insurance contracts which will be accounted for under AASB 17.

38 Summary of significant accounting policies (continued)

(ak) New standards and interpretations not yet adopted (continued)

Life insurance measurement models

The Group is assessing the Investment Bond and Funeral Bond products against the criteria for measurement via the Variable Fees Approach (VFA). Where contracts do not meet the criteria, they will be measured under the General Measurement Model (GMM). Traditional life insurance contracts will also be measured under the GMM.

Both models will use a discounted probability weighted cashflow with an explicit risk adjustment for non-financial risk and Contractual Service Margin (CSM). Under VFA, the CSM represents the variable fee to shareholders, and it is adjusted to reflect the effect of changes in economics as well as experience variances and/or assumptions changes that relate to future services. The determination of the CSM under VFA will be impacted by the mutual nature of the entity. Under GMM, the CSM is accreted using the locked-in discount rates and only adjusted to reflect the effect of non-economic experience variances and/or assumptions changes that relate to future services. The contract boundaries of each group of contracts will determine the period over which cashflows are included in these calculations, and any simplifications that can apply. Contract boundaries are affected by the entity's right to reprice contracts, and by any residual values that current and future members are entitled to receive.

For GMM, the discount rate applied to derive the present value of future cash flows is determined on a bottom-up basis, starting with a liquid risk-free yield curve and adding an illiquidity premium to reflect the characteristics of these contracts. For VFA, the discount rate relates to returns on the underlying assets held.

The risk adjustment reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils these contracts.

Implementation

The Group's implementation of AASB 17 is underway. Accounting and actuarial system and processes are well progressed to support the implementation of AASB 17 when it becomes mandatory for the Group's reporting period ending 31 December 2023. Implementation decisions are being finalised by the board.

(al) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 25 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.

(am) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 34 to 124 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 2023 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 38; 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.



Lisa Chung
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
30 August 2023



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 2023 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 2023
- 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.

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 \$11.9m, which represents approximately 1% of the Total Equity (Members' Funds) of the Group. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Members' Funds because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. 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 Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group is structured into five operating segments, being Retail, Wealth & Capital Markets, Home Health, Specialist Care and Corporate Functions. We, as the group audit team, audited the most financially significant entities in the Retail, Wealth & Capital Markets, Home Health and Specialist Care segments. We performed an audit of Australian Unity Group Services Proprietary 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 and development sites (Refer to notes 11 and 12) [\$1,878.7 million]</p> <p>The Group's investment properties include 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 • property growth rates • discount rates. <p>The assessment of the valuation of retirement villages 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. 	<p>Our audit procedures over the valuation of retirement villages included the following procedures, amongst others:</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. • We tested a sample of key data inputs used in the models to underlying contracts with residents. • Assessed an external valuer's review of key valuation assumptions determined by the Group, by performing 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. <p>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.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition – Specialist care and home health services and other fees (Refer to note 2) [\$337.9 million]</p> <p>Revenue from services includes revenue from specialist care and home health services and other fees which are recognised as the relevant services are provided by the Group.</p> <p>The revenue relating to home health services is the largest component of this revenue line item. Home health services revenue was a key audit matter due to the volume of transactions and the complexity of calculating revenue recognised during the period given this is impacted by the level of care for which a recipient is eligible.</p>	<p>For revenues related to home health services, we performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Developed an understanding of relevant controls over recognition of revenue, assessed the design and implementation of these relevant controls and, for those controls we aimed to rely on, tested these controls were operating effectively throughout the relevant period. • 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. • On a sample basis we tested the completeness and accuracy of the calculation of the unspent funds liability at 30 June 2023.
<p>Valuation of intangible assets (Refer to note 15) [\$353.1 million]</p> <p>The Group recognised \$353.1 million of intangible assets at 30 June 2023. \$210.9 million of this related to goodwill and a further \$30.4 million related to management rights and other intangible assets which were assessed by the Group to have an indefinite useful life.</p> <p>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.</p> <p>The assessment of the valuation of intangible assets in the Home Health 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.</p> <p>The Group's impairment assessment shows an impairment of \$7.0m in the Wealth Advice Services CGU. No impairment has been identified in relation to other CGUs.</p>	<p>We performed the following procedures, amongst others, to assess whether impairment of Home Health and Wealth Advice Services intangible assets was required:</p> <ul style="list-style-type: none"> • 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 assessments appropriately included assets, liabilities and cash flows directly attributable to each CGU for the purposes of the impairment assessment. • 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 in light of the requirements of Australian Accounting Standards.

Key audit matter

Valuation of actuarially determined health insurance liabilities

(Refer to notes 16 and 26) [\$70.5 million]

Actuarially determined insurance liabilities include claims provisions relating to the Group's health insurance business (\$70.5 million).

The claims provisions relating to the Group's health insurance business represent an outstanding claims provision 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 Group's claims provisions also previously included a deferred claims provision which reflected an estimate of deferred claims that would have been incurred by the Group had it not been for the service restrictions brought on by the COVID 19 pandemic. The Group no longer carries a liability for these deferred claims and the balance recognised by the Group at 30 June 2022 (\$71.0m) has been fully amortised.

The Group's health insurance outstanding claims provision 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.

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% (2022: 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 claims provisions 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.

How our audit addressed the key audit matter

To assess the value of the Group's health insurance claims provisions 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 reconciliations and the Group's review of the estimate) and tested the operating effectiveness of a sample of these controls throughout the year.
- Developed an understanding of the processes that the Group undertook to calculate the value of insurance liabilities, including the models used by the Group in calculating the actuarial liabilities.
- Compared the methodologies used by the Group to those commonly applied in the industry and where relevant, used in the prior year.
- 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 margins 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.
- Specifically for the deferred claims provision, we have assessed the judgements applied by the Group in amortising the prior year estimate.
- Assessed the adequacy of the disclosure of the Group's health insurance claim liability against the requirements of the applicable Australian Accounting Standards.



Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of Herston Quarter Development Costs (Refer to notes 12 and 22) [\$143.4 million]</p> <p>The Group has recognised \$143.4 million of capitalised costs in relation to the Herston Quarter development at 30 June 2023.</p> <p>The Group has assessed the recoverability of these costs relating to the Herston Quarter development work in progress, and in doing so is required to make significant estimates and judgements in relation to the Herston Quarter masterplan and future cash flows.</p> <p>Due to the level of judgement involved in estimating future cash flows from this development and the size of capitalised costs, this is considered to be a key audit matter.</p>	<p>Our audit procedures over the Group's assessment of the recoverability of Herston Quarter development costs included the following procedures, amongst others:</p> <ul style="list-style-type: none">• We obtained an understanding of the Group's latest Herston Quarter masterplan.• We assessed the Group's recoverability calculations for consistency with the current Board approved masterplan.• We agreed a sample of forecast cash flows to executed contracts or external valuation evidence where this was available.• We considered the reasonableness of judgements in relation to uncontracted cash flows based on available evidence.• We evaluated whether the disclosure of estimation uncertainty in Note 22 is consistent with our understanding of the project and the requirements of Australian Accounting Standards.

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 2023, 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 through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

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 17 to 29 of the directors' report for the year ended 30 June 2023.

In our opinion, the remuneration report of Australian Unity Limited for the year ended 30 June 2023 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 stylized, handwritten signature of the PricewaterhouseCoopers firm in blue ink.

PricewaterhouseCoopers

A handwritten signature of Andrew Cronin in blue ink.

Andrew Cronin
Partner

Melbourne
30 August 2023