

ASX Announcement

24 February 2021

Australian Unity Limited – Interim Financial Report

Please find **attached** Australian Unity Limited's Interim Financial Report for the half-year ended 31 December 2020.

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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 organisation

Australian Unity Limited

ABN 23 087 648 888

Interim financial report and directors' report for the half-year ended 31 December 2020

Australian Unity Limited ABN 23 087 648 888
Interim financial report and directors' report - 31 December 2020

Directors' report	1
Interim financial statements	11
Consolidated statement of comprehensive income	11
Consolidated balance sheet	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15
Directors' declaration	41
Independent auditor's review report to the members	42

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

271 Spring Street
Melbourne VIC 3000

The financial statements were authorised for issue by the directors on 24 February 2021.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as Australian Unity or the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Lisa Chung, Non-executive Director
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Julien Playoust, Non-executive Director
Gregory Willcock, Non-executive Director

Company secretaries

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

Operating and financial review

In the six months to 31 December 2020, the Australian Unity Group continued advancing its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value and is supportive of personal and community wellbeing.

While the period under review was very significantly different to the equivalent period in the prior year—due to the emergence of the COVID-19 pandemic in 2020—the Group delivered a positive first half result.

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

Another priority for the Group in the half-year under review was the maintenance of a solid balance sheet position in support of operational resilience and agility. To this end, the Group undertook Australia's first Mutual Capital Instrument (MCI) issue, raising \$120 million from investors. The opportunity to issue these financial instruments was provided by legislative amendments that passed through the Australian Parliament in 2019, which allowed mutual entities, subject to constitutional adjustment, to raise permanent capital without compromising their mutual status. At the 2019 Annual General Meeting, Australian Unity's members voted to extend the Group's strategic options for raising funds—through the issue of MCIs. Also during the half-year, the Group retired the remaining \$71.3 million of Series B Australian Unity Bonds when they matured in December 2020.

The impact of COVID-19 on the Group—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 in the half-year under review. It included the implementation of extraordinary measures to seek to protect aged care residents, home care customers and the employees who support them; the provision of hardship relief for health insurance and banking customers; and the effect of tightened economic circumstances. Australian Unity responded to COVID-19 by maintaining, and where possible improving, levels of service and responsiveness to the needs of members and customers, while at the same time pursuing efficiency measures to mitigate risks and curtail expenditures. During this time, Australian Unity has also focused on the welfare of employees and the impact COVID-19 has had on them.

In terms of the effect of COVID-19 on the Group's overall results, it was estimated that direct and indirect COVID-19 impacts reduced the half-year's net profit before income tax by approximately \$6 million. These impacts included the deferment of private health insurance premium increases; client cancellations and interruptions to regular home care, disability, dental and health care servicing; some additional government funding receipts; lowered funds under management, reduced lending and property services activity fees; increased cost of additional personal protective equipment (PPE) and related consumables; lower earnings from investment markets and cost containment undertaken in response to these pandemic effects. It should be noted that the above impact is an estimate and should not be regarded as definitive. Many of the factors assessed are based on earnings reductions compared to pre-COVID-19 levels of activity or value; however, if COVID-19 had not occurred, these levels of activity or value may still have declined due to other market effects.

Operating and financial review (continued)

In the half-year under review, the Group's total revenue and other income increased to \$823.8 million (31 December 2019: \$764.9 million). Overall revenues from operating businesses and investment returns were lower, by \$10.6 million, reflecting COVID-19 pressures, while benefit fund revenues were higher by \$69.5 million.

Total expenses, excluding financing costs, were \$770.9 million (31 December 2019: \$731.1 million). This aggregate expense position was driven by lower net health insurance claims (down \$17.1 million), higher client care costs (up \$11.3 million) and higher benefit fund expenses (up \$46.9 million). Expenses for the period also included \$3.0 million for remediation and project costs associated with the review of wages initiated in the previous financial year and notified in the Group's financial statements at 31 December 2019. Payroll errors were identified and self-reported to the Fair Work Ombudsman during the period. Our current employees received back payments, together with interest and superannuation, and we are continuing to liaise with the Fair Work Ombudsman. The review is ongoing, and we expect to finalise the review, including remediation payments to former employees during the current year. Separately, a review of historical superannuation guarantee contributions for all employees was undertaken, resulting in additional superannuation payments of \$2.4 million during the period, including interest.

Each of the business platforms made a positive contribution to the result. The overall outcome, after inclusion of non-recurring expenses such as the remediation expenses noted above, represented a decline in the aggregate trading position, with operating earnings for the half-year of \$13.9 million—a decrease of \$4.6 million over the prior corresponding period.

The Group delivered a profit after tax of \$6.7 million for the six months to 31 December 2020, compared to \$8.4 million in the prior corresponding period.

Despite the ongoing impact of COVID-19 and the consequential pressures on its individual businesses, the Group remains positive about its capacity to respond to these challenges and to continue to build on the considerable opportunities arising from an external environment of uncertainty and market disruption.

In the context of this market volatility, the Group will also work to maintain balance sheet resilience and operational flexibility as it continues to pursue the development of the business portfolio and the realisation of strategic ambitions.

The Group's operations are conducted through three business platforms: Independent & Assisted Living; Retail; and Wealth & Capital Markets. Key aspects of the operating, financial and strategic performance of each platform during the half-year to 31 December 2020 are set out below. In assessing the performance of its operating business segments, the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of tax, depreciation and amortisation, interest on external borrowings and investment income. It also excludes Group overheads and other material non-recurring expenditure. A reconciliation between adjusted EBITDA and profit before income tax from continuing operations is set out in note 2 to the consolidated financial statements.

Independent & Assisted Living

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

Financial performance - Independent & Assisted Living

	Half-year to 31/12/20 \$million	Half-year to 31/12/19 \$million	Variance
Total segment revenue	\$252.1	\$251.0	0.4%
Operating expenses	\$220.0	\$221.9	0.9%
Adjusted EBITDA	\$32.1	\$29.1	10.2%

The IAL platform recorded total segment revenue of \$252.1 million for the half-year, representing an increase of 0.4 percent compared to the prior corresponding period (31 December 2019: \$251.0 million).

This was a pleasing result given significant disruption across the IAL business during the period as a result of the continuing COVID-19 pandemic.

Home Care Services experienced a 0.8 percent increase in revenue to \$164.5 million, including a 6.6 percent increase in Aboriginal Home Care revenue to \$15.4 million; Health Services increased 27.7 percent to \$24.1 million; and Residential Communities increased 3.7 percent to \$61.2 million, while Developments decreased 76.7 percent to \$2.3 million.

Operating and financial review (continued)

Independent & Assisted Living (continued)

IAL's adjusted EBITDA of \$32.1 million represented an increase of 10.2 percent and \$3.0 million on the prior corresponding period. This increase reflected the continued focus on improving the sustainability of the Home Care Services business throughout the period under review.

Home Care Services (HCS)

During the half year under review, HCS delivered steady revenue of \$164.5 million, up 0.8 percent on the prior corresponding period, and an adjusted EBITDA increase of \$8.6 million to \$17.9 million. This was achieved through continuous improvement initiatives and significantly reduced non-care worker travel, offsetting cost increases associated with COVID-19 related Personal Protective Equipment (PPE).

Approximately 1.4 million hours of care were delivered to approximately 37,634 customers by 2,866 care workers. Care worker retention and recruitment remained an area of focus.

The business largely completed transitioning some of its disability (predominantly NDIS) customers to alternate service providers during the half year to 31 December 2020 under a program initiated in FY2019 to ensure the sustainability of the business.

HCS saw a 15.1 percent increase in its Home Care Packages customer base and a 56 percent increase in additional service hours provided. Total Home Care Packages under management reached 8,028 at December 2020—an increase of 1,054 package clients in the six months to 31 December 2020.

Within HCS, the Aboriginal Home Care business delivered an EBITDA of \$0.8 million in the half-year to 31 December 2020. Approximately 119,000 hours of care were delivered to 2,537 clients by 198 care workers. There were 688 Home Care Packages under management, which was an increase of 100 packages in the six months to 31 December 2020.

Remedy Healthcare

During the half year under review, Remedy increased revenue by 49.1 percent to \$19.8 million, driven predominantly by Allied Health Services (31 December 2019: \$13.3 million). Despite the significant COVID-19 disruption, the business demonstrated sustained growth in the provision of allied health services during the period.

Remedy delivered 14,665 hours of Allied Health Services to Home Care Package customers of Australian Unity during the half year under review, representing an increase of 6,427 hours on the prior corresponding period (31 December 2019: 8,238). This growth demonstrated IAL's ongoing commitment to meeting its customers' holistic wellbeing goals and objectives.

Remedy also delivered more than 3,551 'hospital substitution' programs in the period which was an increase of 60.6 percent on the prior corresponding period (31 December 2019: 2,211). The increase in enrolments in these programs was driven in part by the early success of 'Ramsay Connect'—a joint venture with Ramsay Healthcare that aims to provide patients with a seamless integrated healthcare pathway during and after hospitalisation.

Dental

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

The dental industry in Victoria was significantly impacted by government restrictions associated with COVID-19 in the half-year to December 2020, effectively forcing the dental clinics to cease operating for an extended period, except for permitted emergency dental treatments. As a result, patient numbers declined by 25.0 percent from 27,008 in the half year to 31 December 2019, to 20,252 in the half year to 31 December 2020.

Residential Communities

Residential Communities owns and operates 21 retirement communities across Victoria and NSW, comprising 2,496 independent living units (30 June 2020: 2,496).

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

Residential Communities also owns and operates seven aged care facilities in Victoria and NSW, incorporating 786 aged care beds (30 June 2020: 786). The mature aged care portfolio continued to achieve top-quartile occupancy at above 95 percent for the half-year to 31 December 2020.

Despite the material threats arising from community transmission of COVID-19, particularly in Victorian aged care facilities, Residential Communities successfully restricted and contained any outbreaks in its facilities during the first half of the year. Australian Unity's signature built-form environment—based on a small household model with consistent rostering of the same staff and accompanied by strong clinical governance—proved to be a key contributor to infection prevention and control.

Operating and financial review (continued)

Independent & Assisted Living (continued)

Development

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

Outlook

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

The platform will continue to pursue growth opportunities in several areas, including: Home Care Packages and in allied services delivered by Remedy to Home Care Package clients; aged care and retirement village sites through acquisitions and new developments; enrolments in hospital substitution programs, including through Ramsay Connect and growth in dental services following the easing of COVID-19 restrictions in Victoria.

COVID-19 is expected to present significant ongoing challenges and disruption throughout the remainder of the financial year. Notwithstanding, the business is well positioned, in most reasonably foreseeable operating circumstances, to continue to deliver essential services to its customers and keep them safe.

IAL has actively and constructively participated in providing policy input into the Royal Commissions into 'Aged Care Quality and Safety' and 'Violence, Abuse, Neglect and Exploitation of People with Disability' and awaits the report from the former, scheduled to be delivered by 26 February 2021.

Retail

The Retail platform brings together Australian Unity's private health insurance, banking and general insurance 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

	Half-year to 31/12/20 \$million	Half-year to 31/12/19 \$million	Variance
Total segment revenue	\$348.8	\$360.9	(3.4%)
Operating expenses	\$309.9	\$328.4	5.6%
Adjusted EBITDA	\$38.9	\$32.5	19.6%

Despite the significant challenges and disruption presented by the COVID-19 pandemic, the Retail platform made good progress against its stated aims, delivering an adjusted EBITDA of \$38.9 million—19.6 percent higher than the prior corresponding period, principally due to lower private health insurance (PHI) claims. This enabled the PHI business to submit its April 2021 premium rate increase at the lowest level in 20 years.

During the half-year the Retail platform's ongoing support for customers impacted by COVID-19 was multifaceted, including extending PHI policy suspensions for customers facing hardship, supporting all our PHI customers by deferring the April 2020 premium increase to October 2020 and ensuring that Telehealth consultations were covered in claiming extras. Bank customers were supported, if needed, with delays to repayments while loans were restructured, where necessary, to support sustainable returns to mortgage repayments.

Revenue was affected by a decrease in the number of policyholders, the COVID-19 hardship measures and revenue related to the discontinued mortgage and general insurance broking operations sold in the prior period. Lower claims expenses were also affected by fewer policyholders together with lower observed claims and a lower revision to the prior period outstanding claims estimate compared to the previous half-year.

Estimation of the level of claims catch-up from the deferral of procedures and benefits due to COVID-19 required significant actuarial judgement, including the impact of differing restrictions imposed by Victorian and non-Victorian state governments on elective surgery and ancillary services, which resulted in the deferred claims liability increasing by \$13.8 million to \$51.4 million at 31 December 2020.

Operating and financial review (continued)

Retail (continued)

Strong lending growth achieved in the prior period enabled the banking business to offset the impact of lower interest rates on banking revenue. The banking business' average loan book of \$923.7 million was \$128.9 million, or 16.2 percent above the previous half-year.

Total operating expenses were \$309.9 million—\$18.5 million or 5.6 percent lower than the prior corresponding period. This decrease reflected a \$17.1 million decrease in health insurance claims net of risk equalisation, and a \$1.4 million decrease in other operating expenses across the Retail platform.

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 slightly by 0.3 percent over the half-year to 171,460 at 31 December 2020. PHI policy sales were up 32.6 percent and attrition down 15.9 percent compared to the prior corresponding period. Overseas visitor cover was impacted by border closures, with policyholders decreasing 15.6 percent over the half-year to 3,926 at 31 December 2020.

In recognition of the impact of COVID-19 on the Australian community, COVID-19 hardship measures for Australian Unity policyholders were extended through to 31 December 2020. This included extending policy suspensions, premium relief for those on government Job Keeper and Job Seeker payments and recognition of telehealth consultations as a feature of extras claiming, the latter now a permanent feature for Australian Unity members.

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

Australian Unity Bank Limited

As at 31 December 2020, Australian Unity Bank had approximately 25,900 customers, with its total assets growing by \$114.4 million to \$1,248.3 million (30 June 2020: \$1,133.8 million) during the half-year under review. The Expected Credit Loss provision on loans decreased by \$0.5 million to \$16.0 million (30 June 2020: \$16.5 million) reflecting stronger conditions generally.

Australian Unity Bank continued to focus on delivering quality products and services, with an emphasis on digital delivery. Despite significant challenges and disruption presented by the COVID-19 pandemic, the Gross Loan Portfolio decreased only marginally by \$7.5 million to \$920.7 million (30 June 2020: \$928.2 million).

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

Outlook

The outlook for the Retail platform is cautiously positive, notwithstanding the future uncertainties flowing from COVID-19 on healthcare and the economy. It is anticipated most health insurance claims deferred due to restrictions on healthcare services during the pandemic will catch up and bank credit growth may slow over the coming year.

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

Wealth & Capital Markets

The Wealth & Capital Markets (W&CM) platform comprises Advice, Investments, Life & Super, Property and Trustee services.

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

Operating and financial review (continued)

Wealth & Capital Markets (continued)

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

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

Financial performance - Wealth & Capital Markets

	Half-year to 31/12/20 \$million	Half-year to 31/12/19 \$million	Variance
Total segment revenue	\$82.6	\$84.2	(2.0%)
Operating expenses	\$72.8	\$66.0	(10.1%)
Adjusted EBITDA	\$9.8	\$18.2	(46.0%)

The W&CM platform manages investments, property assets and developments (and associated debt facilities), and provides advice and trustee services, with an aggregate value of \$26.47 billion at 31 December 2020 (30 June 2020: \$24.16 billion).

The platform recorded a 2.0 percent decrease in total segment revenue compared to the previous period, reflecting the impact of the global pandemic on business volumes across the platform, partly offset by the benefit of growth in the adviser network within the Advice business. However, despite the challenging environment, segment revenues displayed resilience during the period and benefited from the breadth of the portfolio of businesses within the platform.

The pandemic also affected adjusted EBITDA, although after adjusting for one-off costs during the period and one-off gains in the prior corresponding period, the platform recorded an overall decrease of approximately 15 percent.

The business has closely monitored the external environment and has experienced (and continues to experience) significant direct and indirect impacts of the pandemic on business activity and investment returns, as economic activity stalled in key sectors. The enduring demand for our services supported the platform through the half-year and enabled it to maintain services and support for our investors and customers, and to continue to invest in capability and systems that will support our growth and community impact ambitions. Strong support from capital markets and partners during the period helped maintain momentum and to progress our strategic development.

Investments

Investments, including its joint venture partners, manages funds under management and advice (FUMA) of \$9.78 billion as at 31 December 2020 (30 June 2020: \$8.22 billion). During the half-year under review, which presented challenging capital funding conditions, the business experienced positive net flows from retail, middle and institutional markets. This included net flows of ~\$37 million to the Platypus Australian Equities Fund, ~\$16 million to Platypus Australian Equities Absolute Return Fund, ~\$7.5 million to the Green Bond Fund and ~\$5 million into the Property Income Fund.

During the half-year, the Investments business successfully seeded the Future of Healthcare Fund, raising initial assets under management of ~\$33 million at 31 December 2020.

Its Joint Venture partners' achievements included Acorn Capital's launch of the NextGen Resources Fund, adding to its offering in microcap and emerging-growth investments, and Platypus Asset Management received a further ~\$670 million of inflows from institutional clients.

The Investments team also manages the investment portfolio of the Group, amounting to \$1.0 billion (30 June 2020: \$0.81 billion), including its capital stable and highly liquid insurance reserves. In the year to 31 December 2020, the weighted average investment returns were 0.74 percent, which reflected resilient performance in a challenging environment, highlighting the diversity of the portfolio and the platform.

Operating and financial review (continued)

Wealth & Capital Markets (continued)

Property

Notwithstanding the impacts of the COVID-19 pandemic, the Property business delivered solid results during the half-year under review, with assets under management increasing to \$3.98 billion as at 31 December 2020 (30 June 2020: \$3.52 billion). Its multi-year development pipeline stood at \$0.96 billion (30 June 2020: \$1.29 billion), and lending and debt facilities on behalf of investors (through property funds and its commercial property lending activities) of \$1.46 billion (30 June 2020: \$1.37 billion).

Key examples of the Group's involvement in social infrastructure include the Herston Quarter development, the Healthcare Property Trust (HPT) and Specialist Disability Accommodation Fund.

The landmark \$1.1 billion Herston Quarter health precinct in Brisbane continued to progress, with HPT achieving the major milestone of practical completion and commercial acceptance of the Surgical, Treatment and Rehabilitation Service (STARS) hospital—scheduled to open to the public in February 2021. Significant progress was also made on the wider precinct works, including the public realm assets adjacent to STARS and the restoration of heritage sites.

Project pipeline for retirement communities also continued to progress solidly, including the recent financial close on a development fund for 114 Albert Road in South Melbourne, Victoria (Australian Unity's former head office site).

The Healthcare Property Trust increased FUM to \$2.37 billion at 31 December 2020 (30 June 2020: \$2.20 billion) and posted a total return of 11.42 percent (wholesale units) for the year to 31 December 2020. During the half-year, HPT secured additional debt funding of \$150 million and continued to progress transaction and development activity. Acquisitions included properties at Kingswood and Kellyville, NSW and Victoria House in East Perth, WA. HPT's development pipeline saw early site works commencing at Kingswood, with the \$44 million development to start in March 2021, and building tenders received for Sunshine Private Hospital's \$100 million development, scheduled to commence in April 2021.

The Diversified Property Fund (DPF) increased FUM to \$0.58 billion at 31 December 2020 (June 2020: \$0.56 billion) and posted a return of 12.73 percent against benchmark of -2.64 percent. During the half-year, DPF commenced a \$50 million capital raising campaign to fund its development and acquisition pipeline. In transactions activity, the fund settled the purchase of a \$48.25 million property in Osborne, SA. Leased to Australian Naval Infrastructure, the property includes a state-of-the-art 5-green star rated commercial office space.

Throughout the period, our funds continued to support eligible tenants under the Federal Government's Mandatory Code of Leasing Principles in relation to COVID-19 impacts on their business.

During the half-year, the property team continued to progress the growth of the Specialist Disability Accommodation Fund, with approximately \$63.5 million in equity and debt funding (31 December 2020). The Fund has now settled on 31 dwellings, with a further 57 under construction. It is anticipated that the fund will deliver approximately 100 places of appropriate accommodation over the next two years that will provide residents with a greater level of independence and self-reliance than experienced previously. In line with the Group's Community & Social Value (CSV) framework, it is anticipated this will lead to a greater level of lifelong wellness for residents, with support that is centred around needs, self-reliance and improved health outcomes.

Support for the Australian Unity Select Mortgage Income Fund (SIF) continued to grow, with strong inflows of \$63.0 million up from \$44.0 million in the prior corresponding period, with the value of the lending portfolio \$289.6 million at 31 December 2020 (30 June 2020: \$254.7 million).

Life & Super

Australian Unity's Life & Super business continued as Australia's largest investment, education and funeral bonds provider, with \$2.41 billion in funds under management and administration as at 31 December 2020 (30 June 2020: \$2.27 billion).

During the half-year, net flows remained positive at \$14.3 million, while outflows declined by 24 percent compared to the prior corresponding period. This represented a significant outcome in an extremely low interest rate environment and during the COVID-19 pandemic.

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

The business continued its growth in the direct-to-consumer market, with the 10Invest Investment Bond reaching \$22.6 million of funds under management at 31 December 2020. Since the product's launch in September 2019, more than 2,400 Australians have used this intuitive and accessible savings plan to invest in their long-term future.

Australian Unity also continued to occupy a leading position in the pre-paid funeral market via its specialised business Funeral Plan Management, with funeral funds under management of \$676.0 million (June 2020: \$672.8 million) across more than 90,000 clients.

Operating and financial review (continued)

Wealth & Capital Markets (continued)

Trustees

The growth of the Trustees business continued to be impacted by the pandemic during the half-year under review. While the current health crisis slowed the operations of Courts, Tribunals and referral partners nationally during the half-year, an established pipeline of estates, trusts and protected persons opportunities enabled continued inflows of new clients and associated revenue—albeit at lower levels than the prior period.

During the half-year under review, significant work was completed to strengthen relationships with existing clients and referral partners and to provide a strong foundation from which to continue to scale services. To complement this approach, the team developed a direct-to-consumer strategy that will commence in 2021. The business expanded its reach during the half-year via the acquisition of a tax practice in Canberra, providing reliable growth in recurring revenues in a familiar sector while expanding the footprint of the business into the Canberra market.

Advice

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

During the half-year under review, the growth aspirations of the Advice business continued to experience significant impacts from the COVID-19 pandemic, with limited opportunities to meet with prospective and new clients in a face-to-face setting.

During the period, the number of advisers (including limited authorised representatives) decreased to 174 (30 June 2020: 176), with FUA growth over the half-year to \$7.50 billion (30 June 2020: \$7.14 billion), and personal life insurance premiums in-force up to \$72 million from \$69 million as at 30 June 2020. Revenue increased 7.4 percent to \$32.4 million for the half-year compared to \$30.2 million for the prior corresponding period. In addition, separately managed (SMA) investment accounts constructed by the Advice business grew in FUM to \$525.4 million (30 June 2020: \$391.8 million).

Outlook

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

Despite the challenging economic conditions, the platform offers a broad yet customer-focused range of services, and a material and growing presence in the funding, development and management of Australia's social infrastructure. The period ahead should continue to provide opportunities for the platform to offer customers valuable investment opportunities, and to deliver increased community and social value.

The Herston Quarter project continues to be a key focus of the platform as it develops Australian Unity's response to Australia's social infrastructure challenge.

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

Matters subsequent to the end of the half-year

On 24 February 2021, the Board of Australian Unity Limited has determined an interim fully franked dividend of \$1.5342 per Australian Unity Mutual Capital Instrument to be paid on 15 April 2021. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2020 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 31 December 2020 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

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 10.

Rounding of amounts

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

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



Peter Promnitz
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
24 February 2021



Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in blue ink, appearing to read 'A Cronin'.

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
24 February 2021

Australian Unity Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2020

		Half-year	
	Notes	2020 \$'000	2019 \$'000
Revenue and other income	3	823,752	764,954
Expenses, excluding finance costs	4	(770,922)	(731,099)
Operating profit		52,830	33,855
Finance costs	4	(19,916)	(20,810)
Share of net profit of joint ventures		1,196	141
Profit before income tax		34,110	13,186
Income tax expense	5	(27,416)	(4,794)
Profit for the half-year		6,694	8,392
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges		1,256	4,407
Income tax relating to this item		17	(1,322)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations		528	422
Other comprehensive income for the half-year, net of tax		1,801	3,507
Total comprehensive income for the half-year		8,495	11,899
Profit for the half-year is attributable to:			
Members of Australian Unity Limited	15	6,694	8,392
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		8,495	11,899

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 15.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2020

		31 December	30 June
	Notes	2020	2020
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	1,111,745	1,036,703
Trade and other receivables		101,026	102,685
Current tax assets		-	3,761
Loans and advances	7	19,099	21,950
Financial assets at fair value through profit or loss	8	2,182,623	2,070,692
Other financial assets at amortised cost		134,104	47,012
Other current assets		31,103	33,437
Total current assets		3,579,700	3,316,240
Non-current assets			
Loans and advances	7	888,161	893,843
Financial assets at fair value through profit or loss	8	15,802	13,128
Investments in associates and joint ventures		9,679	17,425
Investment properties	12	1,582,121	1,489,160
Property, plant and equipment		317,764	305,608
Right-of-use assets		108,965	115,879
Intangible assets		310,925	313,466
Other non-current assets		11,555	11,732
Total non-current assets		3,244,972	3,160,241
Total assets		6,824,672	6,476,481
LIABILITIES			
Current liabilities			
Trade and other payables		187,355	175,388
Borrowings	9	1,144,844	1,141,578
Lease liabilities		15,060	16,813
Current tax liabilities		2,427	-
Provisions	13	165,790	148,896
Other current liabilities	10	1,464,104	1,403,212
Benefit fund policy liabilities		306,362	268,229
Total current liabilities		3,285,942	3,154,116
Non-current liabilities			
Borrowings	9	428,246	373,870
Lease liabilities		107,901	111,795
Deferred tax liabilities		81,732	72,130
Provisions		6,299	5,698
Other non-current liabilities		11,139	12,878
Benefit fund policy liabilities		2,054,660	2,022,715
Total non-current liabilities		2,689,977	2,599,086
Total liabilities		5,975,919	5,753,202
Net assets		848,753	723,279
EQUITY			
Members' balances		255,919	255,919
Mutual Capital Instruments	14	116,979	-
Reserves		58	(1,743)
Retained earnings		475,797	469,103
Equity attributable to members of Australian Unity Limited		848,753	723,279
Total equity		848,753	723,279

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 half-year ended 31 December 2020

	Members' balances \$'000	Mutual Capital Instruments \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2019	255,919	-	2,931	459,543	718,393
Adjustment on adoption of AASB 16, net of tax	-	-	-	(5,404)	(5,404)
Profit for the half-year	-	-	-	8,392	8,392
Other comprehensive income	-	-	-	-	-
- Cash flow hedges	-	-	3,085	-	3,085
- Post-employment benefits	-	-	422	-	422
Total comprehensive income	-	-	3,507	8,392	11,899
Balance at 31 December 2019	255,919	-	6,438	462,531	724,888
Balance at 1 July 2020	255,919	-	(1,743)	469,103	723,279
Mutual Capital Instruments issued	-	116,979	-	-	116,979
Profit for the half-year	-	-	-	6,694	6,694
Other comprehensive income	-	-	-	-	-
- Cash flow hedges	-	-	1,273	-	1,273
- Post-employment benefits	-	-	528	-	528
Total comprehensive income	-	-	1,801	6,694	8,495
Balance at 31 December 2020	255,919	116,979	58	475,797	848,753

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 half-year ended 31 December 2020

	Half-year	
	2020	2019
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,125,834	1,083,083
Payments to suppliers and employees (inclusive of goods and services tax)	(771,599)	(815,770)
Health insurance claims and benefits paid	(246,098)	(287,256)
Net receipts/(payments) of loans asset	8,931	(101,499)
Net receipts of deposits liability	105,224	124,573
Interest received	17,062	18,835
Dividends and distributions received	3,037	3,766
Interest and finance charges paid	(14,621)	(22,188)
Income tax payments	(10,000)	(25,003)
Net cash inflow/(outflow) from operating activities	217,770	(21,459)
Cash flows from investing activities		
Payments for investments	(961,309)	(563,650)
Payments for investment properties	(126,979)	(48,728)
Payments for property, plant and equipment	(18,503)	(44,338)
Payments for intangible assets	(8,221)	(8,635)
Payments for investments in associates and joint ventures	(73)	-
Receipts from investments	834,003	558,437
Receipt from long term rent of commercial property	41,415	-
Dividends received from joint ventures	540	578
Proceeds from disposal of joint venture investments	9,828	-
Net cash outflow from investing activities	(229,299)	(106,336)
Cash flows from financing activities		
Receipts from MCI issues, net of issuance costs	115,684	-
Receipts from borrowings	66,492	171,184
Payments of borrowings	(115,249)	(21,728)
Net receipts from refundable lease deposits and resident liabilities	19,644	41,803
Net cash inflow from financing activities	86,571	191,259
Net increase in cash and cash equivalents	75,042	63,464
Cash and cash equivalents at the beginning of the half-year	1,036,703	944,767
Cash and cash equivalents at the end of the half-year	1,111,745	1,008,231

6

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

Notes to the consolidated financial statements

	Page
Basis of preparation of half-year report	16
1 Accounting policies	16
How numbers are calculated	16
2 Segment information	16
3 Revenue and other income	20
4 Expenses	23
5 Income tax	23
Financial assets and liabilities	24
6 Financial assets - Cash and cash equivalents	24
7 Financial assets - Loans and advances	25
8 Financial assets at fair value through profit or loss	26
9 Financial liabilities - Borrowings	27
10 Other current liabilities	29
11 Fair value measurements	30
Non-financial assets and liabilities	34
12 Non-financial assets - Investment properties	34
13 Non-financial liabilities - Provisions	35
14 Mutual Capital Instruments	36
Group structure	37
15 Reconciliation of profit attributable to members of Australian Unity Limited	37
Unrecognised items	38
16 Commitments	38
17 Contingencies	38
18 Events occurring after the reporting period	39
Other information	39
19 Related party transactions	39

Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

1 Accounting policies

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

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

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

(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) Comparative information

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

How numbers are calculated

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

2 Segment information

(a) Description of segments

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

2 Segment information (continued)

(a) Description of segments (continued)

The table below summarises the reportable operating segments.

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

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2020 is as follows:

Half-year ended 31 December 2020	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
Total segment revenue	252,114	348,765	82,592	(7,343)	676,128
Inter-segment revenue	(4,385)	-	-	4,385	-
Revenue from external customers	247,729	348,765	82,592	(2,958)	676,128
Adjusted EBITDA	32,124	38,914	9,817	(41,566)	39,289
Depreciation and amortisation					(25,365)
Interest expense					(19,948)
Investment income					8,017
Income tax benefit					4,701
Profit from operations					6,694
Share of profit after tax from joint ventures (included in adjusted EBITDA)					1,196
Total segment assets include:					
Income producing assets	169,193	1,580,573	68,176	189,244	2,007,186
Working capital assets	(91,745)	56,327	88,050	62,544	115,176
Non-interest bearing assets	748,016	24,382	206,116	202,850	1,181,364
Total segment assets	825,464	1,661,282	362,342	454,638	3,303,726
Total segment liabilities include:					
Borrowings and net inter-segment lending	158,535	1,164,260	101,136	275,721	1,699,652
Working capital liabilities	204,410	214,251	44,711	93,895	557,267
Non-interest bearing liabilities	136,851	15,610	23,805	21,788	198,054
Total segment liabilities	499,796	1,394,121	169,652	391,404	2,454,973

2 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2019 is as follows:

Half-year ended 31 December 2019	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate functions \$'000	Total \$'000
Total segment revenue	251,042	360,906	84,244	(7,572)	688,620
Inter-segment revenue	(4,256)	-	-	4,256	-
Revenue from external customers	246,786	360,906	84,244	(3,316)	688,620
Adjusted EBITDA	29,154	32,543	18,172	(37,225)	42,644
Depreciation and amortisation					(24,102)
Interest expense					(21,001)
Investment income					6,116
Income tax benefit					4,735
Profit from operations					8,392
Share of profit after tax from joint ventures (included in adjusted EBITDA)					141

As at 30 June 2020

Total segment assets include:

Income producing assets	95,551	1,467,719	61,927	209,170	1,834,367
Working capital assets	(1,073)	63,022	53,738	18,289	133,976
Non-interest bearing assets	669,640	8,870	212,385	207,452	1,098,347
Total segment assets	764,118	1,539,611	328,050	434,911	3,066,690

Total segment liabilities include:

Borrowings and net inter-segment lending	140,033	1,055,989	74,377	378,944	1,649,343
Working capital liabilities	153,294	222,965	37,106	86,413	499,778
Non-interest bearing liabilities	133,346	13,688	25,797	21,459	194,290
Total segment liabilities	426,673	1,292,642	137,280	486,816	2,343,411

(c) Other segment information

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

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

Adjusted EBITDA

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

2 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year	
	2020	2019
	\$'000	\$'000
Adjusted EBITDA	39,289	42,644
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 4)	(25,142)	(23,956)
Other	(223)	(146)
	(25,365)	(24,102)
Interest expense		
Finance costs (note 4)	(19,916)	(20,810)
Other	(32)	(191)
	(19,948)	(21,001)
Investment income:		
Dividends and distributions (note 3)	3,616	3,788
Gain/(loss) on investments in financial instruments (note 3)	3,073	(606)
Other interest income (note 3)	722	2,776
Other	606	158
	8,017	6,116
Profit before income tax attributable to members of Australian Unity Limited (note 15)	1,993	3,657
Profit before income tax of benefit funds (note 15)	32,117	9,529
Profit before income tax	34,110	13,186

3 Revenue and other income

The Group operates in Australia and generates revenue through its business platforms that operate private health insurance, banking services, retirement communities, aged care facilities, home care and disability services, health services, investment funds management, financial planning, estate planning and trustee services. As the Group operates diverse businesses, it adopts a few accounting standards for revenue recognition as applicable to each category of revenue.

The following is revenue and other income from operations:

	Half-year	
	2020	2019
	\$'000	\$'000
Health insurance net premium revenue	331,419	342,579
Revenue from services		
Government grants and subsidies funding aged care, home and disability services	99,372	92,718
Independent and assisted living services and other fees	116,386	122,111
Management and performance fees revenue	42,679	42,394
Brokerage and commission	33,469	31,607
Healthcare services revenue	19,209	14,610
	311,115	303,440
Interest income of bank	16,431	15,991
Investment earnings		
Other interest income	722	2,776
Dividends and distributions	3,616	3,788
Gain/(loss) on investments in financial instruments	3,073	(606)
Fair value gains on investment property	7,397	15,333
	14,808	21,291
Benefit funds income	140,902	71,450
Other income	9,077	10,203
	823,752	764,954

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

3 Revenue and other income (continued)

Disaggregation of revenue from services for each business segment for the half-year ended 31 December 2020 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

Half-year ended 31 December 2020	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate Functions \$'000	Total \$'000
Health insurance net premium revenue	-	331,419	-	-	331,419
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	99,372	-	-	-	99,372
Independent & assisted living services and other fees	118,915	-	-	(2,529)	116,386
Management and performance fees revenue	(11)	-	43,536	(846)	42,679
Brokerage and commission	733	1,104	31,632	-	33,469
Healthcare services revenue	19,415	-	-	(206)	19,209
	238,424	1,104	75,168	(3,581)	311,115
Interest income of bank	-	16,431	-	-	16,431
Investment earnings					
Other interest income	112	51	14	545	722
Dividends and distributions	-	2,998	419	199	3,616
Gain/(loss) on investments in financial instruments	(57)	2,423	209	498	3,073
Fair value gains on investment property	7,397	-	-	-	7,397
	7,452	5,472	642	1,242	14,808
Benefit funds income	-	-	140,902	-	140,902
Other income	2,115	416	5,821	725	9,077
Revenue and other income	247,991	354,842	222,533	(1,614)	823,752
Reconciliation to revenue from external customers in segment reporting					
<i>Items added to/(excluded from) the segment revenue</i>					
Dividends and distributions	-	(2,998)	(419)	(199)	(3,616)
Other investment income	(55)	(2,474)	(223)	(1,043)	(3,795)
Other	(207)	(605)	1,603	(102)	689
Revenue from benefit funds	-	-	(140,902)	-	(140,902)
	(262)	(6,077)	(139,941)	(1,344)	(147,624)
Revenue from external customers in segment reporting	247,729	348,765	82,592	(2,958)	676,128

3 Revenue and other income (continued)

Half-year ended 31 December 2019	Independent & Assisted Living \$'000	Retail \$'000	Wealth & Capital Markets \$'000	Corporate Functions \$'000	Total \$'000
Health insurance net premium revenue	-	342,579	-	-	342,579
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	92,718	-	-	-	92,718
Independent & assisted living services and other fees	123,114	-	(15)	(988)	122,111
Management and performance fees revenue	-	-	44,713	(2,319)	42,394
Brokerage and commission	1,623	2,016	27,968	-	31,607
Healthcare services revenue	14,619	-	-	(9)	14,610
	232,074	2,016	72,666	(3,316)	303,440
Interest income of bank	-	15,991	-	-	15,991
Investment earnings					
Other interest income	762	324	132	1,558	2,776
Dividends and distributions	(451)	3,637	595	7	3,788
Gain/(loss) on investments in financial instruments	(672)	(60)	374	(248)	(606)
Fair value gains on investment property	13,333	-	2,000	-	15,333
	12,972	3,901	3,101	1,317	21,291
Benefit funds income	-	-	71,450	-	71,450
Other income	1,654	479	7,626	444	10,203
Revenue and other income	246,700	364,966	154,843	(1,555)	764,954
Reconciliation to revenue from external customers in segment reporting					
<i>Items added to/(excluded from) the segment revenue</i>					
Dividends and distributions	451	(3,637)	(595)	(7)	(3,788)
Other investment income	(90)	(264)	(506)	(1,310)	(2,170)
Other	(275)	(159)	1,952	(444)	1,074
Revenue from benefit funds	-	-	(71,450)	-	(71,450)
	86	(4,060)	(70,599)	(1,761)	(76,334)
Revenue from external customers in segment reporting	246,786	360,906	84,244	(3,316)	688,620

4 Expenses

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

	Half-year	
	2020	2019
	\$'000	\$'000
Client care costs	23,881	12,564
Commission expense	31,342	26,402
Computer and equipment costs	19,157	15,482
Depreciation and amortisation expense	25,142	23,956
Employee benefits expense	248,454	251,302
Expenses in relation to benefit funds	108,785	61,921
Fund manager and administration fees	8,533	10,141
Health insurance claims expense	298,157	320,688
Health insurance claims recoveries - Net Risk Equalisation Special Account	(36,436)	(41,883)
Interest expense of bank	4,762	6,242
Legal and professional fees	6,974	8,467
Marketing expenses	5,034	6,356
Occupancy costs	9,207	10,106
Other expenses	17,930	19,355
	770,922	731,099
<i>Depreciation and amortisation</i>		
Depreciation of property, plant and equipment	6,350	5,859
Depreciation of right-of-use assets	7,503	7,290
Amortisation of intangible assets	11,289	10,807
	25,142	23,956
<i>Finance costs</i>		
Interest and finance charges on borrowings	11,935	11,627
Notional interest on leases and related accounts	8,868	9,902
Total interest and finance charges	20,803	21,529
Capitalisation of borrowing interest	(887)	(719)
Finance costs expensed	19,916	20,810

5 Income tax

(a) Income tax expense

	Half-year	
	2020	2019
	\$'000	\$'000
Current tax	(3,020)	(6,613)
Current tax - benefit funds	6,261	5,083
Deferred tax	(13,180)	9,885
Deferred tax - benefit funds	24,992	7,242
Adjustments for current tax of prior periods	11,500	(6,500)
Adjustments for current tax of prior periods - benefit funds	863	(2,796)
Other	-	(1,507)
	27,416	4,794
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(1,526)	3,545
Increase in deferred tax liabilities	13,338	13,582
	11,812	17,127

5 Income tax (continued)

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

	Half-year	
	2020	2019
	\$'000	\$'000
Profit before income tax	34,110	13,186
Less: Profit in benefit funds	(32,117)	(9,529)
Profit before income tax for the period	1,993	3,657
Tax at the Australian tax rate of 30% (2020: 30%)	598	1,097
Non-assessable income	(2,456)	(3,945)
Other assessable amounts	486	113
Non-deductible expenditures	1,031	608
Other deductible expenditures	(1,267)	(1,092)
Under/(over) provision in prior years	(1,181)	265
Tax credits	(607)	(194)
Tax in benefit funds	32,117	9,529
Other	(1,305)	(1,587)
Income tax expense	27,416	4,794

The income tax results for the six months to 31 December 2020 and the comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

Financial assets and liabilities

6 Financial assets - Cash and cash equivalents

	31 December	30 June
	2020	2020
	\$'000	\$'000
Cash at bank and on hand	26	26
Bank balances	78,744	41,503
Deposits at call	1,032,975	995,174
	1,111,745	1,036,703

The balance of cash and cash equivalents as at 31 December 2020 included the Parent Entity's accounts totalling \$198,938,000 (30 June 2020: \$217,187,000) and amounts held by benefit funds totalling \$405,688,000 (30 June 2020: \$375,087,000).

7 Financial assets - Loans and advances

	31 December 2020 \$'000	30 June 2020 \$'000
Current		
Mortgage loans	26,628	24,940
Personal loans	4,803	4,066
Provision for impairment	(12,332)	(11,056)
Advances	-	4,000
Total - current	19,099	21,950
Non-current		
Mortgage loans	885,972	894,222
Personal loans	3,634	5,016
Provision for impairment	(3,715)	(5,395)
Advances	2,270	-
Total - non-current	888,161	893,843
Total loans and advances	907,260	915,793

(a) Mortgage loans

The mortgage loans are secured on real property. These loans mature at various dates up to 30 December 2050 and earn interest at annual interest rates between 1.99% and 6.98% (2020: between 2.54% and 6.98%).

(b) Personal loans

The personal loans mature at various dates up to 20 November 2027 and earn interest at annual rates between 4.57% and 15.18% (2020: between 4.57% and 15.18%).

(c) Provision for impairment

The provision for impairment relates to the mortgage and personal loans provided by the Group's authorised deposit-taking institution Australian Unity Bank Limited (AUBL). It is calculated based on an expected credit loss (ECL) model, considering certain factors including the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, effect of any payment deferral options, forward looking scenario analysis and associated weighting. The provision for impairment amounting to \$16.0 million as at 31 December 2020 consisted of \$5.2 million loans in the Stage 1 twelve-month ECL category (30 June 2020: \$6.1 million), \$7.3 million loans in the Stage 2 lifetime ECL not credit impaired category (30 June 2020: \$7.7 million), and \$3.5 million loans in the Stage 3 lifetime ECL credit impaired category (30 June 2020: \$2.7 million).

Customers who were impacted by the adverse economic condition arising from COVID-19 were offered tailored COVID-19 financial assistance by AUBL in the form of loan deferrals. In the six months to 31 December 2020, a large portion of these customers no longer require COVID-19 financial assistance. The total balance of loans under deferral as at 31 December 2020 was \$7.9 million (30 June 2020: \$76.9 million).

(d) Past due but not impaired

At 31 December 2020, the current portion of loans and advances that were past due but not impaired amounted to \$20,256,000 (30 June 2020: \$40,241,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value

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

8 Financial assets at fair value through profit or loss

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

	31 December 2020 \$'000	30 June 2020 \$'000
Securities held by benefit funds	1,930,109	1,864,486
Securities held by subsidiaries	268,316	219,334
	<u>2,198,425</u>	<u>2,083,820</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:

	31 December 2020 \$'000	30 June 2020 \$'000
Equity trusts	1,388,890	1,291,630
Fixed interest and other debt security trusts	472,728	493,872
Mortgage trusts	12,554	23,249
Property syndicates and trusts	55,937	55,735
	<u>1,930,109</u>	<u>1,864,486</u>

(b) Securities held by subsidiaries comprise the following:

	31 December 2020 \$'000	30 June 2020 \$'000
Equity trusts	27,955	18,011
Fixed interest and other debt security trusts	228,671	190,931
Mortgage trusts	1,471	3,165
Property syndicates and trusts	10,219	7,227
	<u>268,316</u>	<u>219,334</u>

(c) Current and non-current split

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

	31 December 2020 \$'000	30 June 2020 \$'000
Current	2,182,623	2,070,692
Non-current	15,802	13,128
	<u>2,198,425</u>	<u>2,083,820</u>

9 Financial liabilities - Borrowings

	31 December 2020 \$'000	30 June 2020 \$'000
Current		
<u>Secured interest bearing liabilities</u>		
Mortgage offset savings accounts	134,638	128,798
Retirement Village Investment Notes	-	19,961
	<u>134,638</u>	<u>148,759</u>
<u>Secured non-interest bearing liabilities</u>		
Retirement Village Investment Notes	<u>1,693</u>	-
<u>Unsecured interest bearing liabilities</u>		
Series B Australian Unity Bonds		
Face value	-	71,326
Valuation at amortised cost	-	(194)
At amortised cost	-	<u>71,132</u>
Call deposits	743,321	494,553
Term deposits	259,320	384,388
Development finance loans	772	37,646
Loan payable to related entity	5,100	5,100
Total unsecured interest bearing liabilities	<u>1,008,513</u>	<u>992,819</u>
Total current borrowings	<u>1,144,844</u>	<u>1,141,578</u>
Non-current		
<u>Secured interest bearing liabilities</u>		
Retirement Village Investment Notes	<u>51,611</u>	18,401
<u>Unsecured interest bearing liabilities</u>		
Series C Australian Unity Bonds		
Face value	115,019	115,019
Valuation at amortised cost	(1,796)	(2,295)
At amortised cost	<u>113,223</u>	<u>112,724</u>
Series D Australian Unity Bonds		
Face value	207,000	207,000
Valuation at amortised cost	(2,997)	(3,480)
At amortised cost	<u>204,003</u>	<u>203,520</u>
Term deposits	14,909	39,225
Development finance loans	<u>44,500</u>	-
	<u>376,635</u>	<u>355,469</u>
Total non-current borrowings	<u>428,246</u>	<u>373,870</u>
Total borrowings	<u>1,573,090</u>	<u>1,515,448</u>

9 Financial liabilities - Borrowings (continued)

(a) Series B Australian Unity Bonds

Series B Australian Unity Bonds - Tranche 1 totalling to 250,000,000 at \$100 each were issued by the Company pursuant to the prospectus dated 9 November 2015, raising \$250,000,000. Series B Australian Unity Bonds were unsubordinated and unsecured simple corporate bonds listed on the Australian Securities Exchange (code: AYUHB). The bonds had a five-year term matured on 15 December 2020. In September 2019, a reinvestment offer was made to all eligible holders of these bonds to subscribe for the Series C and Series D Australian Unity Bonds issued by the Company on 15 October 2019 (refer to the below note) and fund their subscriptions by selling their Series B Australian Unity Bonds to the Company. As a result, 1,786,743 Series B Australian Unity Bonds were sold to the Company. The remaining balance of the bonds amounting to \$71,326,000 as at 30 June 2020 were redeemed for cash on their maturity date of 15 December 2020.

(b) Series C and Series D Australian Unity Bonds

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

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

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

Under the terms of the Series C and Series D Australian Unity Bonds, the Company is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by lease liabilities and the Company's unencumbered cash and cash equivalents. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Series C and Series D Australian Unity Bonds. The Covenant Gearing Ratio is determined by reference to the accounts prepared on the basis of the Australian Accounting Standards in place as at the date of the Base Prospectus. As at 31 December 2020, the Covenant Gearing Ratio was 27% (30 June 2020: 32%).

(c) Development finance loans

Development finance loans reported as current liabilities amounting to \$772,000 as at 31 December 2020 (30 June 2020: \$37,646,000) represented loan facilities from a related entity for the development of the Herston Quarter health precinct in Brisbane, Queensland.

Development finance loans reported as non-current liabilities of \$44,500,000 as at 31 December 2020 represented bank loan facilities for the development of Independent & Assisted Living properties and other development purposes. These loans bear interest at BBSY bid rate plus margin. As at 31 December 2020, these interest rates were 1.31% - 2.6% per annum.

(d) 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.

9 Financial liabilities - Borrowings (continued)

(d) Retirement Village Investment Notes (RVIN) (continued)

In July 2020, the Group issued Series 6 Retirement Village Investment Notes (RVIN) amounting to \$33,210,000 which have a three-year term and interest at a fixed rate of 5% per annum. This RVIN issue included early redemptions of Series 1 and Series 2 RVIN totalling \$11,218,000 which were rolled over into Series 6 RVIN. The net proceeds of \$21,992,000 from this RVIN issue will be used for general corporate purposes. In December 2020, the Group repaid maturing RVIN of \$7,049,000.

Total RVIN reported as interest bearing liabilities as at 31 December 2020 was \$51,611,000 (30 June 2020: \$38,362,000). RVIN that were due on 31 December 2020 of \$1,693,000 were reported as non-interest bearing liabilities and these were repaid in January 2021.

10 Other current liabilities

	31 December 2020 \$'000	30 June 2020 \$'000
Financial liabilities		
Refundable accommodation deposits	282,044	274,602
Resident loan liabilities	962,534	950,332
	<u>1,244,578</u>	<u>1,224,934</u>
Non-financial liabilities		
Unearned income	210,868	170,812
Other	8,658	7,466
	<u>219,526</u>	<u>178,278</u>
Total other current liabilities	<u>1,464,104</u>	<u>1,403,212</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 initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value

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

11 Fair value measurements

(a) Recognised fair value measurements

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

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2020.

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2020 and 30 June 2020 on a recurring basis:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2020				
<i>Recurring fair value measurement</i>				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	7,410	1,409,435	-	1,416,845
Fixed interest and other debt security trusts	408	700,991	-	701,399
Mortgage trusts	-	14,025	-	14,025
Property syndicates and trusts	21,589	44,567	-	66,156
Other financial assets	-	-	6,910	6,910
Total financial assets	29,407	2,169,018	6,910	2,205,335
Non-financial assets				
Investment properties	-	-	1,582,121	1,582,121
Total non-financial assets	-	-	1,582,121	1,582,121
Financial liabilities				
Interest rate swaps	-	10,953	-	10,953
Life investment contract policy liabilities	-	1,399,647	-	1,399,647
Total financial liabilities	-	1,410,600	-	1,410,600

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

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

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

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

Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

Investment properties

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

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations. The directors determine a property's value using a reasonable fair value estimate as applicable to each type of investment property. Where the fair value of the development sites cannot be reliably measured, they are recognised at cost.

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

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

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

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

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

The following table presents the changes in level 3 assets for the half-year ended 31 December 2020:

	Other financial assets \$'000	Investment properties \$'000	Total \$'000
Opening balance 1 July 2020	6,997	1,489,160	1,496,157
Additions	-	126,979	126,979
Commercial property rent received in advance	-	(41,415)	(41,415)
Fair value gains/(losses) recognised in other income*	(87)	7,397	7,310
Closing balance 31 December 2020	6,910	1,582,121	1,589,031

*Included in the gains/(losses) recognised in other income:

Unrealised gains/(losses) recognised in the profit or loss attributable to assets held at the end of the financial period

(87)	7,397	7,310
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11 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

Valuation inputs and relationships to fair value

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

Description	Fair value at 31 December 2020 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties, excluding non-retirement village development sites	1,582,121	Discount rate	13% - 14%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -\$16.7 million/+\$18.4 million (2020: -\$16.3 million/+\$18.0 million).
		Property growth rate	1% - 4%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +\$28.7 million/-\$26.1 million (2020: +\$28.1 million/-\$25.5 million).
		Average length of residents' stay	5-8 years for serviced apartments, 9-14 years for other independent living units	The higher the average length of stay, the lower the fair value.

Valuation processes

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

11 Fair value measurements (continued)

(b) Disclosed fair values

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

	31 December 2020		30 June 2020	
	Amortised cost \$'000	Fair value \$'000	Amortised cost \$'000	Fair value \$'000
Current and non-current assets				
Mortgage loans	896,553	896,787	902,710	902,974
Advances	2,270	2,100	4,000	4,000
	898,823	898,887	906,710	906,974
Current and non-current liabilities				
Australian Unity Bonds	317,226	313,095	387,376	390,275
Development finance loans	45,272	44,583	37,646	37,646
Retirement Village Investment Notes	53,304	57,281	38,362	40,390
Term deposits	274,229	274,209	423,613	423,518
	690,031	689,168	886,997	891,829

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

Non-financial assets and liabilities

12 Non-financial assets - Investment properties

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

	31 December 2020 \$'000	30 June 2020 \$'000
Retirement village independent living units	999,769	981,025
Development sites - retirement village independent living units	494,760	393,876
Development sites - other	87,592	114,259
Commercial property	41,415	-
Commercial property rent received in advance*	(41,415)	-
	1,582,121	1,489,160

12 Non-financial assets - Investment properties (continued)

(a) Movements of investment properties

	31 December 2020 \$'000	30 June 2020 \$'000
At fair value		
Balance at the beginning of the financial period	1,489,160	1,327,551
Additions	126,979	131,501
Commercial property rent received in advance*	(41,415)	-
Net fair value movements	7,397	30,108
Balance at the end of the financial period	<u>1,582,121</u>	<u>1,489,160</u>

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

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

	Half-year 2020 \$'000	2019 \$'000
Revenue	13,413	20,544
Expenses	(11,403)	(15,564)
Changes in fair value recognised in profit or loss	7,397	15,333
	<u>9,407</u>	<u>20,313</u>

13 Non-financial liabilities - Provisions

	31 December 2020 \$'000	30 June 2020 \$'000
Current provisions		
Employee benefits provision	56,616	55,396
Health insurance claims provision	105,054	89,052
Other provisions	4,120	4,448
	<u>165,790</u>	<u>148,896</u>

Health insurance claims provision

Health insurance claims provision represented provision made for outstanding claims and deferred claims. Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported or reported but not yet processed, the economic cost of which will arise in a later period. As at 30 June 2020, a specific claims liability had also been recorded for deferred claims estimated at \$37,613,000 that were a result of surgeries and other health services being restricted for policyholders as the impact of the COVID-19 pandemic. As the restrictions continued to October 2020, an additional deferred claims provision of \$13,760,000 was recorded for the current half year reporting period. There is a general expectation that as these restrictions are lifted there will be a catch up of procedures and benefits claimed in the future.

13 Non-financial liabilities - Provisions (continued)

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

	31 December 2020 \$'000	30 June 2020 \$'000
Outstanding claims - central estimate including risk equalisation	47,485	46,117
Risk margin	4,296	3,922
Claims handling costs	1,900	1,400
Outstanding claims provision	<u>53,681</u>	<u>51,439</u>
Deferred claims - central estimate including risk equalisation	43,719	32,002
Risk margin	6,269	4,603
Claims handling costs	1,385	1,008
Deferred claims provision	<u>51,373</u>	<u>37,613</u>
Total claims provision	<u>105,054</u>	<u>89,052</u>

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

	31 December 2020 \$'000	30 June 2020 \$'000
Balance at the beginning of the financial period	51,439	63,584
Claims incurred during the period	292,294	581,324
Claims paid during the period	(288,834)	(600,743)
Movements in other components	(1,218)	7,274
Balance at the end of the financial period	<u>53,681</u>	<u>51,439</u>

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

	31 December 2020 \$'000	30 June 2020 \$'000
Balance at the beginning of the financial period	37,613	-
Deferred claims provision incurred during the period	23,208	37,613
Unwinding of provision during the period	(9,746)	-
Movements in other components	298	-
Balance at the end of the financial period	<u>51,373</u>	<u>37,613</u>

Based on the evidence obtained through analysing health insurance claims activities during the period, the Group raised additional provision for deferred claims related to customers in Victoria up to the end of November 2020 and started to unwind the provision from December 2020. For all other states, the unwinding of the provision commenced from July 2020. In all cases, the unwinding period is expected to take 12 months from commencement.

14 Mutual Capital Instruments

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

14 Mutual Capital Instruments (continued)

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

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

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

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

Group structure

This section provides information that will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

15 Reconciliation of profit attributable to members of Australian Unity Limited

Half-year ended 31 December 2020

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	682,850	140,902	823,752
Expenses, excluding finance costs	(662,137)	(108,785)	(770,922)
Finance costs	(19,916)	-	(19,916)
Share of net profits of associates and joint ventures	1,196	-	1,196
Profit before income tax	1,993	32,117	34,110
Income tax benefit/(expense)	4,701	(32,117)	(27,416)
Profit after income tax for the half-year	6,694	-	6,694

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

Half-year ended 31 December 2019

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	693,504	71,450	764,954
Expenses, excluding finance costs	(669,178)	(61,921)	(731,099)
Finance costs	(20,810)	-	(20,810)
Share of net profits of associates and joint ventures	141	-	141
Profit before income tax	3,657	9,529	13,186
Income tax benefit/(expense)	4,735	(9,529)	(4,794)
Profit after income tax for the half-year	8,392	-	8,392

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.

16 Commitments

Capital commitments

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

	31 December 2020 \$'000	30 June 2020 \$'000
Investment property		
Within one year	33,017	74,717
Later than one year but not later than five years	48,694	64,953
Total capital commitments	81,711	139,670

In addition, the Group is engaged in a social infrastructure development project in Brisbane, Queensland, being the Herston Quarter Redevelopment Project. Under the overarching Development Agreement between Herston Development Company Pty Ltd (HDC - a wholly-owned subsidiary of the Group) and the Metro North Hospital and Health Service, HDC has committed to deliver various contractual milestones for each Stage of the Project, including but not limited to site services isolation/relocation and rehabilitation of Stage 5 of the Project (Heritage Buildings). These milestones are anticipated to be completed within the next two years with capital expenditure in the range of \$40 million - \$50 million.

17 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.

17 Contingencies (continued)

Guarantees

The Group has entered into bank guarantee arrangements totalling \$66,842,000 as at 31 December 2020 (30 June 2020: \$52,823,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group. Partially offsetting this, the Group is the beneficiary of insurance bonds/guarantees totalling \$1,718,000 (30 June 2020: \$1,718,000).

The Group had no other contingent assets or liabilities at 31 December 2020.

18 Events occurring after the reporting period

On 24 February 2021, the Board of Australian Unity Limited has determined an interim fully franked dividend of \$1.5342 per Australian Unity Mutual Capital Instrument to be paid on 15 April 2021. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2020 and will be recognised in subsequent financial reports.

The board is not aware of any other matter or circumstance arising since 31 December 2020 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

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

19 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2020 and 2019 were as follows:

- Property development management fees charged to related entities, \$210,679 (2019: \$1,325,256).
- Fees charged by related entities for the construction of aged care and retirement village properties, \$18,324,506 (2019: \$28,761,102).
- Purchase of retirement village units from related entity, \$79,152,752 (2019: \$nil).
- Dividends received from joint ventures, \$540,275 (2019: \$578,193).
- Investment management fees charged to joint ventures, \$1,528,739 (2019: charged by joint ventures \$405,251).
- Commission, director fees and other costs charged to joint ventures, \$100,512 (2019: charged by joint ventures \$275,555).
- Proceeds from disposal of investments in joint ventures, \$8,661,441 (2019: \$nil).
- Investment income from related entities, \$3,795,364 (2019: \$2,169,757).

19 Related party transactions (continued)

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

Balances with related parties as at 31 December 2020 with comparative amounts as at 30 June 2020 were as follows:

	31 December 2020	30 June 2020
	\$	\$
<i>Assets</i>		
Cash and cash equivalents	858,281,049	722,637,737
Trade and other receivables	839,704	4,119,699
Financial assets at fair value through profit or loss	538,965,546	553,931,228
	<u>1,398,086,299</u>	<u>1,280,688,664</u>
<i>Liabilities</i>		
Trade and other payables	351,659	2,784,543
Loans payable to related entities	5,872,344	42,745,747
	<u>6,224,003</u>	<u>45,530,290</u>

(b) Terms and conditions

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

In the directors' opinion:

- (a) the financial statements and notes set out on pages 11 to 40 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

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



Peter Promnitz
Chair



Rohan Mead
Group Managing Director & CEO

Melbourne
24 February 2021



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Australian Unity Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

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

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that appears to read 'Andrew Cronin'.

Andrew Cronin
Partner

Melbourne
24 February 2021