

Australian Unity Limited

ABN 23 087 648 888

Annual financial report for the year ended 30 June 2016

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Annual financial report - 30 June 2016

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

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

Peter Promnitz, Chair (appointed Chair 30 March 2016)
Rohan Mead, Group Managing Director & CEO
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director (appointed 1 February 2016)
Su McCluskey, Non-executive Director (appointed 1 September 2015)
Stephen Maitland, Non-executive Director
Greg Willcock, Non-executive Director
Glenn Barnes (Chair, retired 30 March 2016)
Eve Crestani (Non-executive Director, retired 29 February 2016)

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2016.

Principal activities

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

Dividends

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

Operating and financial review

During the year ended 30 June 2016, the Group progressed its ambition of creating community value with a sound commercial approach, by delivering a profit after income tax of \$35.6 million, an increase of \$1.0 million over last year's \$34.6 million. This was a solid outcome considering the integration and additional funding costs associated with the transfer to the Group in February 2016 of the home care operations of the New South Wales Government (Home Care NSW).

Total revenue and other income increased by \$141.7 million or 11.1 percent to \$1,420.7 million. Once again, this positive result flowed largely from operating revenue growth generated by the Group's business segments, particularly in Independent & Assisted Living as a result of the Home Care NSW acquisition. The increase in revenue and other income was achieved despite the impact of low interest rates throughout the year, investment market volatility and reduced benefit fund revenue.

Total expenses, excluding financing costs, increased to \$1,343.4 million (2015: \$1,196.3 million). This increase resulted from higher remuneration costs, again reflecting the scale of the Home Care NSW acquisition, and higher health insurance claims, but was somewhat offset by lower benefit fund expenses.

Overall, the outcome for the Group represented a sound improvement in operating earnings, up 19.9 percent from last year to \$48.3 million (2015: \$40.3 million).

The Group made key acquisitions in the areas of home care services, trust and estate administration services and healthcare services during the year, as detailed in note 21 to the consolidated financial statements. In particular, the Home Care NSW transfer added 50,000 clients and 4,300 employees to the Group. These acquisitions supplement the Group's ongoing focus on organic growth and support its broad strategy of providing a diverse, sustainable and commercially viable suite of health, wealth and living products and services that create community value. Community value involves providing value to individual members and customers, along with a broader social impact.

The Group's operations are conducted through four business segments: Healthcare; Independent & Assisted Living; Investments; and Personal Financial Services. Healthcare provides private health insurance, dental and other healthcare services, such as preventative health and chronic disease management services. Independent & Assisted Living is a provider of retirement communities, aged care facilities, home care and disability services. The Investments segment manages investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society it also provides banking products. Australian Unity Personal Financial Services provides financial planning, finance broking and insurance services and, as a result of an acquisition in the 2016 year, trust and estate administration services.

Operating and financial review (continued)

Key aspects of the operating, financial and strategic performance of each Group business during the 2016 year 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 other non-recurring expenditure.

A reconciliation between adjusted EBITDA and profit after income tax is disclosed in note 1 to the consolidated financial statements.

Healthcare

Overview

Australian Unity's healthcare platform combines the provision of health insurance with the delivery of healthcare services.

Australian Unity Healthcare provides individuals and families with insurance against the costs of hospital accommodation, theatre fees, prostheses, and health services including dental, optical and physiotherapy. It also supports members to self-manage their health risk factors and better manage their long-term conditions through telephone-based and home-based programs. In addition to supporting members to improve their health, these services also aim to reduce hospitalisations through these evidence-based programs.

The Healthcare platform has 239,558 policyholders throughout Australia. It also provides corporate health insurance through GU Health and dental services across six clinics. Its wholly owned subsidiary, Remedy Healthcare, provides evidence-based, integrated telephonic chronic disease management, mental health and in-home healthcare services in the country.

Financial performance

The Healthcare platform had a successful year despite the ongoing economic, structural and political challenges that private health insurers have been facing in the past five years.

Healthcare generated total segment revenue of \$863.8 million, which represents a \$38.8 million or 4.7 percent increase compared to the previous year. The main drivers of this increase in revenue were a \$34.0 million increase in health insurance premium income and \$6.1 million in higher healthcare services revenues compared to the previous year.

Adjusted EBITDA for the Healthcare platform was \$64.9 million, up \$8.7 million or 15.4 percent compared to the prior year. This solid result was principally driven by an improved underwriting experience for retail and corporate health insurance. Healthcare's adjusted EBITDA margin for the year was 7.5 percent (30 June 2015: 6.8 percent).

Total operating expenses were \$798.9 million which was \$30.1 million or 3.9 percent higher than the previous year. This increase was primarily due to a \$25.7 million or 3.4 percent increase in health insurance operating expenses-principally due to increased claims net of risk equalisation, policyholder acquisition costs and staff costs; and a \$4.4 million increase in healthcare services expenses attributed to higher business volumes, expenses associated with acquired businesses and investment in growth initiatives in Remedy Healthcare.

Australian Unity Health Insurance (retail health insurance)

The number of retail health fund policyholders increased by 1.6 percent to 205,476 at 30 June 2016 (2015: 202,175), slightly higher than the industry growth rate. Maintaining and slightly improving policyholder numbers was a sound achievement in a challenging year in which health costs continued to rise at a substantially faster rate than the rest of the economy, which results in pressure on health insurance premiums. These additional costs continue to drive policyholders across the industry to downgrade or drop their insurance cover altogether. It is in that context that the year on year increase in policyholder numbers should be considered.

In response to growing consumer demand for more affordable products, the fund also developed a basic product range and indications are that this product type will remain in demand for the foreseeable future.

The retail health insurance business continues to support the Members Own Health Funds venture, a collaboration between 15 not-for-profit and mutual health funds including Australian Unity to raise awareness of the difference in value proposition between member-based funds and the larger shareholder and overseas owned funds operating in Australia.

GU Health (corporate health insurance)

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively to the corporate market. GU Health increased its policyholders by 7.4 percent to 34,082 at 30 June 2016 (2015: 31,748).

Operating and financial review (continued)

Healthcare (continued)

During the year GU Health executed a strategy based on innovating and diversifying into communities beyond the corporate sector. While still maintaining its niche status, GU Health is exploring new markets and continues to work with its corporate and prospective community stakeholders to support long-term sustainability as a specialist fund.

Remedy Healthcare

Remedy Healthcare is a business that delivers on Australian Unity's social purpose to provide community value. During 2016 it passed the milestone of delivering more than one million episodes of care across its services.

Among its suite of preventative health care and hospital discharge support programs that help people more effectively self-manage emerging and existing conditions are its Hospital at Home and Rehabilitation At Home programs. These two programs are now utilised by almost all private health insurers in the country and have, over the past two years, reduced hospital claims by more than \$20 million. These programs result in positive quality of life outcomes for the individual, as they are supported to recover in their home environment. But the programs also help to reduce pressure on health inflation by reducing unnecessary hospitalisations or length of stay in hospital.

During the year under review, Remedy Healthcare undertook two key acquisitions: Adelaide-based physiotherapy company Mobile Physio, and Queensland-based nursing services provider Lincs Healthcare.

Remedy Healthcare's customer portfolio has diversified considerably over the year under review. The business was previously prominently serving the private health insurance market, however, this now constitutes less than half of total business revenue, with the remainder being made up of publicly-funded programs, corporate health employee programs, aged care services, and programs delivered to other private organisations.

Remedy Healthcare successfully launched its mental health program 'MindStep' in November 2015, at which time eight private health insurers had signed up as customers. MindStep is an evidence-based program for people suffering from anxiety and depression that is delivered in a non-traditional, yet demonstrably effective way. It was developed in collaboration with Flinders University in South Australia, having been adapted from a successful program operating in the United Kingdom.

Remedy Healthcare aims to provide this program to corporates, the public sector and other health insurers as well as Australian Unity members. By 30 June 2016 the program was being delivered on behalf of six private health insurers and was achieving recovery rates for clinical depression and anxiety of 59 percent. Recovery rates are measured using the PHQ-9 and GAD-7 clinical assessment scores.

The business launched its first clinic-based hydrotherapy Wellness Centre as part of Australian Unity's Rathdowne Place aged care facility in Carlton, Victoria. This was a joint initiative between Remedy Healthcare and the Independent & Assisted Living platform and was a first for Remedy in offering clinic-based allied health services within an existing care facility.

Remedy Healthcare was also successful during this year in securing a contract to provide public aged care services in Ballarat. This was a significant addition to the business and expanded its reputation in the public health system.

Dental

During the year under review, Australian Unity operated five dental clinics located in the Melbourne CBD, South Melbourne, Box Hill, Rowville and Hughesdale in Victoria. A sixth clinic in Moonee Ponds, Victoria opened in August 2016.

The number of patient visits to Australian Unity dental clinics during the year was 61,092 (2015: 61,638).

Challenges and Risk Management in Healthcare

General conditions for private health insurance across the industry continued to be challenging. Customers are experiencing increasing difficulty in paying for insurance costs since means testing on the private health insurance rebate was put in place in 2012. This policy change has led to an escalating and ongoing tendency for customers to downgrade their cover or abandon private health insurance altogether.

The underlying problem of health inflation—the number of times people are treated in hospital combined with the costs of the care they receive—is a challenge that needs to be tackled across the industry. So too is the level of waste in the health care system.

Remedy Healthcare was challenged by ongoing changes to funding models and regulations for health and aged care and by the continuous rising cost of care, combined with escalating demand. Remedy has mitigated the risk inherent in changes to the funding of health and aged care and the rising costs of health care across the board by changing its business models and diversifying its offering.

Operating and financial review (continued)
Healthcare (continued)

Outlook

Industry-wide customer churn continues to rise, as it has for the past several years, and consumers are moving from one health insurer to another as they attempt to address affordability issues.

The pressure on premium affordability is being exacerbated by a substantial rise in utilisation of health products and services—that is more care at a greater cost per care episode—much of which is unrelated to population ageing.

The business anticipates that consumers will continue to reconsider or downgrade their products as a flow-on effect of these environmental factors. Healthcare has commercial strategies in place to deal with these headwinds, including product design, however, it is also advocating for system-wide healthcare reform to deliver best community value and value for both public and private health spending.

Independent & Assisted Living
Overview

Australian Unity Independent & Assisted Living (previously Retirement Living) platform operates retirement communities and aged care facilities, as well as providing home care and disability services. These businesses are interconnected, delivering a continuum of care and service to meet the daily needs of clients.

During the year in review the business continued to invest significantly in its Home Services operations with the successful bid for NSW State Government's home care operations. The agreement was executed on 28 August 2015 and completion was, as scheduled, on 19 February 2016. As a result, 50,000 new clients and 4,300 staff joined Australian Unity.

The Independent & Assisted Living platform recorded strong growth during the year ending 30 June 2016. Total segment revenue increased to \$223.0 million (30 June 2015: \$106.8 million), representing growth of 108.8 percent compared to the previous year.

Australian Unity Independent & Assisted Living's adjusted EBITDA of \$24.8 million (2015: \$23.9 million) represents a growth of 3.6 percent compared to the previous year.

Home Services (incorporating Home Care & Disability Services)

As previously discussed, the Home Services business grew significantly during the year due to the transfer of Home Care NSW. The combined business now has more than 53,000 clients across New South Wales, Victoria and Queensland. More than 100 office locations were also added to the business as a result of the transfer.

The transfer of Home Care NSW also included a specialist Aboriginal Home Care service which provides culturally appropriate care for the Aboriginal community. Australian Unity is committed to maintaining the unique and important identity of Aboriginal Home Care and is proud to be one of the largest employers of Aboriginal and Torres Strait Islander peoples in NSW.

The business expects to deliver in excess of 3.5 million instances of home and disability care services in the 2017 financial year.

The roll out of the National Disability Insurance Scheme (NDIS) presents significant opportunities for both clients and the business. This is a natural extension of the business's philosophy, which revolves around client-directed care in its aged care and its other operations.

Multi-million dollar investments were made into client management and staff rostering software systems, including planned mobility solutions for all care staff and portal access for clients and their families. The business also established a 24/7 customer service hub in Parramatta, NSW. The new systems are designed to maximise care workers' time with clients and enable the business to continue to grow in scale and service provision. The roll out of such tools to support the business, its growth, service quality and future scale will continue in the 2017 financial year.

With the rapid growth of its workforce and an increasing number of people working remotely, often alone and in uncontrolled domestic situations, the business is placing an increasingly strong focus on health and safety, including the introduction of new support tools for managers and staff.

Operating and financial review (continued)
Independent & Assisted Living (continued)

Retirement Communities

The Independent & Assisted Living platform owns and operates 19 retirement communities in Victoria and New South Wales (NSW). Its portfolio consists of 2,110 (2015: 2,074) independent living units.

Retirement community occupancy was greater than 97 percent across the 12 month period to 30 June 2016. Fewer than 30 independent living units remained uncontracted across the portfolio as at 30 June 2016.

Development continued during the year at Sienna Grange and The Governors in Port Macquarie, NSW; The Residences at Rathdowne Place in Carlton, Victoria; Campbell Place in Glen Waverley, Victoria; and Lifestyle Manor in Bondi, NSW. Completion of these projects is planned to occur during 2017 with a total of 223 independent units to be added to the business' portfolio. The Peninsula Grange retirement community development will also continue throughout the 2017 financial year.

The Victoria Grange retirement community in Vermont South, Victoria, where construction was completed in June 2015, became fully occupied during the year under review, with settlement of the final units completed in December 2015.

The aged care business continues to be an important area of growth for Independent & Assisted Living and is a key component of the business' strategy to provide services that offer continuum of care. During the year its newest facility, Peninsula Grange in Mornington, Victoria, achieved 100 percent occupancy more than six months ahead of forecast. The business maintained 609 operational aged care beds throughout the year.

The business also commenced construction of Campbell Place Aged Care facility in Glen Waverley, Victoria on land where the previously decommissioned Wahroonga Aged Care facility had stood.

Occupancy levels at Australian Unity's aged care facilities remained very high at approximately 98 percent across the portfolio.

Overall price growth in retirement village units was approximately 3 percent which exceeded expectations and was largely due to strong property price growth experienced in the Sydney and Melbourne residential markets which flowed through to the business' retirement communities. The business' expertise in property management combined with the value delivered through its day to day operations and the careful selection of the location of communities are significant factors in the achievement of consistently strong price growth.

Development

Construction was either substantially progressed or commenced in the following communities:

Rathdowne Place - The Residences

Construction of the next component of the Rathdowne Place Wellbeing Precinct, to be known as The Residences, commenced in 2015. The Residences at Rathdowne Place in Carlton will offer a combination of 91 architecturally designed independent living apartments with premium facilities, allied health, home services and lifestyle services supported by the award-winning *Better Together* model of care.

Peninsula Grange, Mornington, Victoria

In March 2016 Peninsula Grange's community centre was officially opened. Sitting alongside a new pool, gym and library, the new community centre extension will provide residents of Peninsula Grange with a resort-style living experience in one of Australia's fastest growing coastal regions. A total of 36 new units were delivered at Peninsula Grange during the year in review and a further 50 units are planned for early in the 2017 financial year. Of the 36 units delivered, 33 of these were contracted as at 30 June 2016.

Lifestyle Manor, Bondi, New South Wales

The second and final construction stage of this premium retirement community in Bondi, NSW progressed significantly during the year despite delays as a result of bad weather. The final 42 units are 100 percent contracted and will commence settlement in August 2016. Once complete, Lifestyle Manor will consist of 85 independent living apartments and penthouses.

Campbell Place, Glen Waverley, Victoria (formerly Wahroonga Aged Care)

The Campbell Place redevelopment commenced in September 2015. Completion of the 102 bed aged care facility and 58 independent accommodation apartments is scheduled for the second half of the 2017 financial year.

Operating and financial review (continued)
Independent & Assisted Living (continued)
Development Funding

Collaboration with Australian Unity's Investments platform continued during the year with further development of alternative channels for development funding.

In September 2015, the business closed its second Development Fund, which invests in the Campbell Place Wellbeing Precinct. This Development Fund utilised third party capital-in conjunction with support from financiers-to fund the development. In June 2016, applications to invest in the third Development Fund, being the Sienna Grange Aged Care Facility in Port Macquarie, NSW, were closed, with applications to invest exceeding the funding required from external investors.

Given the increasing demand for quality retirement accommodation and the success of the Development Fund model, further investment opportunities are planned for the 2017 financial year.

Outlook

With the ongoing support of investor partners, the Independent & Assisted Living platform plans to increase the pace of its developments in the 2017 financial year, with six new developments under initial planning. The aforementioned development fund structure will be central to achieving these ambitions.

In addition, anticipated growth over the coming year is expected to be driven by further growth in Home Care & Disability Services through geographic and service expansion and the rollout of the National Disability Insurance Scheme.

Investments
Overview

Australian Unity's Investments platform plays a key role in helping people and their communities thrive by strengthening their financial wellbeing and developing key aspects of social infrastructure to meet community needs. It offers a range of financial products and services that meet the diverse investment needs and objectives of its customers.

The business also invests money raised from its customers into commercial and social infrastructure assets. It operates in Funds Management, Real Estate and Mortgages, Banking (Big Sky), investment bonds, funeral bonds, and education savings plans.

Conditions during the year included an ongoing downturn in commodity prices, fuller prices in the residential property market and downward movement in interest rates. Given these market conditions, the platform focused on developing investment options for clients in specialised vehicles while also building up its office, commercial and retirement village offerings.

Total funds under management, administration and advice were at \$9.59 billion at 30 June 2016 (2015: \$8.65 billion). This measure includes funds under management, as well as funds under administration and funds under advice in each of the Platypus, Federation Alliance and Big Sky financial planning businesses.

The Investments platform recorded a 14.8 percent increase in total segment revenue to \$123.1 million (2015: \$107.2 million). This result reflects a strong performance in a competitive and challenging environment for the asset management and banking businesses. Adjusted EBITDA increased by 36.8 percent to \$20.3 million for the year ended 30 June 2016 (2015: \$14.8 million).

Australian Unity Investments also manages the investment portfolio of the Australian Unity Group, which achieved an overall return of 3.6 percent (2015: 5.2 percent) on the Group's investment assets, including its capital stable and highly liquid insurance reserves, for the year ended 30 June 2016. This result was ahead of its objective of 2.7 percent.

During the year the Investments platform continued to improve the efficiency of its operating platform following the successful completion of the transition of its investment administration to BNP Paribas Securities Services.

Funds Management

The Funds Management business provides Managed Accounts and investment management of equities and fixed interest, primarily through its joint venture investment managers.

The Federation Managed Accounts platform reached \$290 million in funds under administration during the year (2015: \$226 million). As at 30 June 2016, Federation had 27 investment managers offering 96 managed fund options, six separately managed accounts, and full ASX and limited (developed countries) international direct shares for investors to choose from.

Importantly for this business, it received its superannuation license in May 2016 which will allow it to operate fully in the superannuation market.

Operating and financial review (continued)
Investments (continued)

Equities

Platypus Asset Management

Platypus Asset Management is a true-to-label growth manager with a long history of outperforming the Australian equities market. Platypus offers two core funds: a high conviction Australian equity portfolio and a systematic growth fund. During the year Platypus achieved strong returns for its investors, with both funds successfully outperforming the broader stock market by a significant margin.

Funds under management and advice	\$1.72 billion (2015: \$1.27 billion).
Performance for the year ended 30 June 2016:	
Platypus Australian Equities Trust	10.9 percent
Platypus Systematic Growth Fund	10.5 percent

Acorn Capital

Acorn Capital operates the largest and most experienced microcap/small cap investment teams in Australia. Its experienced team offers two investment capabilities across listed and unlisted Australian microcaps. The performance of the listed Acorn Capital Microcap Fund over the past year was very positive for investors, returning 14.9 percent. A loss of some institutional mandates during the course of the year saw a reduction in Acorn Capital's Funds under management.

Funds under management	\$497 million (2015: \$719 million).
Performance for the year ended 30 June 2016:	
Acorn Microcap Trust (wholesale)	14.9 percent

Wingate Asset Management

Wingate Asset Management is a specialist international equity manager that employs a benchmark unaware and value-oriented approach with a bias toward quality. For the 12 months to 30 June 2016, the MSCI World (ex Aust) \$A Net Dividends Reinvested Index achieved a 0.4 percent return. In a volatile global environment that saw short-term exuberance followed by periods of considerable pessimism, Wingate's funds continued to focus on the long-term by retaining a preference for companies with USD denominated earnings and highly cash-generative businesses that are attractively priced.

Funds under management	\$241 million (2015: \$251 million).
Performance for the year ended 30 June 2016:	
Wingate Global Equity Fund	(4.7) percent

Seres Asset Management

Seres Asset Management is Australian Unity's Hong Kong based investment manager that focuses on equity opportunities in the Asia Pacific region. In difficult and volatile Asian markets, the Seres team continued to apply its unique bottom-up fundamental approach to identify long-term regional and global industry leaders in early stages of development.

Funds under management	\$70 million (2015: \$60 million).
Performance for the year ended 30 June 2016:	
Seres Asian Equities Opportunities Fund	(6.1) percent in AUD terms (9.1) percent in USD terms

Fixed interest

Altius Asset Management

Altius Asset Management is a specialist fixed interest manager that employs an active and diversified strategy that aims to take advantage of the mispricing of bonds in all market conditions.

Funds under management	\$674 million (2015: \$608 million).
Performance for the year ended 30 June 2016:	
Altius Bond Fund	4.7 percent
Altius Sustainable Bond Fund	4.6 percent

Operating and financial review (continued)
Investments (continued)

Real Estate and Mortgages

The Real Estate business raises money from retail and sophisticated investors, and deploys it on hospitals and infrastructure to support an ageing population, as well as commercial property, retirement village development, and mortgage lending.

Total funds under management in Australian Unity's Real Estate Investment portfolio increased to \$2.21 billion at 30 June 2016 (2015: \$1.88 billion).

Australian Unity's Healthcare Property Trust has grown to become the largest fund of its kind in Australia, increasing its funds under management to \$1.06 billion (30 June 2015: \$697 million). For investors, the combination of long-term leases, quality tenants, rising demand and quality assets has meant the healthcare property sector was a strong performer over the past year, returning 20.0 percent for the year to 30 June 2016. Its strong growth can be attributed to new property acquisition and the completion of significant developments at a number of existing properties. In April the Trust was temporarily suspended to new investors until further notice because it was receiving more capital than needed for its then asset pipeline.

The Retail Property Fund achieved a 15.3 percent return for investors for the year ending 30 June 2016. Prominent activity during the financial year included the settlement of the Sunshine Homemaker Centre and, despite some mixed economic data across the sector, leasing success at both the Wairn Ponds Shopping Centre and the North Blackburn Shopping Centre. The Fund finished the year with occupancy of 95.6 percent (by area) and a weighted average lease expiry (WALE) of 5.11 years (by income).

The Australian Unity Office Property Fund achieved a return of 19.6 percent for the 12 months to 30 June 2016.

In June 2016, investors in the Australian Unity Office Property Fund voted overwhelmingly in favour of the proposal to list the Fund on the Australian Securities Exchange (ASX). Of those who voted, more than 99 per cent voted in favour of all the resolutions to give effect to the listing. The Australian Unity Office Fund began trading on the ASX on a conditional and deferred settlement basis from 20 June 2016. The Australian Unity Office Fund was the first A-REIT to list on the ASX in calendar year 2016 and trades under the ASX code 'AOF'. The initial public offering, which was made at \$2.00 per unit, was well oversubscribed and there was a high level of interest from both institutional and retail investors.

The Australian Unity Diversified Property Fund achieved a return of 19.5 percent for the year. Unitholder approval was received for a capital-raising to improve liquidity within the fund.

Mortgages

Equity support for the Australian Unity Select Mortgage Income Fund continued to grow from financial planning groups, generating strong recurring monthly flows. The lending portfolio grew solidly over the period to \$87 million at 30 June 2016.

Investors in Australian Unity's mortgage trusts continue to receive regular payments in line with the decision to wind up the Trusts and return capital to investors, with repayments to investors totalling \$75 million during the year.

Lifepan

Lifepan Australia Friendly Society (Lifepan) continues to be Australia's largest provider of investment bonds and funeral bonds, and a leading provider of education savings plans. Funds under management and administration increased to \$1.99 billion (2015: \$1.95 billion).

During the year sales of education solutions increased by 23 percent and surpassed \$149 million in funds under management.

With over \$679 million in funeral funds under management and 90,400 clients, Australian Unity has a leading position in the pre-paid funeral market via the specialised business Funeral Plan Management (FPM). During the year FPM broadened its business strategy to include a business-to-consumer proposition and further enhanced its online business management platform for funeral directors.

Big Sky

Big Sky Building Society continues to focus on providing a genuine alternative to the major banks, meeting Australians' every day banking needs.

Big Sky had a year of record growth and consistently outperformed its competitor groups, with loan growth at record levels (\$93 million of net loans during the period and net loan book growth of 15 percent). Big Sky now also provides its customers with a number of new tools and services, including an upgraded mobile banking application and enhanced online banking capabilities.

Operating and financial review (continued)

Investments (continued)

Big Sky (continued)

Big Sky's total on-balance sheet assets grew to \$862 million as at 30 June 2016 (30 June 2015: \$754 million).

Big Sky was again rated by S&P and maintained its BBB rating which is a very good result for an organisation of its size. Mobile and internet banking capability were upgraded and customers are now offered these services at the same standard as that of the four major banks. The introduction of fully online account opening and identification has removed the need for a physical 100 point check which was a first for Big Sky and Australian Unity.

Investments Strategy and Outlook

The strategy of Australian Unity Investments is to deliver a broad-but specific-range of financial solutions, directly or indirectly, to cater to the needs of clients over progressive life stages.

The platform aims to play a meaningful role in the design, development and future ownership of important health and related age care assets. The announcement, in August 2016, by the Queensland Premier of Australian Unity as the preferred tenderer of the \$1.1 billion Herston Quarter health precinct in inner-suburban Brisbane, is a key element of this strategic ambition.

Markets will most likely remain volatile into the next financial year. Resource stocks have suffered a downturn and will be likely to continue to be depressed. Investments in the major banks have likely peaked and interest rates are expected to remain low for the next twelve months. Combined, these factors mean specialist equities investment managers will need to find diversified investment opportunities in stocks other than the major banks and already well known large companies.

With these factors in mind, Australian Unity Investments' Strategy and Outlook for 2017 and beyond will continue to build on delivering differentiated, higher value products and services, focussing on:

- Maintaining its concentration on seeking diversification, including considering off-shore investments in the much larger and more diverse markets to be found in for, instance, the United States and Asia in industries such as technology and telecommunications;
- in anticipation of the yield from commercial property investment remaining solid, continued strategic development in this area;
- expanding into client segments which value specialist skills, such as the middle tier of ultra-high net worth clients, family offices, universities, and the like;
- exploring new capital markets and assets in healthcare and social infrastructure;
- clearly defining and testing its value proposition in banking, with an emphasis on digital delivery to customers;
- continued execution of prevailing plans while tilting resource allocation towards product, marketing and front-end digital tools; and
- further tightening the operating platform for the business.

The business will also continue to update its digital capacity to ensure it is able to communicate with, and provide services to customers in a contemporary manner that aligns with the way consumers wish to research and purchase products and services.

Personal Financial Services

The Australian Unity Personal Financial Services platform works with advisers and industry partners to provide professional advice that supports its clients' financial wellbeing, helping people and their communities thrive. With its partners and advisers, the business provides regular financial guidance and mentoring across most aspects of their clients' financial affairs, giving clients the information they need to make informed choices about their financial arrangements.

While the business has been significantly strengthened by a number of recent strategic acquisitions during the year, it was adversely impacted—particularly in the second half of the year—by regulatory changes that affected revenue and a number of external factors that shook investor and adviser confidence. The business was also impacted by restructure costs associated with preparing the Flinders Australia Limited business for offering traditional trustee services.

Fragile market conditions experienced later in the year under review combined to undermine investor sentiment and constrain the businesses revenue outcomes for the year to 30 June 2016.

Total segment revenue was \$65.6 million which represents a 15.3 percent increase from the previous year (2015: \$56.9 million). The Personal Financial Services platform's adjusted EBITDA decreased to \$2.2 million for the year ended 30 June 2015, compared to \$4.0 million in 2015.

Operating and financial review (continued)

Personal Financial Services (continued)

Funds under advice increased by 1.5 percent to \$6.02 billion (2015: \$5.93 billion). Funds under advice levels were impacted by some practices, as anticipated, leaving the recently acquired Premium Wealth Management business but the amount was strengthened by the acquisition of Flinders Australia.

Trust and estate administration services

Australian Unity Personal Financial Services completed a significant strategic acquisition in July 2015, purchasing estate planning and administration specialists Flinders Australia Limited. This acquisition has provided Australian Unity with a broader range of in-demand services for clients and members as well as the clients of their financial advisers and accountants.

A key focus for the business is to convert the Flinders Australia business to a fully licensed trustees business, which includes obtaining a trustee licence from the Australian Securities and Investments Commission, obtaining approval from the federal Treasury department, recruiting staff with the relevant skills and putting effective structures and business practices in place. This development work has required considerable effort and resourcing and had a negative impact on overall businesses profitability in the year ended 30 June 2016.

This acquisition strongly reflects one of the Personal Financial Services platform's principal business objectives: driving growth in complementary businesses that help improve financial wellbeing. Estate planning and trustee-type services are increasingly in demand as the population ages, with a growing number of Australians and their families requiring protection, support and certainty through what can be an extremely difficult time. Expansion into this business is directed toward providing an opportunity for middle income Australians to access these vital services. The market is currently dominated by services and products designed for people with high levels of wealth.

Financial Advice

Financial advice revenue grew by 4.8 percent during the year to \$53.2 million, largely due to the Premium Wealth Management acquisition and the growth of existing practices.

The number of financial advisers decreased marginally to 176 at 30 June 2016 (30 June 2015: 183), due to some practices, as anticipated, leaving the now-wholly owned Premium Wealth Management business after its acquisition in 2015. Offsetting this expected attrition arising from integration, the business recruited 10 new practices during the year. The adviser recruitment pipeline is encouraging and adviser numbers are expected to grow in the 2017 financial year.

The business continued to focus on the active level of support being provided by referring accountants, who are key partners in the delivery of high quality advice to clients. As a result of this focus, the number of accounting partnerships increased and at 30 June 2016 there were 354 accounting firms in the referral partner program (2015: 309).

The business positioned itself effectively in relation to legislative changes that now require accountants who provide advice in relation to the establishment of Self-Managed Superannuation Funds to either hold an Australian Financial Services Licence (AFSL); or be authorised by an AFSL holder; or work with a licensed or authorised financial adviser when providing SMSF advice. Australian Unity's ability to offer such support resulted in the induction of 79 accountants during the year. Accountants commercially associated with the advice business now number 354.

Finance broking and insurance services

Loans under advice were \$795 million at 30 June 2016, a 3.8 percent increase compared to \$766 million at 30 June 2015. The business recorded a decrease in the number of mortgage brokers to 20, from 22 in 2015. Growth in loans under advice was affected by the changes to investment lending practices and concerns about the future of negative gearing leading up to the Federal election in July.

Finance broking continued to trend upwards during the year ended 30 June 2016 and loan settlements were \$219 million compared to \$214 million for the previous year representing a 2.3 percent increase on the previous year.

Finance broking revenue also grew during the year and was \$2.53 million, marginally ahead of the previous year (2015: \$2.48 million).

The business also focused on transitioning the personal lines insurance business from being underwritten by Steadfast and CGU to QBE. This has resulted in a consolidated insurance offering that delivers improved commercial terms, premium reductions, superior products and an improved business partnership. This transition is aimed to assist by making a wider range of insurance offerings, including commercial and business insurances, available.

Revenue from general insurance grew to \$2.95 million representing an increase of 67 percent largely due to the acquisition of Waratah Insurance Brokers in March 2015 and a launch fund payment from QBE associated with the personal insurance lines transition.

Operating and financial review (continued)
Personal Financial Services (continued)
Strategies and outlook

The business is taking a proactive approach to addressing the challenges presented by regulatory change and market volatility. It is diversifying its revenue streams and building capacity in streams that will be higher quality investment options over time, such as general and life insurance and trusteeships, which better withstand market sentiment volatility.

The Personal Financial Services platform will continue its development into a financial services business designed to serve the growing needs of the community and providing community value. The business is well placed as a result of the Flinders Australia Limited acquisition and the opportunity this provides to offer trust and estate administration services to the wider business network of advisers, accountants, members and customers.

Priorities for 2017 and beyond include:

- Growing the number of financial advisers slightly in order to maintain a balance between scale and service, while concentrating efforts on strengthening the quality of their qualifications and expertise;
- Authorising partner accountants to meet requirements relating to SMSF advice through the customised offering that was developed during the 2016 financial year. Accountants with upgraded qualifications will be valuable across all parts of the business and will provide a sound base for revenue and relationship growth in the new financial year;
- Significantly expanding the trust and estate administration services business through expansion of the breadth of services offered and extension of the business into NSW and Queensland;
- Investing significantly in both embedding the newly acquired general insurance capability as well in further general insurance product development; and
- Achieving a high level of staff retention over the year, ensuring a focus on recruiting highly qualified people and investing considerably in professional development. This will allow the business to continue to provide a consistently high level of service to members and customers.

Significant changes in the state of affairs

Total members' funds increased to \$579,523,000 at 30 June 2016 (2015: \$542,879,000), an increase of \$36,644,000. This movement reflects profit for the year offset by movements in reserves.

Matters subsequent to the end of the financial year

In August 2016, Australian Unity Limited was selected by the Queensland Government as the preferred tenderer for the \$1.1 billion Herston Quarter project in Brisbane. The Company plans to develop and then take an ongoing role in an integrated health, ageing and research precinct in the Herston Quarter, which would provide Queenslanders with access to leading health, hospital and aged care services. The new project, integrated within the existing Herston Health Precinct, is designed to attract, train and retain the best clinicians, health workers, researchers, academics and students.

The Herston Quarter is adjacent to the Royal Brisbane and Women's Hospital in inner suburban Brisbane. The masterplan for the five hectare site includes a public rehabilitation hospital, a private hospital, residential aged care, retirement living and student accommodation, health research, childcare, a co-working hub and education and training facilities. Over the next few months the Company will work with the Queensland Government to document and finalise the contracts and the masterplan.

The board is not aware of any other matter or circumstance arising since 30 June 2016 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

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

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

The Group is subject to a wide variety of markets, particularly financial markets and property markets. Note 20 contains an explanation of the Group's approach to market risk management.

Environmental regulation

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

Information on directors

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

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

ROHAN MEAD, Group Managing Director & CEO

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

MELINDA CILENTO, BA, BEc (Hons), MEc

Ms Cilento was appointed to the board of Australian Unity Limited on 1 May 2014. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Human Resources, Remuneration and Nominations Committee and the Investment Committee, and a member of the Risk Committee. She is also a director of Woodside Petroleum and Co-Chair of Reconciliation Australia. In addition to her directorships, Melinda is a member of ASIC's External Advisory Panel, the NAB Advisory Council of Corporate Responsibility, the advisory council of the Australian Scholarship Foundation, and is a part time commissioner with the Productivity Commission. Melinda worked for eight years with Australia's leading CEOs at the Business Council of Australia, including four years as Deputy Chief Executive. Prior to joining the Business Council she was Head of Economics at Invesco Australia. Melinda has also worked with the Federal Treasury and International Monetary Fund in Washington D.C. Ms Cilento was a director of Wesfarmers General Insurance until June 2014. Ms Cilento has not held any directorships of listed entities in addition to those set out above during the last three years.

PAUL KIRK, B Ec., ACA, RITA, MAICD

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

Information on directors (continued)

SU MCCLUSKEY, BComm, FCPA, MAICD

Ms McCluskey was appointed to the board of Australian Unity Limited on 1 September 2015. She is a director of a number of Australian Unity Limited subsidiaries and a member of the Human Resources, Remuneration and Nominations Committee, Investment Committee and Audit and Compliance Committee. Ms McCluskey is the immediate past Chief Executive Officer of the Regional Australia Institute. She is a member of the Ministerial Advisory Council on Skilled Migration. Ms McCluskey was also a member of the Harper Review of Competition Policy and the Regional Telecommunications Independent Review Committee. Ms McCluskey was previously the CEO of the Council of Rural Research and Development Corporations and the Executive Director of the Office of Best Practice Regulation. Ms McCluskey has held senior positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is also a beef cattle farmer. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

STEPHEN MAITLAND, BEc, MBus, LLM, FCPA, FAICD, FCIS, SFFin

Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, Chair of the Audit and Compliance Committee, and a member of the Investment Committee and Risk Committee. He is a director of the Royal Automobile Club of Queensland Limited, QInsure Ltd and of several private companies. He is also chair of the Audit and Risk Committee of the Public Trustee of Queensland, and is an independent member of several audit and compliance committees and past President of the Queensland Division of CPA Australia. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 40 years' experience in the banking and finance industries and was Chief Executive Officer of the Queensland Office of Financial Supervision between 1992 and 1999. He was previously a director of Centrepoin Alliance Limited. Mr Maitland has not held any directorships of listed entities in addition to those set out above during the last three years.

GREG WILLCOCK, BComm, FCPA, FAICD, MAIM, F Fin

Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is Chair of Big Sky Building Society Limited, a director of a number of Australian Unity Limited subsidiaries, Chair of the Risk Committee and a member of the Audit and Compliance Committee. Mr Willcock is also a director of the Customer Owned Banking Association (COBA), the industry advocate for Australia's customer owned banking sector and is a director of Australian Unity Investments Real Estate Limited which is the Responsible Entity for the listed Australian Unity Office Fund. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Australia Bank in the areas of risk management, strategy and change management. Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

GLENN BARNES, B Ag Sc (Melb), CPM, FAMI, FAICD, SF Fin, FRSA

Mr Barnes retired as a director and Chair of the board of Australian Unity Limited on 30 March 2016. Mr Barnes was also chair of a number of Australian Unity Limited subsidiaries, a member of the Human Resources Remuneration and Nominations Committee and all other board committees. He is a professional director and consultant and is currently Chair of Ansell Limited and a director of a number of private interest companies. Mr Barnes has over 20 years of governance experience in banking and financial services, business information, consumer goods and the not-for profit sector. He was involved in the packaged goods, banking and financial services sectors for over 30 years, as an executive, business leader and director in Australia, New Zealand, the United Kingdom, United States of America, Republic of Ireland, Japan and China. He has also held a number of regional and global leadership roles. Mr Barnes has not held any directorships of listed entities in addition to those set out above during the last three years.

Information on directors (continued)

EVE CRESTANI, Dip Law (BAB), FAICD

Ms Crestani retired as a director of the board of Australian Unity Limited on 29 February 2016 after twenty years. During her tenure Ms Crestani has served as Chair of the Human Resources, Remuneration and Nominations Committee and the Risk Committee and as a director of a number of Australian Unity subsidiary boards. Ms Crestani is a director of Australian Unity Investments Real Estate Limited, Seres Capital Management Limited (Caymans) and Seres Asset Management Limited (Hong Kong), Zurich Financial Services Australia Limited and Zurich Australia Limited, and booking.com Limited. She is a former chair of Mercer Superannuation Australia Limited, and Mercer Outsourcing (Australia) Pty Limited. Ms Crestani is a professional director and business consultant with a background in law and management. Her career spans over 35 years with her primary focus being financial services and professional services industries. Ms Crestani is a member of the ASX Appeal Tribunal, has a Diploma of Law and is a founding fellow of the Australian Institute of Company Directors. She consults on property and workplace transformation strategies and design. She has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

MELINDA HONIG, BEc, LLB, GAICD, General Counsel, Company Secretary & Chief Risk Officer

Ms Melinda Honig joined Australian Unity in February 2016, as General Counsel, Company Secretary, and Chief Risk Officer. In her role Ms Honig is responsible for managing the Group's Legal, Compliance, Risk, and Secretariat function. She is also secretary for all Group subsidiary boards. Prior to joining Australian Unity, Ms Honig worked for GE for 15 years, five of those years with GE Capital in the role of General Counsel, overseeing the provision of legal services to GE Capital's commercial finance, consumer finance and insurance businesses in Australia and New Zealand. Ms Honig brings to Australian Unity her executive experience in legal, compliance and company secretary functions and has worked abroad as Counsel for GE Indonesia, in operations which included transportation, energy and GE Capital. Prior to joining GE, Ms Honig was at KPMG for 5 years and undertook her legal training in Tax at KPMG.

CATHERINE VISENTIN, GIA(Cert), Assistant Company Secretary

Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 20 years of involvement with the Australian Unity Limited Company Secretarial function.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2016, and the numbers of meetings attended by each director were:

	Board		Audit and Compliance Committee		Risk Committee		Investment Committee		Human Resources, Remuneration and Nominations Committee	
			A	B	A	B	A	B	A	B
	A	B	A	B	A	B	A	B	A	B
Peter Promnitz	14	14	2	2	4	4	6	6	6	6
Rohan Mead	14	14	8	8	4	4	6	6	6	6
Melinda Cilento	14	14	3	3	2	2	6	6	6	6
Paul Kirk	6	6	2	3	-	-	-	-	1	1
Su McCluskey	11	11	4	4	-	-	4	4	3	3
Stephen Maitland	12	14	8	8	4	4	6	6	-	-
Greg Willcock	13	14	7	8	4	4	-	-	-	-
Glenn Barnes	10	11	6	6	3	3	5	5	5	5
Eve Crestani	10	10	5	5	-	-	-	-	4	4

A = Number of meetings attended

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

Remuneration report

This Remuneration report relates to Company performance for the year ending June 2016 and all incentives payable in respect of that performance. The report is structured as follows:

1. Overview
2. Key terms
3. Remuneration framework
4. Senior Executive remuneration
5. Non-executive director remuneration
6. Remuneration tables

This Remuneration report sets out the remuneration information for Australian Unity Limited and the entities it controls (Australian Unity or Group) for the year ending 30 June 2016. It has been prepared and audited as required by the *Corporations Act 2001* (the Act). The report covers all Key Management Personnel of the Group.

1. Overview

Australian Unity is an independent mutual company that operates on commercial principles with a social purpose and is governed by its members. Profits are reinvested into the growth of member and customer wellbeing services and products. The Company has a stated ambition to enable millions to enjoy wellbeing.

The Australian Unity business is substantial and complex with several different business streams that span a number of industries. Each of the business areas is heavily regulated and has complex market dynamics. High quality executives, senior managers and specialists are required to run these diverse and complex businesses effectively, efficiently and productively. Stringent regulatory fit and proper requirements for directors and some staff are mandatory.

A comprehensive description of the Group's activities and highlights for the year is included in the Operating and financial review section of the Directors' Report.

Australian Unity's remuneration framework plays an important part in driving the successful performance of the Group and in turn the creation and delivery of value for members. The Human Resources, Remuneration and Nominations Committee ('HR Committee') has particular regard to the purpose and structure of the Company, business strategies, market conditions and the expectations of relevant stakeholders in establishing and recommending the overall remuneration framework and its governance to the board.

The remuneration framework is consistent with the previous year and has been benchmarked and monitored to ensure it is:

- Effective in linking remuneration arrangements with both Group and business unit short and long term performance and risk management;
- Effective in attracting and retaining the talent required for sustainable business performance and growth; and
- Reflective of relevant and current market practices.

To attract and retain the high calibre of staff required by the business, the HR Committee sets remuneration structures that are competitive in the Australian marketplace. The HR Committee believes the existing remuneration framework and the rates of remuneration paid to directors, senior executives, and staff are appropriate in the competitive environment.

In 2016, Australian Unity made enhancements to the metrics used to evaluate business performance and govern incentives. The enhancements broaden the measures that evaluate business contribution, and ensure that the Group has the necessary insight and control to maximise the benefit to members and customers.

The remuneration arrangements have also been designed to maintain alignment with the members' interests (both short and long term). Accordingly, executive remuneration comprises both short and long term elements, elements which are fixed and elements where payment is variable according to performance. These arrangements enable Australian Unity to attract and retain talented people who are vital to delivering current services, and achieving Australian Unity's long term strategic aspirations to have sustainable and successful business.

Melinda Cilento
Chair, HR Committee.

Remuneration report (continued)

2. Key terms

Throughout this report, the following terms have the meaning indicated below:

'Company' means Australian Unity Limited

'Key Management Personnel' or 'KMP' means those persons having authority and responsibility for planning, directing and controlling the activities of Australian Unity Limited and the Group, directly or indirectly. During the year under review the Key Management Personnel were:

Non-executive director	Position
Peter Promnitz	Chair – appointed 30 March 2016, Non-executive Director
Melinda Cilentio	Non-executive Director
Paul Kirk	Non-executive Director – appointed 1 February 2016
Su McCluskey	Non-executive Director – appointed 1 September 2015
Stephen Maitland	Non-executive Director
Greg Willcock	Non-executive Director
Glenn Barnes	Chair – retired 30 March 2016
Eve Crestani	Non-executive Director – retired 29 February 2016

Senior Executives	Position
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Investments
Amanda Hagan	CEO Healthcare
Kevin McCoy	Chief Financial Officer
Derek McMillan	CEO Independent and Assisted Living

'Senior Executives' means the Group Managing Director and all executives who report to the Group Managing Director. This includes all senior managers (within the meaning of the Act) and all Key Management Personnel except non-executive directors. The table above includes only those Senior Executives who are also Key Management Personnel.

3. Remuneration framework

3.1 Human Resources, Remuneration and Nominations Committee (HR Committee)

Australian Unity's remuneration framework is overseen by the HR Committee, which is composed of four non-executive directors, with significant experience in remuneration matters and risk management. The HR Committee is responsible for the Group's remuneration policy and structure and making recommendations on director, executive and key risk personnel remuneration arrangements to the boards of the Company and its relevant subsidiaries.

The composition and functions of the HR Committee are set out in the HR Committee's charter and described in Australian Unity's corporate governance statement.

3.2 Advisers to the HR Committee

The HR Committee seeks advice from external advisers from time to time. For advice on matters pertaining to the remuneration of Key Management Personnel, the HR Committee has retained the services of Godfrey Remuneration Group Pty Limited (Godfrey Remuneration). During the 2016 financial year Godfrey Remuneration conducted an annual review of remuneration for executives and non-executive directors. Godfrey Remuneration confirmed that the remuneration paid to non-executive directors and executives during the year was appropriate given the competitive market, see attached letter.

The amount paid or payable to the Godfrey Remuneration Group during the year was \$5,610 including GST.

Godfrey Remuneration is an independent remuneration adviser, and is engaged only to provide remuneration advice to the Australian Unity Board. To ensure that the making of its remuneration recommendations are free from any possible or perceived influence by management, Godfrey Remuneration is retained directly by the HR Committee and reports directly to it through the chair of the committee.

As a term of its retainer, the HR Committee has obtained confirmation from Godfrey Remuneration that it was suitable for appointment as an independent adviser, that it has not provided advice to Australian Unity or any of its management team over the last three years except in this capacity, that it does not have a relationship with any member of the management team, and that it would not provide advice to management of Australian Unity during the period of its appointment as an independent adviser.

Remuneration report (continued)

3.3 Remuneration policy, principles and relationship with company performance and risk management

Australian Unity's remuneration framework applies to all directors, officers and employees within Australian Unity. It includes a remuneration policy, which outlines how employees are rewarded for their contribution to and achievement in the organisation. The policy is reviewed by the HR Committee and board on an annual basis and has remained consistent this year with prior years. Relevant external advice is sought on the remuneration framework and market practices are reviewed to ensure it remains relevant and comparable to the market. The key principles of the policy are to:

- Provide competitive rewards to attract, motivate and retain highly skilled employees;
- Establish goals and apply measures of performance that support Australian Unity's strategy; and
- Balance fixed and variable (short and long term) rewards to encourage behaviour that supports the long term strategic development, sustainability and financial soundness of Australian Unity.

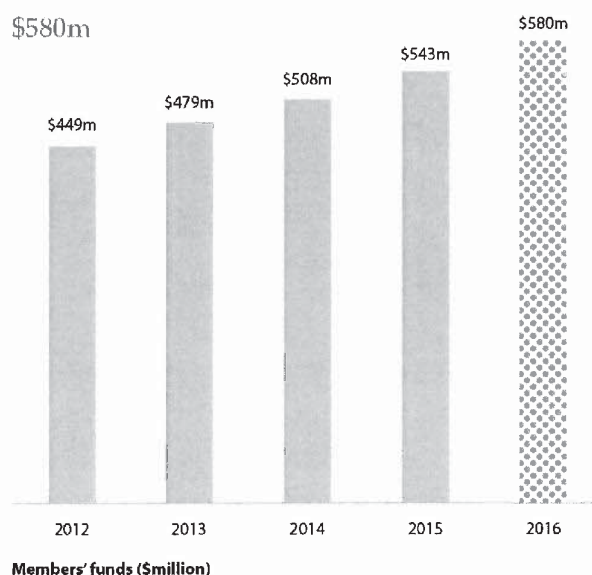
To deliver high quality wellbeing products and services in a sustainable manner the Group needs to be commercially successful and grow the business while effectively managing risk. Australian Unity generates profits to provide the capital necessary to sustain and extend services over the long term. As a result, Australian Unity's strategic objectives and performance measures are set by reference to both financial and non-financial objectives.

In so far as financial objectives are concerned, the short term performance measures for Key Management Personnel are primarily profitability based and the long term performance measures that apply for payments to KMP in this financial year are primarily net asset growth based.

In respect of the short term measures, the Group's financial performance relative to the 2015 year (measured by profit after income tax) is relevant. The short term performance payments in this report were paid to reward the \$35.6 million profit achieved in 2016. This profit was an increase from the 2015 year and the short term incentives paid recognised the performance of the different divisions and of the Group.

The Group's net asset position attributable to members over the long term (sometimes referred to as members' funds) has shown a steady increase. Refer to figure 1. This metric is used to determine the payment of long term incentives, which are based on the rate of growth over the prior three years.

Figure 1: Members' funds over the last five years



When approving remuneration increases and performance payments, the board and the HR Committee also have regard to non-financial objectives, which include measures such as customer satisfaction with the services provided, staff engagement and productivity, brand growth and risk and compliance management. Over the 2016 financial year, Australian Unity built on the steady growth in customer and member services, in both volume and breadth, of recent years. A number of the other relevant key performance highlights are set out in the 2016 annual report, which is attached to this report and available online at australianunity.com.au.

Remuneration report (continued)

4. Senior Executive Remuneration

4.1 Remuneration Mix

Senior Executive remuneration comprises fixed remuneration and variable remuneration. There are two components of the variable remuneration: a short term incentive and a long term incentive.

Senior Executive Remuneration		
Fixed remuneration	Variable remuneration	
Fixed Remuneration	Short Term Incentive (1 year assessment period)	Long Term Incentive (3 year assessment period)

The precise mix of fixed and variable remuneration varies depending on the role, seniority of the executive and their goals and responsibilities. For all executives, it is possible that no variable remuneration will be earned if performance conditions are not met. For further details of the relative proportion of fixed and variable remuneration of KMP see table 6.2.

All remuneration, both fixed and variable, is cash based. As a mutual, Australian Unity does not issue shares or options, and therefore it is not possible for any director or executive to have shares or options in Australian Unity. Directors and executives may have participated in the issue of Australian Unity Bonds during the year but if so, they did so in their private capacity at market rates/terms and no bonds were provided to any director or executive as part of their remuneration.

4.2 Fixed remuneration

Each Senior Executive's fixed remuneration comprises base salary and benefits such as the superannuation guarantee, which are agreed as part of any appointment or review. Fixed remuneration is based on the individual's role, job accountability and experience, and similar roles in the job market.

To ensure that Senior Executive remuneration remains consistent with Australian Unity's remuneration policy, remuneration is reviewed annually by the HR Committee and, where required, external remuneration advisers. In conducting the remuneration review the following factors are considered:

- Group and business unit performance against financial, strategic and operational goals;
- Individual skills and competencies, together with performance against goals in the short term incentive program; and
- External market data.

Increases have been made to fixed remuneration for executives over the past few years to reflect the market. Further details of individual KMP fixed remuneration during the year under review are set out in table 6.1.

4.3 Variable remuneration

In addition to fixed reward, each Senior Executive may be offered the opportunity to participate in a short term (STI) and a long term (LTI) incentive scheme.

Payment under each scheme is dependent upon the executive achieving minimum performance hurdles. The board can adjust these variable components of remuneration downwards, to zero if appropriate, if such adjustments are necessary to protect the financial soundness of the Group or to respond to significant unexpected or unintended events. These decisions can take into account prior year's outcomes. Participation in the scheme is also subject to all relevant laws in respect to remuneration.

4.3.1 Short Term Incentive: Senior Executives except Group Managing Director

Australian Unity's short term incentive (STI) scheme is designed to reflect and reward the achievement of annual goals and the quality of contributions to Australian Unity's growth and development. Senior Executives and selected managers at Australian Unity who have a significant impact on the business and its success may be invited to participate in a short term incentive scheme. Under the scheme, participants have the opportunity to receive an annual cash incentive depending on that individual's performance during the year and their duties and responsibilities.

The annual performance goals and measures of Senior Executives are set by the Group Managing Director in consultation with the HR Committee. These performance conditions are designed to support growth and the provision of sustainable and high quality services to its customers and members and are in line with market practice. They include the following:

- Group financial performance (for example profit before tax and profit after tax);
- Divisional financial performance and other key financial metrics (for example divisional profit);
- Customers, people and operations (for example customer satisfaction and staff engagement);
- Risk and compliance management; and
- Strategy development and implementation.

Remuneration report (continued)

The performance of each executive is reviewed by the Group Managing Director in consultation with the HR Committee at the end of each year. This review assesses achievements against the set performance conditions.

In each case, actual reward received is dependent on achieving minimum performance outcomes. To achieve maximum reward, the recipient must achieve exceptional business and individual performance outcomes. A reward is not paid to anyone who, prior to the payment date, has resigned, given notice, or has been dismissed. Exceptions may apply in certain limited circumstances beyond the executive's control.

4.3.2 Long Term Incentive: Senior Executives except the Group Managing Director

Australian Unity's long term incentive (LTI) scheme is designed to reflect and reward executives' and managers' medium to long term goals and contributions to the Group.

It is designed to motivate and reward performance against longer term goals, including longer term value creation, support for Australian Unity's risk management framework and long term financial soundness.

The Group Managing Director, in consultation with the HR Committee, determines the participants who will be offered the opportunity to receive performance rights, as well as the number of performance rights they will be offered, based on their job size, nature and the balance of their remuneration package. The performance rights are subject to the achievement of a continuous service condition (usually three years from grant, with some limited provisions for early no-fault termination). Performance rights may be forfeited for any action that would justify termination of employment or the like.

Australian Unity's LTI grants feature a three-year timeframe and capped benefits. The target benefit is determined as a percentage of participants' Total Employment Cost (TEC). The number of performance rights exercised will depend on actual growth in member funds relative to performance targets. The LTI has a requirement to be self-funding which means that in assessing the performance for calculation of any incentive payments, the cost of such payments must first have been included in the financial performance.

The board this year reviewed and approved refinements to the STI and LTI schemes to better reward sustained performance. From the 2017 financial year onwards, the STI and LTI schemes will be combined into a Value Creation Incentive Scheme. The Value Creation Incentive Scheme aims to ensure rewards reflect sustained multi year performance. Its design includes the payment of a variable reward against three-year performance targets. Payment of two-thirds of any outperformance is deferred and paid over the following two years subject to acceptable performance being maintained.

Due to the planned introduction of the Value Creation Incentive Scheme, an LTI offer was not made in 2016. It is planned that any existing entitlements for the 2014 and 2015 schemes, which would have been due to be rewarded in 2017 and 2018 respectively, will be replaced by participation in the Value Creation Incentive scheme. The Scheme will be explained fully in the 2017 Remuneration Report, as that will be the year the scheme is first applied.

The payment of LTI in 2016 relates to the maturation of the 2013 LTI grant which is measured against the compound growth in member funds.

The description and examples that follow focus on the methodology that determined actual remuneration outcomes in 2016, ie, the 2013 grant, which was based on compound annual growth in members' funds.

The performance rights have no value unless a threshold Growth Rate is achieved before the maturity date. The board retains discretion to adjust the LTI arrangements either partially or fully to address any unusual changes in members' funds or potential impact on the Group.

The LTI for the period from 1 July 2013 to 30 June 2016 operates as follows:

Grant: A specified number of performance rights are allocated to the selected participants. The following requirements are set by the board, reflecting its assessment of the appropriate levels of performance incentive. These requirements also reflect the prevailing economic circumstances and the needs and challenges facing the Group in the medium and long term:

- **Performance Period:** A required continuous service period of three years from a Commencement Date (1 July of the financial year of grant) through to a Maturity Date (usually 30 June of the third financial year);
- **Threshold Rate:** A Threshold Growth Rate, reflecting the board's base level growth expectation for the Group. For example, under the LTI granted in October 2013, the required Threshold Growth Rate was 6.5 percent per annum compound;
- **Target Rate:** A Target Growth Rate, reflecting the target rate the board wants the participants to achieve. By way of example, under the LTI granted in October 2013 the required Target Growth Rate was 7.35 percent per annum compound; and

Remuneration report (continued)

- **Cap Rate:** There is no entitlement to any increase in value above the cap rate set by the board (which was set at 11.7 percent in the October 2013 grant offer) although it is open to the board, in its sole discretion, to attribute some increase in value.

Maturity:

- **Step 1 - Determining the number of rights available for exercise:** If the Threshold Rate is not achieved by the Maturity Date, no performance rights may be exercised. If the Target Growth Rate is achieved or exceeded, all performance rights may be exercised. Between Threshold Rate and Target Rate the number of performance rights which may be exercised increases on a straight line between the Threshold Rate (at which zero percent is available) and the Target Rate (at which 100 percent is available).
- **Step 2 - Calculating the value on maturity:** the value of each performance right on maturity is calculated as follows:
 - The value of a notional performance right is calculated, equal to \$10, augmented by the Adjusted Growth Rate (compound percentage per annum) over the Performance Period. 'Adjusted Growth Rate' means the actual Growth Rate, provided it is equal to or below the Target Rate. If the actual Growth Rate exceeds the Target Rate, the Adjusted Growth Rate equals the Target Rate plus 50 percent of any excess over the Target Rate, up to the Cap Rate (while no entitlement exists beyond the Cap Rate, the board retains sole discretion to attribute some increase in value);
 - The notional strike price is set at \$10, augmented by the Threshold Rate over the Performance Period; and
 - The notional strike price is deducted from the notional performance right value to determine the value of each performance right.

Illustrative Example:

Assuming the Threshold Rate was 6.5% and the Target Rate was 7.35%, and 100,000 performance rights were allocated to an executive;

And assuming an actual growth rate of 6.84% was achieved over the period of the three-year performance plan;

Then:

- The number of rights available for exercise would be 40%, or 40,000 (this is because the 6.84% actual growth rate amounts to 40% of the difference between the Threshold Rate and the Target Rate);
 - Each performance right would be worth \$0.12. This is calculated using the formula: notional performance right less notional strike price;
 - Notional performance right is \$10.00 plus three compounding increments of the actual growth rate (in this case 6.84%) = \$12.20;
 - Notional strike price is \$10.00 plus three compounding increments of the threshold growth rate (in this case 6.5%) = \$12.08;
 - Therefore each performance right is \$12.20 less \$12.08 = \$0.12; and
 - Total value at Maturity of all Performance Rights = \$0.12 x 40,000 = \$4,800.
-

Remuneration report (continued)

The LTI for the periods from 1 July 2014 to 30 June 2017 and 1 July 2015 to 30 June 2018 will operate as follows:

Grant : A specified number of performance rights are allocated to the selected participants. The revised Target Financial Performance target is that set in the Group's strategic plan for the period adopted by the board in May 2014. All other major terms and conditions remain as previously specified.

Maturity:

- Step 1 - The achieved financial performance is assessed against the target financial performance by comparing the actual financial returns generated in the final year against those targeted in the strategic plan. The measure is the difference between after tax returns excluding funding costs and notional returns resulting from the product of the weighted average cost of capital employed and the capital employed.
- Step 2 - The value of each performance right (except those which have been forfeited) is then determined as follows:
 - (a) If the Achieved Financial Performance is lower than the Target Financial Performance:
Exercise Value = nil.
 - (b) If the Achieved Financial Performance is equal to the Target Financial Performance:
Exercise Value = \$100 x 0.3333 = \$33.33
 - (c) If the Achieved Financial Performance exceeds the Target Financial Performance by 15%:
Exercise Value = \$100 x 1.0000 = \$100.00
 - (d) If the Achieved Financial Performance exceeds the Target Financial Performance by 30%:
Exercise Value = \$100 x 1.666 = \$166.66
 - (e) Even if the Achieved Financial Performance exceeds the Target Financial Performance by more than 30% the exercise value is capped \$166.66. There is no entitlement to any increase in value above this level but it is open to the board, in its sole discretion, to attribute some increase in value.
 - (f) If the Achieved Financial Performance compared with Target Financial Performance lies anywhere between the two points specified in clause (b) and clause (d) then the Exercise Value is calculated proportionately on a linear basis.
 - (g) LTI is required to be self-funding and so all calculations of Achieved Financial Performance are after deducting from the gross financial results the cost of providing the value of the Performance Rights. Consequently if the Achieved Financial Performance before providing for the value of Performance Rights is only marginally above the Target Financial Performance then the amount provided for Performance Rights will be limited to the excess over Achieved Financial Performance and may be less than specified in (b).

Illustrative Examples:

Assuming the financial performance in the base year calculated as the excess return over the cost of capital employed was \$8 million and that stipulated in the strategic plan for the final year was \$18 million so that the Target Financial Performance is \$10 million; and

assuming 1,000 performance rights were allocated to an executive and 20,000 performance rights had been allocated in total; and

Example 1 - Target not achieved assuming that the actual financial performance achieved in the final year was \$16 million;

Then

- If the executive is still an employee of the Group at the end of the final year, all of their rights would be available for exercise but their value would be nil because the Achieved Financial Performance of \$8 million had fallen short of the Target Financial Performance of \$10 million

Remuneration report (continued)

Example 2 - Target Achieved by 15% or greater but assuming that the actual financial performance achieved in the final year was \$20.9 million;

Then

- The Achieved Financial Performance would be assessed as : \$20.9 million less the after tax cost of providing 20,000 performance rights @ \$100 each totalling \$1.4 million less the financial performance in the base year of \$8 million which equals \$11.5 million; and
- The Achieved Financial Performance of \$11.5 million is 115% of the Target Financial Performance of \$10 million; and
- If the executive is still an employee of the Group at the end of the final year then all of their performance rights would be available for exercise at \$100 each.

Example 3 - Target exceeded by 30% or greater or assuming that the actual financial performance achieved in the final year was \$25.334 million;

Then

- The Achieved Financial Performance would be assessed as : \$24.333 million less the after tax cost of providing 20,000 performance rights @ \$166.67 each totalling \$2.333 million less the financial performance in the base year of \$8 million which equals \$14.0 million; and
- The Achieved Financial Performance of \$14.0 million is 140% of the Target Financial Performance of \$10 million; and
- If the executive is still an employee of the Group at the end of the final year then all of their performance rights would be available for exercise at \$166.67 each which is the capped exercise value even though Achieved Financial Performance was 140%.

Illustrative Example of LTIS

for the period from 1 July 2014 to 30 June 2017

		Achieved Performance		Exercise Value	LTI Payment	
		\$	% of Target	\$	\$	
Employee TBC	\$200,000					
Allocated rights	300					
Initial value of right	\$100					
Target value	\$30,000					
		Target not achieved	8,000,000	0.80	0.00	-
		Target achieved by 15% or greater	11,500,000	1.15	100.00	30,000
		Target exceeded by 30% or greater*	14,000,000	1.40	166.67	50,000

*Exercise value is capped at \$166.67 which is equal to 130% of Target Performance

Target Financial Performance of Company \$10,000,000

Further details of KPI incentive remuneration in respect of the last three years are set out in table 6.3. The amounts paid were directly linked to each executive's performance and the performance of the relevant division. This is illustrative of the strong links between performance and reward for executives in line with the Remuneration Policy settings.

Remuneration report (continued)

4.3.3 Incentives: Group Managing Director

Up until 30 June 2014 the Group Managing Director participated in different variable incentive schemes to other Senior Executives. There were short and long term components, the short term being a cash amount payable annually and the long term being a deferred cash amount payable over three years. The quantum of each scheme was set to a maximum of 50 percent of the fixed remuneration amount. The Group Managing Director's compensation in all usual circumstances was therefore capped at a maximum of no more than twice his fixed remuneration (base salary plus superannuation) in any one year. With effect from 1 July 2014 the Group Managing Director continues to participate in the separate short term incentive scheme but the separate long term incentive scheme was discontinued, and he has since participated in the same long term incentive scheme as the group executives (as described in section 4.3.2). The Group Managing Director is also expected to participate in the Value Creation Incentive Scheme when it is introduced in FY 2017. It should be noted that while ongoing awards of LTI for the Group Managing Director are based on the same scheme as other executives there are residual payments under the old LTI Scheme that will remain part of the overall payment regime for FY16 stemming from grants allocated in FY13. Further information on the continuing short term scheme and the discontinued (2013) long term incentive scheme is set out below.

- Short term incentive: The Group Managing Director has the opportunity to earn an annual cash incentive, depending on his performance against performance conditions set by the board as described below. The incentive is payable in one annual payment; and
- Long term incentive: The Group Managing Director has the opportunity to earn a deferred cash incentive based on his performance against performance conditions set by the board as described below. The incentive is determined following the financial year being assessed and is payable in three tranches over the subsequent three years, providing employment in the company continues in those payment periods. The board reserves the right to review and potentially reduce to zero future payments of the award in certain circumstances.

The goals and performance measures, and the quantum of both short and long term incentives, are set by the board in consultation with the HR Committee. The performance conditions include Group financial performance such as sustainable profitability, cash generation and the strength of the Group's capital position. It also includes performance across non-financial metrics such as company strategy and growth, risk management, stakeholder management, business reputation and the culture and capability of the Group. These performance conditions are set to encourage the desired financial performance and create conditions where high quality services are provided to the Group's members and customers. These conditions are deliberately broader and longer term in nature than other executive performance conditions to encourage long term financial soundness as well as positioning the company for sustained growth.

The actual reward received is dependent on achieving minimum performance outcomes. To reach the maximum reward, the Group Managing Director must achieve exceptional business and individual performance outcomes. The incentives are also subject to a service condition: no reward is paid if prior to assessment the Group Managing Director has resigned, given notice, or been dismissed. Exceptions may apply in certain limited circumstances beyond his control.

Further details of the Group Managing Director's incentive remuneration in respect of the last three years are set out in table 6.4.

4.4 Non-monetary benefits

Australian Unity also makes available certain other non-monetary benefits through salary packaging (including in-house products, salary sacrifice options) and wellbeing and community related benefits. All benefits are structured in accordance with the appropriate legislation, including taxation legislation. Details of any such benefits to KMP during the year under review are set out in table 6.1.

5. Non-executive director remuneration

Australian Unity's constitution and board charter require that directors meet a variety of standards in order to be eligible to remain directors of the board. These include meeting stringent 'fit and proper' standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees as remuneration for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting. Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 27 October 2014. At this meeting Members approved the sum of up to \$1.3 million in aggregate fees per financial year, to be divided between the non-executive directors in an appropriate manner as determined by the directors. This amount has not changed since that time.

Non-executive director remuneration is reviewed annually by the HR Committee taking into account the duties, responsibilities and demands on directors, organisation performance, trends, industry standards, and fees paid by comparable organisations. No incentives or options are payable to non-executive directors. No change was made to Director's fees this year.

Remuneration report (continued)

In addition to the above, directors appointed before the Company's 2004 annual general meeting are entitled to a retirement allowance pursuant to the Non-Executive Directors' Retirement Scheme. This scheme was applicable prior to that time but was closed to new directors in 2004. Under that scheme, participants are entitled to a retirement benefit equivalent to 2.2 times the average of their highest three consecutive years' remuneration, after six years of service. Eve Crestani was the only remaining director entitled to receive a retirement benefit and this was received during the year under review as she retired in February 2016.

Details of individual non-executive director allowances, payments and entitlements are set out in table 6.1.

6. Remuneration tables

6.1 Remuneration for the year ended 30 June 2016

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

Name	Year	Fixed			Variable		Total remuneration \$	Increase in long service leave provision ¹ \$	Increase in retirement benefits provision ^{2,3} \$
		Cash salary and fees ¹ \$	Non-monetary benefits ^{1,4} \$	Superannuation contributions ² \$	Cash bonus payable (Annual incentive or STI) ¹ \$	Cash bonus payable (Deferred incentive or LTI) ² \$			
<i>Non-executive directors</i>									
Peter Promnitz, Chair	2016	170,562	-	27,517	-	-	198,079	-	-
	2015	130,020	-	29,980	-	-	160,000	-	-
Glenn Barnes (ceased 29 March 2016)	2016	228,989	-	14,852	-	-	243,841	-	-
	2015	288,743	-	31,257	-	-	320,000	-	-
Melinda Ciento	2016	146,119	-	13,881	-	-	160,000	-	-
	2015	146,119	-	13,881	-	-	160,000	-	-
Eve Crestani (ceased 29 February 2016)	2016	98,911	-	9,610	-	-	108,521	-	18,080
	2015	146,119	-	13,881	-	-	160,000	-	20,000
Paul Kirk (appointed 1 February 2016)	2016	56,199	-	5,339	-	-	61,538	-	-
Su McCluskey (appointed 1 September 2015)	2016	114,310	24,000	20,459	-	-	158,769	-	-
Stephen Maitland	2016	146,119	-	13,881	-	-	160,000	-	-
	2015	146,119	-	13,881	-	-	160,000	-	-
Greg Willcock	2016	146,119	-	13,881	-	-	160,000	-	-
	2015	146,119	-	13,881	-	-	160,000	-	-
<i>Non-executive directors whose appointment ceased during 2015</i>									
Ian Ferris (ceased 1 August 2014)	2015	14,050	-	1,335	-	-	15,385	-	-
Warren Stratton (ceased 31 December 2014)	2015	49,814	-	32,032	-	-	81,846	-	-
Sub-total Non-executive directors	2016	1,107,328	24,000	119,420	-	-	1,250,748	-	18,080
	2015	1,067,103	-	150,128	-	-	1,217,231	-	20,000
<i>Executives</i>									
Rohan Mead, Group Managing Director	2016	1,042,959	1,934	33,278	490,680	144,500	1,713,351	24,930	-
	2015	1,004,897	1,071	30,000	442,170	280,500	1,758,638	22,831	-
David Bryant	2016	768,773	6,837	19,308	428,798	180,569	1,404,285	11,650	-
	2015	728,257	45,240	18,783	262,043	30,910	1,083,233	17,075	-
Amanda Hagan	2016	684,714	1,934	19,308	321,300	100,326	1,127,582	19,011	-
	2015	648,086	1,071	18,783	289,000	21,767	978,707	19,321	-
Kevin McCoy	2016	499,154	848	19,308	262,500	47,612	829,422	9,273	-
	2015	474,775	825	19,147	212,500	11,892	719,139	4,301	-
Derek McMillan	2016	614,786	6,837	26,533	313,500	126,172	1,084,828	24,140	-
	2015	561,765	5,321	26,008	270,000	19,591	882,685	18,783	-
Total	2016	4,714,714	42,390	237,155	1,816,778	599,179	7,410,216	89,004	18,080
	2015	4,482,883	53,528	262,849	1,475,713	364,660	6,639,633	82,311	20,000

1 Short term benefits

2 Post-employment benefits

3 Long-term benefits

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

5 As noted in section 5 above, a directors' retiring allowance scheme, for which provision has been made over the years, was closed to new appointees in 2004. Ms Eve Crestani was entitled to and received a retirement payment of \$327,137 from the provision during the year ended 30 June 2016. Ms Crestani was the last director eligible to receive a retiring allowance under the scheme.

Remuneration report (continued)

In addition to the above amounts, Mr Greg Willcock and Ms Eve Crestani received directors fees from Australian Unity Investments Real Estate Limited (AUIREL), a related entity, during the relevant period in 2016. Mr Willcock and Ms Crestani were specifically appointed as directors of AUIREL by reference to their capacity to facilitate AUIREL's fulfilment of its duties as a responsible entity of a listed investment scheme. As such, the fees paid to Mr Willcock and Ms Crestani are for their skills and experience in their capacity as directors of AUIREL and are not referable to their role as directors of the Company.

Name	Year	Fixed		Total remuneration \$
		Cash salary and fees ¹ \$	Superannuation contributions ² \$	
<i>Non-executive directors</i> Eve Crestani (ceased 29 February 2016)	2016	23,654	-	23,654
Greg Willcock	2016	69,029	6,558	75,587
	2016	92,683	6,558	99,241

1 Short term benefits

2 Post-employment benefits

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

6.2 Details of remuneration – Short and long term performance related incentives for relevant executives other than the Group Managing Director

The table shows details of the proportions of total remuneration represented by the variable and fixed components if maximum entitlements were to be paid and the proportions of both short and long term incentives which were payable or not earned.

The table also shows total remuneration paid or payable either by way of variable or fixed components. For this purpose only the fixed component includes any increase in long service leave provisions.

Name	2016					2015				
	STI	LTI	Total variable	Fixed Remuneration	Total Remuneration	STI	LTI	Total variable	Fixed Remuneration	Total Remuneration
David Bryant										
Maximum entitlement	26%	29%	56%	44%	100%	29%	22%	52%	48%	100%
Proportion of entitlement payable	90%	34%	60%		78%	55%	8%	35%		66%
Proportion of entitlement not earned	10%	66%	40%			45%	92%	63%		
The variable proportion of total remuneration paid or payable for the year 2015-2016 was 43 percent (2015: 27 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Amanda Hagan										
Maximum entitlement	26%	22%	48%	52%	100%	27%	20%	47%	53%	100%
Proportion of entitlement payable	90%	34%	65%		63%	85%	8%	52%		77%
Proportion of entitlement not earned	10%	66%	35%			15%	92%	48%		
The variable proportion of total remuneration paid or payable for the year 2015-2016 was 37 percent (2015: 31 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Kevin McCoy (from 3 March 2014)										
Maximum entitlement	28%	15%	44%	56%	100%	28%	16%	44%	56%	100%
Proportion of entitlement payable	100%	34%	77%		90%	85%	8%	58%		81%
Proportion of entitlement not earned	0%	66%	23%			15%	92%	42%		
The variable proportion of total remuneration paid or payable for the year 2015-2016 was 37 percent (2015: 31 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Derek McMillan										
Maximum entitlement	25%	28%	52%	48%	100%	27%	21%	47%	53%	100%
Proportion of entitlement payable	100%	34%	65%		62%	90%	8%	55%		79%
Proportion of entitlement not earned	0%	66%	35%			10%	92%	45%		
The variable proportion of total remuneration paid or payable for the year 2015-2016 was 41 percent (2015: 32 percent), as a result of the implementation of the company's incentive policies outlined in this report.										

Remuneration report (continued)

6.3 Details of remuneration – Long term performance related incentives for relevant executives other than the Group Managing Director

The table shows details of LTI granted but which have yet to mature, including their maximum possible value on maturity.

Name	Long Term Incentive			
	Date when LTI was granted	Number of performance rights	Date when LTI fully matures	Maximum total value of LTI yet to mature ¹
David Bryant	1 October 2015	1,826	1 October 2018	304,321
	1 October 2014	2,569	1 October 2017	428,150
	1 October 2013	1,821,182	1 October 2016	530,950
Amanda Hagan	1 October 2015	2,356	1 October 2018	392,651
	1 October 2014	2,079	1 October 2017	346,486
	1 October 2013	1,011,863	1 October 2016	295,000
Kevin McCoy	1 October 2015	1,733	1 October 2018	288,822
	1 October 2014	1,568	1 October 2017	261,323
	1 October 2013	257,253	1 October 2016	140,000
Derek McMillan	1 October 2015	2,178	1 October 2018	362,986
	1 October 2014	1,881	1 October 2017	313,488
	1 October 2013	1,272,547	1 October 2016	371,000

¹ The per annum compound Threshold Rate for performance rights granted 1 October 2013 was 6.50%. The maximum total value of LTI yet to mature equates to the amount payable if the per annum compound Target Rate is achieved. The per annum compound Target Rate for performance rights granted 1 October 2013 was 7.35%.

For performance rights granted 1 October 2014 and 2015 the exercise value is based on Achieved Financial Performance (AFP) compared to Target Financial Performance (TFP). If AFP is below TFP then the Exercise Value of each right is nil. If AFP is equal to TFP then the Exercise Value of each right is \$33.33. The Exercise Value is capped at \$166.66 per right which equates to AFP exceeding TFP by 30 percent or more.

6.4 Details of remuneration – 2016 performance related incentives for the Group Managing Director

The following table sets out for each annual incentive or deferred incentive payable during the year ended 30 June 2016, the percentage of the available amount that was payable and the percentage that was not earned because the applicable performance and service criteria were not met to the extent required for the maximum payment. These criteria are set out in section 4.3.3 above. The table also shows details of deferred incentive which is not yet due.

Name	Short Term Incentive		Long Term Incentive					
	Payable re 2016 ¹ %	Not earned re 2016 %	Date when LTI was granted	Deferred incentive paid or payable %	Deferred incentive not earned %	Financial year when tranche payable ²	Value of Deferred Incentive payable re 2016 \$	Maximum total value of Deferred Incentive not yet due \$
Rohan Mead	90	10	1 October 2015 ³			2018	-	908,630
			1 October 2014 ³			2017	-	849,966
			1 October 2013 ²	83	17	2016	144,500	-

¹ Mr Rohan Mead's annual incentive was awarded on 1 October 2015.

² For LTI awarded in October 2013 Mr Mead's deferred incentive is payable in three equal annual tranches commencing in the financial year of the year of award, but payment commences in the following financial year as set out in section 4.3.3.

³ For LTI awarded in October 2014 and 2015 Mr Mead's deferred incentive is payable in a single tranche. The October 2014 and 2015 awards represent 5,100 and 5,452 performance rights respectively. The Exercise Value (EV) of each performance right is based on Achieved Financial Performance (AFP) compared to Target Financial Performance (TFP). If AFP is below TFP then the EV of each right is nil. If AFP is equal to TFP then the EV of each right is \$33.33. The EV is capped at \$166.66 per right which equates to AFP exceeding TFP by 30 percent or more.

The variable component of total remuneration paid or payable for 2016 was 37% (2015: 41%), as a result of the implementation of the company's incentive policies outlined in this report.

Remuneration report (continued)

6.5 Contract terms for relevant executives

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

Name	Employee initiated notice period¹	Employer initiated notice period²	Termination benefit³
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant, CEO Investments	6 months	6 months	none
Amanda Hagan, CEO Healthcare	6 months	6 months	none
Kevin McCoy, Chief Financial Officer	6 months	6 months	none
Derek McMillan, CEO Independent and Assisted Living	6 months	6 months	none

1 All relevant executives have contract durations with no set term.

2 Payment in lieu of notice may be made and the Group's redundancy policies may also apply.

3 Entitlement to at risk incentives is set out in section 4.3 above.

Remuneration report (continued)



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29 July 2016

Ms M. Cilento
Chair of the HR Remuneration and Nominations Committee
Australian Unity Limited
114 Albert Road
South Melbourne VIC 3205

Dear Ms Cilento,

Godfrey Remuneration Group Pty Limited (GRG) has for over 12 years been a specialist advisor on key management personnel remuneration. Our clients are mainly companies listed on the Australian Securities Exchange and include a significant number of the companies included in the S&P/ASX300.

This letter is provided to comment on the reasonableness of Australian Unity's remuneration practices in relation to its key management personnel which includes both senior executives and Non-Executive Director roles.

GRG has been asked from time to time to provide market practice information and advice to assist Australian Unity's Board to set remuneration policies and practices that are appropriate to its circumstances as a mutual company.

During FY13 we conducted a full review of market practices relevant to Australian Unity's executives. A further review was undertaken in FY14 in relation to non-executive directors. In FY15 and FY16 Australian Unity received information on current market trends and practices, against which we have assessed reasonableness of current practices as advised to us, based on the assessments of Company relativity made in FY13.

Australian Unity's current remuneration practices for directors and executives remain consistent with broad market practices, taking into account that Australian Unity is a mutual company. For the majority of executives both the Base Packages and the "at risk" components of remuneration have been set such that at target performance, the Total Remuneration Packages (the sum of fixed remuneration elements and target incentives) fall around the median or between the median and P75 of market practice indicators. The data sample was based on listed companies of similar size and complexity (scale) to Australian Unity where direct role comparisons were possible. The Total Remuneration Packages for Australian Unity continue to place a strong emphasis on performance while not producing excessive total remuneration package outcomes.

Australian Unity's current non-executive director remuneration practices indicate that current remuneration arrangements appear to be consistent with market practice for the Non-Executive Chairman role and Non-Executive Director roles, falling below the P75 of the market data indicators used as a reference, based on Australian Unity's scale.

Given the foregoing comments, GRG is of the view that the remuneration packages being provided to all key management personnel are reasonable for Australian Unity to provide within the context of the Australian market for skills and talent, taking into account the scale, complexity and the highly regulated nature of the Company's operations.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'James Bouchier', is written over a light grey horizontal line.

James Bouchier
Director

Directors' interests and benefits

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

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the year are set out below.

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

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

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

	2016	2015
	\$	\$
Ernst & Young Australian firm:		
Audit of regulatory returns	330,000	327,040
Tax compliance services	190,000	314,080
Tax consulting services	925,000	543,893
Other services	-	9,500
Total remuneration for non-audit services	1,445,000	1,194,513

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 31.

Rounding of amounts

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

South Melbourne
31 August 2016

Auditor's Independence Declaration to the Directors of Australian Unity Limited

As lead auditor for the audit of Australian Unity Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



T M Dring
Partner
Melbourne
31 August 2016

Australian Unity Limited ABN 23 087 648 888
Annual financial report - 30 June 2016

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

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

114 Albert Road
South Melbourne VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1 to 11 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 31 August 2016.

Australian Unity Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Revenue and other income	2	<u>1,420,728</u>	1,279,069
Expenses, excluding finance costs	3	(1,343,387)	(1,196,313)
Finance costs	3	(21,095)	(20,613)
Share of net profit/(loss) of associates and joint ventures		<u>(1,074)</u>	1,526
Profit before income tax		55,172	63,669
Income tax expense	4	<u>(19,610)</u>	(29,116)
Profit after income tax		<u>35,562</u>	34,553
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges	17(a)	1,546	(20)
Income tax relating to components of other comprehensive income	17(a)	<u>(464)</u>	6
Other comprehensive income for the year, net of tax		<u>1,082</u>	(14)
Total comprehensive income for the year		<u>36,644</u>	34,539
Profit for the year is attributable to:			
Members of Australian Unity Limited		<u>35,562</u>	34,553
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		<u>36,644</u>	34,539

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, specifically the allocation of the consolidated income statement between Members' Funds and Benefit Funds outlined in note 26.

Australian Unity Limited
Consolidated balance sheet
As at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	916,728	903,307
Trade and other receivables		90,849	87,774
Loans and advances	8	23,634	25,510
Financial assets at fair value through profit or loss	6	1,554,920	1,449,182
Held-to-maturity investments	7	66,789	78,827
Other current assets		24,261	22,721
Total current assets		2,677,181	2,567,321
Non-current assets			
Financial assets at fair value through profit or loss	6	20,733	20,251
Loans and advances	8	744,828	650,401
Investments in joint ventures		22,736	19,424
Property, plant and equipment	12	177,352	164,925
Investment properties	13	820,885	745,194
Intangible assets	14	350,513	160,912
Other non-current assets		3,523	3,211
Total non-current assets		2,140,570	1,764,318
Total assets		4,817,751	4,331,639
LIABILITIES			
Current liabilities			
Trade and other payables		107,667	84,233
Borrowings	9	813,645	827,239
Current tax liabilities		15,879	15,288
Provisions	16	121,045	84,692
Other current liabilities	10	828,183	710,250
Benefit fund policy liabilities	33	179,610	230,430
Total current liabilities		2,066,029	1,952,132
Non-current liabilities			
Borrowings	9	318,639	112,015
Deferred tax liabilities	15	61,640	50,737
Provisions		9,861	2,895
Other non-current liabilities		5,639	3,779
Benefit fund policy liabilities	33	1,776,420	1,667,202
Total non-current liabilities		2,172,199	1,836,628
Total liabilities		4,238,228	3,788,760
Net assets		579,523	542,879
EQUITY			
Members' balances		255,919	255,919
Reserves	17(a)	3,382	1,956
Retained earnings	17(c)	320,222	285,004
Equity attributable to members of Australian Unity Limited		579,523	542,879
Total equity		579,523	542,879

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

Australian Unity Limited
Consolidated statement of changes in equity
For the year ended 30 June 2016

	Notes	Members' balances \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2014		255,919	1,866	250,555	508,340
Profit for the year		-	-	34,553	34,553
Other comprehensive income	17(a)	-	(14)	-	(14)
Total comprehensive income		-	(14)	34,553	34,539
Transactions with owners in their capacity as owners:					
Transfers within equity	17	-	104	(104)	-
		-	104	(104)	-
Balance at 30 June 2015		255,919	1,956	285,004	542,879
Balance at 1 July 2015		255,919	1,956	285,004	542,879
Profit for the year		-	-	35,562	35,562
Other comprehensive income	17(a)	-	1,082	-	1,082
Total comprehensive income		-	1,082	35,562	36,644
Transactions with owners in their capacity as owners:					
Transfers within equity	17	-	344	(344)	-
		-	344	(344)	-
Balance at 30 June 2016		255,919	3,382	320,222	579,523

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

Australian Unity Limited
Consolidated statement of cash flows
For the year ended 30 June 2016

	2016	2015
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	1,276,605	1,119,650
Claims and benefits paid	(640,060)	(647,036)
Payments to suppliers and employees	(515,703)	(361,821)
Life investment contracts - Contributions received	175,531	178,043
Life investment contracts - Withdrawals	(177,865)	(227,906)
Life insurance - Premiums received	282	291
Life insurance - Policy claims paid	(1,800)	(2,524)
Net payments of loans asset	(92,671)	(62,186)
Net receipts of deposits liability	99,822	42,561
Interest received	41,023	39,299
Dividends and distributions received	7,479	8,333
Interest and finance charges paid	(42,220)	(34,387)
Income tax payments	(14,994)	(349)
Net cash inflow from operating activities	18(a) 115,429	51,968
Cash flows from investing activities		
Payments for business combination, net of cash receipt	(100,935)	(23,627)
Payments for investments	(639,161)	(1,110,129)
Payments for property, plant and equipment	(11,891)	(25,682)
Payments for investment properties	(65,469)	(51,128)
Payments for intangible assets	(29,906)	(19,165)
Payments for investments in associates and joint ventures	(6,305)	(9,242)
Payments for loans to related entities	(29)	(664)
Receipts from investments	543,582	1,016,297
Dividends received from associates and joint ventures	1,081	5,685
Proceeds from disposal of investment in associates	-	12,509
Proceeds from disposal of property, plant and equipment	-	554
Proceeds from disposal of intangible assets	3,388	-
Net cash outflow from investing activities	(305,645)	(204,592)
Cash flows from financing activities		
Receipts from/(payments of) borrowings	99,234	(27,532)
Receipts from refundable lease deposits and resident liabilities	104,403	109,050
Net cash inflow from financing activities	203,637	81,518
Net increase/(decrease) in cash and cash equivalents		
	13,421	(71,106)
Cash and cash equivalents at the beginning of the financial year	903,307	974,413
Cash and cash equivalents at the end of the financial year	5 916,728	903,307

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

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Australian Unity Limited
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How numbers are calculated

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

1 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Executive Committee that are used to make strategic decisions including the allocation of resources and to assess the performance of an operating segment.

For management reporting purposes the Group is organised into six reportable operating segments based on their products and services. The Group's reportable operating segments are as follows:

Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.
Health Insurance	Provision of private health insurance and management of the customer service centre.
Healthcare Services	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Independent & Assisted Living	Provision of retirement communities, aged care facilities, and home care and disability services.
Investments	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-taking Institution.
Personal Financial Services	Provision of financial planning, finance and general insurance broking services, estate planning and trustee services.

Although the Healthcare Services, Personal Financial Services and Corporate Functions segments do not meet the quantitative thresholds required by AASB 8 *Operating Segments*, the board has concluded that these segments should be reported, as they are closely monitored by management.

1 Segment information (continued)

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2016 is as follows:

2016	Corporate Functions and Eliminations \$'000	Health Insurance \$'000	Healthcare Services \$'000	Independent & Assisted Living \$'000	Investments \$'000	Personal Financial Services \$'000	Total \$'000
Total segment revenue	(15,952)	833,410	30,343	222,986	123,086	65,559	1,259,432
Inter-segment revenue	8,543	-	(7,322)	-	-	(1,221)	-
Revenue from external customers	(7,409)	833,410	23,021	222,986	123,086	64,338	1,259,432
Adjusted EBITDA	(36,105)	60,285	4,602	24,784	20,305	2,163	76,034
Depreciation and amortisation							(24,602)
Interest expense							(27,326)
Investment income							13,154
Income tax expense							(1,698)
Profit after income tax							35,562
Share of profit/(loss) after tax from associates and joint ventures (included in adjusted EBITDA)							(1,074)
Total segment assets include:							
Income producing assets	23,104	392,789	1,023	13,120	910,267	4,544	1,344,847
Working capital assets	17,435	64,354	5,254	12,468	21,856	9,859	131,226
Non-interest bearing assets	117,652	12,014	9,460	512,701	54,074	55,425	761,326
Total segment assets	158,191	469,157	15,737	538,289	986,197	69,828	2,237,399
Total segment liabilities include:							
Borrowings and net inter segment lending	146,214	20,000	560	174,244	795,688	1,600	1,138,306
Working capital liabilities	55,384	250,686	4,797	40,815	28,492	8,714	388,888
Non-interest bearing liabilities	22,860	12,941	670	81,078	4,221	8,912	130,682
Total segment liabilities	224,458	283,627	6,027	296,137	828,401	19,226	1,657,876

1 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2015 is as follows:

2015	Corporate Functions and Eliminations \$'000	Health Insurance \$'000	Healthcare Services \$'000	Independent & Assisted Living \$'000	Investments \$'000	Personal Financial Services \$'000	Total \$'000
Total segment revenue	(18,002)	799,441	25,539	106,773	107,225	56,873	1,077,849
Inter-segment revenue	10,517	-	(8,615)	-	-	(1,902)	-
Revenue from external customers	(7,485)	799,441	16,924	106,773	107,225	54,971	1,077,849
Adjusted EBITDA	(34,352)	52,052	4,153	23,933	14,842	3,949	64,577
Depreciation and amortisation							(21,121)
Interest expense							(24,780)
Investment income							24,257
Income tax expense							(8,380)
Profit after income tax							34,553
Share of profit/(loss) after tax from associates and joint ventures (included in adjusted EBITDA)							1,526
Total segment assets include:							
Income producing assets	16,715	346,940	1,144	18,109	801,936	4,310	1,189,154
Working capital assets	11,863	62,621	3,190	18,867	29,356	9,931	135,828
Non-interest bearing assets	104,021	12,603	5,256	348,152	52,310	41,179	563,521
Total segment assets	132,599	422,164	9,590	385,128	883,602	55,420	1,888,503
Total segment liabilities include:							
Borrowings and net inter segment lending	121,674	20,000	-	99,109	698,470	-	939,253
Working capital liabilities	49,989	215,754	2,374	11,576	23,973	6,794	310,460
Non-interest bearing liabilities	23,074	11,596	235	48,065	5,351	7,590	95,911
Total segment liabilities	194,737	247,350	2,609	158,750	727,794	14,384	1,345,624

(c) Other segment information

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

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

(i) Segment revenue

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

1 Segment information (continued)

(c) Other segment information (continued)

Segment revenue reconciles to total revenue as follows:

	2016 \$'000	2015 \$'000
Total segment revenue	1,259,432	1,077,849
Dividends and distributions (note 2)	7,479	8,333
Investment income (note 2)	6,508	15,147
Accommodation bond interest reclassification	(6,121)	(4,184)
Other	4,880	3,281
Revenue attributable to members of Australian Unity Limited (note 26)	1,272,178	1,100,426
Revenue from benefit funds (note 26)	148,550	178,643
Total revenue and other income	1,420,728	1,279,069

(ii) Adjusted EBITDA

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

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

	2016 \$'000	2015 \$'000
Adjusted EBITDA	76,034	64,577
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	(20,543)	(18,605)
Merger and acquisition expenses	(2,968)	(2,152)
Other	(1,091)	(364)
	(24,602)	(21,121)
Interest expense		
Finance costs (note 3)	(21,095)	(20,613)
Accommodation bond interest reclassification	(6,121)	(4,184)
Other	(110)	17
	(27,326)	(24,780)
Investment income:		
Dividends and distributions (note 2)	7,479	8,333
Investment income (note 2)	6,508	15,147
Impairment reversal/(impairment) of investments in associates and joint ventures	(838)	777
Other	5	-
	13,154	24,257
Profit before income tax attributable to members of Australian Unity Limited (note 26)	37,260	42,933
Profit before income tax of benefit funds (note 26)	17,912	20,736
Profit before income tax	55,172	63,669

1 Segment information (continued)

(c) Other segment information (continued)

(iii) Segment assets

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

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

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

	2016 \$'000	2015 \$'000
Segment assets	2,237,399	1,888,503
Resident liabilities and refundable lease deposits	639,284	541,860
Retirement Village Property Fund consolidation	50,441	43,455
Netting of eligible deferred tax balances	(55,079)	(41,989)
Other reclassifications between assets and liabilities	(16,188)	(21,877)
Total assets attributable to members of Australian Unity Limited	2,855,857	2,409,952
Benefit fund assets (note 34)	1,989,337	1,948,354
Netting of eligible deferred tax balances	(27,443)	(26,667)
Total assets	4,817,751	4,331,639

(iv) Segment liabilities

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

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

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

	2016 \$'000	2015 \$'000
Segment liabilities	1,657,876	1,345,624
Resident liabilities and refundable lease deposits	639,284	541,860
Retirement Village Property Fund consolidation	50,441	43,455
Netting of eligible deferred tax balances	(55,079)	(41,989)
Other reclassifications between assets and liabilities	(16,188)	(21,877)
Total liabilities attributable to members of Australian Unity Limited	2,276,334	1,867,073
Benefit fund liabilities (note 34)	33,307	50,722
Netting of eligible deferred tax balances	(27,443)	(26,667)
Benefit fund policy liabilities (note 33)	1,956,030	1,897,632
Total liabilities	4,238,228	3,788,760

2 Revenue and other income

	2016 \$'000	2015 \$'000
Commission income	60,675	56,569
Healthcare services revenue	23,008	16,924
Dividends and distributions	7,479	8,333
Fair value gains on investment property	18,156	12,582
Health insurance premium revenue (note 24)	833,408	799,403
Interest income of building society	33,504	32,330
Investment income	6,508	15,147
Management fees revenue	76,017	64,381
Rental income	2,461	2,748
Independent and assisted living fees and subsidies	194,474	85,209
Revenue of benefit funds (note 33)	148,550	178,643
Other income	16,488	6,800
	1,420,728	1,279,069

3 Expenses

	2016 \$'000	2015 \$'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	3,310	3,863
Commission expense	56,701	55,309
Communication costs	6,211	4,102
Computer and equipment costs	14,559	13,766
Depreciation and amortisation expense	20,543	18,605
Employee benefits expense	292,939	179,655
Expenses in relation to benefit funds (note 33)	130,638	157,907
Financial and insurance costs	3,948	2,630
Fund manager and administration fees	22,861	15,442
Health insurance claims expense	700,541	679,799
Health insurance claims recoveries - Net Risk Equalisation Trust Fund	(35,373)	(29,226)
Impairment/(reversal of impairment) of investment in joint ventures	838	(777)
Interest expense of building society	15,191	16,225
Legal and professional fees	21,758	12,905
Marketing expenses	15,491	14,429
Occupancy costs	16,574	11,949
Other direct expenses	21,232	19,678
Other expenses	35,425	20,052
	1,343,387	1,196,313

3 Expenses (continued)

Profit before income tax includes the following specific expenses:

	2016 \$'000	2015 \$'000
<i>Depreciation and amortisation</i>		
Depreciation	7,899	6,942
Amortisation of intangible assets	12,644	11,663
	<u>20,543</u>	<u>18,605</u>
<i>Finance costs</i>		
Interest and finance charges	22,401	23,258
Amount capitalised	(1,306)	(2,645)
Finance costs expensed	<u>21,095</u>	<u>20,613</u>

4 Income tax expense

(a) Income tax expense

	2016 \$'000	2015 \$'000
Current tax	(379)	(4,869)
Current tax - benefit funds	14,344	17,883
Deferred tax	6,419	11,085
Deferred tax - benefit funds	(2,102)	1,462
Adjustments for current tax of prior periods	(4,342)	2,164
Adjustments for current tax of prior periods - benefit funds	5,670	1,591
	<u>19,610</u>	<u>29,116</u>

Deferred income tax expense included in income tax expense comprises:

Increase in deferred tax assets	(9,941)	(4,576)
Increase in deferred tax liabilities	14,258	17,123
	<u>4,317</u>	<u>12,547</u>

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

	2016 \$'000	2015 \$'000
Profit before income tax	55,172	63,669
Less: profit in benefit funds	(17,912)	(20,736)
	<u>37,260</u>	<u>42,933</u>
Tax at the Australian tax rate of 30% (2015: 30%)	11,178	12,880
Non-assessable income	(3,005)	(4,111)
Other assessable amounts	465	1,018
Non-deductible expenditure	1,721	2,115
Other deferred tax adjustments	(8,191)	(2,493)
Tax in benefit funds	17,912	20,736
Tax credits	(470)	(1,029)
Income tax expense	<u>19,610</u>	<u>29,116</u>

Financial assets and liabilities

5 Financial assets - Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank and on hand	83	147
Bank balances	36,464	53,073
Deposits at call	880,181	850,087
	<u>916,728</u>	<u>903,307</u>

(a) Deposits at call

Deposits at call include \$686,671,000 (2015: \$670,087,000) held in the Australian Unity Wholesale Cash Fund.

(b) Parent entity's accounts

The balance of cash and cash equivalents as at 30 June 2016 included the Parent Entity's accounts totalling \$28,452,000.

(c) Fair value and risk exposures

The carrying amount of cash and cash equivalents equals their fair value. Information about the Group exposure to interest rate risk is provided in note 20.

6 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading and include the following:

	2016 \$'000	2015 \$'000
Securities held by benefit funds	1,383,612	1,304,486
Securities held in funds managed by related entities	192,041	164,947
	<u>1,575,653</u>	<u>1,469,433</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:

	2016 \$'000	2015 \$'000
Equities	894,853	818,263
Fixed interest and other debt securities	419,411	416,605
Mortgage trusts	7,159	34,074
Property syndicates and trusts	62,189	35,544
	<u>1,383,612</u>	<u>1,304,486</u>

6 Financial assets at fair value through profit or loss (continued)

(b) Securities held in funds managed by related entities comprise the following:

	2016 \$'000	2015 \$'000
Equities	49,013	48,025
Fixed interest and other debt securities	92,157	80,563
Mortgage trusts	11,287	6,909
Property syndicates and trusts	39,584	29,450
	<u>192,041</u>	<u>164,947</u>

(c) Current and non-current split

The redemption terms for investments in certain managed trusts have been varied during the year by their responsible entities in response to prevailing market conditions. Consequently those investments which it is not possible to redeem entirely within one year from the end of each reporting period are allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of each reporting period.

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

	2016 \$'000	2015 \$'000
Current	1,554,920	1,449,182
Non-current	20,733	20,251
	<u>1,575,653</u>	<u>1,469,433</u>

(d) Fair value and risk exposures

Information on the fair value measurement basis is provided in note 11 while information about the Group's exposure to market risk is provided in note 20.

7 Financial assets - Held-to-maturity investments

	2016 \$'000	2015 \$'000
Bank bills	57,125	57,652
Term deposits	9,664	21,175
	<u>66,789</u>	<u>78,827</u>

Fair value and risk exposures

Due to the short term nature of these investments, their carrying amount is assumed to approximate their fair value. Information about the Group's exposure to credit risk and the credit quality in relation to these investments is provided in note 20.

8 Financial assets - Loans and advances

	2016 \$'000	2015 \$'000
Current		
Mortgage loans	17,288	18,013
Personal loans	7,247	7,697
Provision for impairment	(901)	(200)
Total - current	23,634	25,510
Non-current		
Mortgage loans	699,573	604,585
Personal loans	9,942	10,383
Loans to related entities	31,346	31,317
Advances	3,967	4,116
Total - non-current	744,828	650,401
Total loans and advances	768,462	675,911

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

(a) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 20 June 2046 and earn interest at annual interest rates between 3.71% and 6.51% (2015: between 3.87% and 9.00%).

(b) Personal loans

The personal loans mature at various dates up to 16 April 2023 and earn interest at annual rates between 5.06% and 13.58% (2015: between 5.65% and 13.78%).

(c) Loans to related entities

The loans to related entities were made for the purpose of the development of a retirement village under a joint development arrangement. These loans are secured by a second mortgage on the properties of the related entities and by personal guarantees from the directors of the related entities. Included in these loans are fixed rate loans of \$9,347,098 (2015: \$9,318,000) which accrue interest on a monthly basis at an annual fixed rate of 15% (2015: 15%) and fixed rate loans of \$21,999,000 (2015: \$21,999,000) which accrue interest on a monthly basis at an annual fixed rate of 12% (2015: 12%).

The recoverability of this receivable is based on the completion of the retirement village development project of the related entity. Completion of this project is dependent on continued debt funding to the related entity. As at 30 June 2016, the related entity has a funding facility from National Australia Bank expiring on 29 August 2017.

(d) Past due but not impaired

At 30 June 2016, the current portion of loans and advances that were past due but not impaired amounted to \$632,000 (2015: \$374,000), while the non-current portion amounted to \$22,893,000 (2015: \$10,995,000). These relate to a number of borrowers from whom there is no recent history of default.

(e) Fair value and risk exposures

The fair value of current and non-current loans and advances are provided in note 11. Information about the Group's exposure to credit risk and interest rate risk is provided in note 20.

9 Financial liabilities - Borrowings

	2016 \$'000	2015 \$'000
Current		
<u>Secured interest bearing liabilities</u>		
Mortgage offset savings accounts	77,710	63,844
Retirement Village Investments Notes	18,642	18,077
Lease liabilities	-	1
	<u>96,352</u>	<u>81,922</u>
<u>Secured non-interest bearing liabilities</u>		
Retirement Village Investment Notes	<u>4,411</u>	<u>7,045</u>
<u>Unsecured interest bearing liabilities</u>		
Australian Unity Notes	-	120,000
Call deposits	297,687	309,867
Term deposits	401,574	294,096
Development finance loans	8,521	9,209
Loan payable to related entity	5,100	5,100
	<u>712,882</u>	<u>738,272</u>
Total current borrowings	<u>813,645</u>	<u>827,239</u>
Non-current		
<u>Secured interest bearing liabilities</u>		
Retirement Village Investment Notes	<u>33,253</u>	<u>45,125</u>
<u>Unsecured interest bearing liabilities</u>		
Australian Unity Bonds	243,974	-
Development finance loans	-	16,136
Subordinated capital notes	30,000	30,000
Term deposits	11,412	20,754
Total unsecured non-current borrowings	<u>285,386</u>	<u>66,890</u>
Total non-current borrowings	<u>318,639</u>	<u>112,015</u>
Total borrowings	<u>1,132,284</u>	<u>939,254</u>

(a) Australian Unity Bonds

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

As specified in the prospectus, the proceeds from the issue will be used to refinance the \$120,000,000 Australian Unity Notes (refer to below note), partly finance the acquisition of Home Care NSW and for general corporate purposes.

The Australian Unity Bonds are redeemable by the Company for taxation reasons, on a change of control or if 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.

9 Financial liabilities - Borrowings (continued)

(a) Australian Unity Bonds (continued)

Under the terms of the bonds, Australian Unity Limited 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 cash and cash equivalents of the Company. 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 Australian Unity Bonds. As at 30 June 2016, the Australian Unity Bonds Covenant Gearing Ratio was 39.7%.

Since the issue of the bonds, the Company has not issued any debt securities which are subject to the negative pledge clauses of the terms of the bonds.

(b) Australian Unity Notes

On 14 April 2011, the Company issued 1,200,000 unsecured redeemable notes at a face value of \$100 each (Australian Unity Notes) pursuant to the prospectus dated 11 March 2011, raising \$120,000,000 (excluding issue costs). The Australian Unity Notes were listed on the Australian Securities Exchange (code: AYUHA) and matured on 14 April 2016. The notes bore interest at the three month bank bill rate (BBSW) plus a margin of 3.55% per annum. The interest was payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year. Given the exposure to interest rate movements, on 9 August 2011 the Company entered into an agreement to swap the variable interest component of \$60,000,000 of the notes at 4.65% per annum matured on 14 April 2016.

In November 2015, a reinvestment offer was issued to all eligible holders of Australian Unity Notes to subscribe for the Australian Unity Bonds issued by the Company on 15 December 2015 (refer to above note) and fund their subscriptions by selling their notes to the Company. As a result of the reinvestment offer, 625,934 notes were sold to the Company. The remaining 574,066 notes were redeemed for cash on their maturity date of 14 April 2016 at the face value plus the accrued interest up to that date.

(c) Development finance loans

The 2016 balance of development finance loans represented bank loan facilities for the development of retirement village in Mornington (Peninsula Grange).

(d) Retirement Village Investment Notes (RVIN)

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

Australian Unity Retirement Village Trust #1 (AURVT#1) comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria, whilst Australian Unity Retirement Village Trust #2 (AURVT#2) comprises three other villages - Constitution Hill, Karagi Court and Kiah Lodge, all located in New South Wales. All of these villages are managed by a related entity Australian Unity Retirement Living Management Pty Ltd. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1, AURVT#2 or Australian Unity Retirement Living Services Limited (the parent entity of Independent & Assisted Living business).

During the financial year, the Group repaid \$13,941,000 RVIN. The Group also issued a prospectus to facilitate the replacement of maturing RVIN totalling \$6,770,000. The RVIN replacements were fully subscribed with the majority of existing investors rolling over into the new issues with a two-year term.

As at 30 June 2016, the total RVIN of \$56,306,000 (30 June 2015: \$70,247,000) represented \$51,895,000 interest bearing liabilities and \$4,411,000 non-interest bearing liabilities. Subsequent to the reporting period, the \$4,411,000 non-interest bearing RVIN were repaid in accordance with the terms of the relevant prospectus.

9 Financial liabilities - Borrowings (continued)

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

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	2016 \$'000	2015 \$'000
RVIN - Series 1	3	30 November 2015	8.75%	-	3,808
	5	30 November 2015	7.00%	-	2,962
	4	30 November 2016	8.50%	1,318	-
RVIN - Series 2	3	31 December 2016	8.50%	770	-
RVIN - Series 3	3	31 December 2016	8.50%	233	-
	9	30 June 2017	6.50%	6,321	-
	1	31 March 2016	8.50%	-	145
	2	30 June 2016	8.50%	-	890
	5	30 June 2016	8.75%	-	3,521
8	31 December 2015	7.00%	-	6,751	
RVIN - Series 4	1	30 June 2017	6.50%	10,000	-
Interest bearing RVIN - current				18,642	18,077
RVIN - Series 1	4	30 November 2016	8.50%	-	1,318
	5	30 November 2017	7.50%	620	620
	5	30 November 2019	7.50%	5,408	5,408
	6	30 November 2017	6.50%	8,581	8,581
	7	30 November 2017	5.60%	6,770	-
RVIN - Series 2	3	31 December 2016	8.50%	-	770
	5	31 December 2017	6.50%	4,118	4,118
	6	31 March 2018	6.10%	2,912	2,912
RVIN - Series 3	3	31 December 2016	8.50%	-	233
	8	31 December 2017	7.50%	315	315
	8	31 December 2019	7.50%	15	15
	9	30 June 2017	6.50%	-	6,321
10	31 March 2018	6.10%	4,514	4,514	
RVIN - Series 4	1	30 June 2017	6.50%	-	10,000
Interest bearing RVIN - non-current				33,253	45,125
Total interest bearing RVIN				51,895	63,202
RVIN - Series 3	3	30 June 2016		890	-
	5	30 June 2016		3,521	-
	7	30 June 2015		-	7,045
Non-interest bearing RVIN - current				4,411	7,045
Total RVIN				56,306	70,247

9 Financial liabilities - Borrowings (continued)

(e) Subordinated capital notes

On 11 July 2013, the Group issued \$30,000,000 of subordinated capital notes. The notes have a maturity of 10 years with a non-call 5 year period and bear a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00% per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2016, the interest rate applicable to the quarter commencing 11 April 2016 was 5.26% (30 June 2015: 5.27%).

On the same day, the Group entered into a hedge contract for five years to swap the variable component of the interest rate at 3.71% per annum. With the hedge contract, the effective interest rate of the new notes is fixed at 6.71% per annum until 11 July 2018.

(f) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2016, this rate amounted to between nil% and 2.05% (2015: between nil% and 3.7%).

(g) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2016 ranging between 2.00% and 7.10% (2015: between 2.00% and 7.10%).

(h) Mortgage offset savings accounts

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

(i) Loan payable to related entity

The loan from related entity is repayable on demand and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2%. At 30 June 2016 this rate amounted to 3.96% (2015: 4.14%).

(j) Fair value and risk exposures

The fair values of borrowings are set out in note 11. Information about the Group's exposure to risk arising from borrowings is set out in note 20.

10 Other current liabilities

	2016 \$'000	2015 \$'000
Financial liabilities		
Refundable accommodation deposits	173,373	128,873
Resident loan liabilities	516,402	456,499
	689,775	585,372
Non-financial liabilities		
Unearned income	131,050	120,611
Others	7,358	4,267
	138,408	124,878
Total other current liabilities	828,183	710,250

10 Other current liabilities (continued)

(a) Unearned income

Unearned income represents health insurance premium revenue 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 in instances whereby the resident becomes deceased, 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 investment properties referred to in note 9. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value and risk exposures

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value. Details of the Group's exposure to risk arising from other current liabilities are set out in note 20.

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
- Land and buildings
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2016.

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2016 and 2015 on a recurring basis.

11 Fair value measurements (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2016				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	-	943,866	-	943,866
Fixed interest and other debt securities	-	511,568	-	511,568
Mortgage trusts	-	18,446	-	18,446
Property syndicates and trusts	13,845	87,928	-	101,773
Other financial assets	-	-	332	332
Total financial assets	13,845	1,561,808	332	1,575,985
Non-financial assets				
Investment properties	-	-	820,655	820,655
Land and buildings	-	-	155,590	155,590
Total non-financial assets	-	-	976,245	976,245
Financial liabilities				
Interest rate swaps	-	1,602	-	1,602
Life investment contract policy liabilities	-	858,016	-	858,016
Total financial liabilities	-	859,618	-	859,618
30 June 2015				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	-	866,288	-	866,288
Fixed interest and other debt securities	-	497,168	-	497,168
Mortgage trusts	-	40,983	-	40,983
Property syndicates and trusts	-	64,994	-	64,994
Other financial assets	-	-	320	320
Total financial assets	-	1,469,433	320	1,469,753
Non-financial assets				
Investment properties	-	-	745,194	745,194
Land and buildings	-	-	148,855	148,855
Total non-financial assets	-	-	894,049	894,049
Financial liabilities				
Interest rate swaps	-	3,149	-	3,149
Life investment contract policy liabilities	-	796,482	-	796,482
Total financial liabilities	-	799,631	-	799,631

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

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

11 Fair value measurements (continued)

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

Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

Investment properties

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

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations. The directors determine a property's value using a reasonable fair value estimate as applicable to each type of investment property.

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.

Development sites are initially recorded at cost. Subsequently the carrying value is measured against the present value of future cash flows, being the final estimated development value less the remaining cost of development, using a value in use calculation in order to determine fair value. This comparison is reassessed at specific milestones during the development process. In the event that carrying value is greater than the present value of future cash flows, an impairment charge is made.

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

Land and buildings

The Group engages accredited independent valuers to obtain an independent valuation for its land and buildings at least every three years. The most recent valuations were done in 2015 by m3 property strategists and in 2016 by CB Richard Ellis (V) Pty Ltd. Fair value is determined using the capitalisation approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group. The independent valuations support the Group's carrying value as at 30 June 2016. All of the resulting fair value estimates are included in level 3 as explained in section (iii) below.

11 Fair value measurements (continued)

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

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2016:

	Other financial assets \$'000	Investment properties \$'000	Land and buildings \$'000	Total \$'000
Opening balance 1 July 2014	302	674,275	140,302	814,879
Acquisitions	-	51,128	21,934	73,062
Disposals	-	-	(336)	(336)
Depreciation	-	-	(3,185)	(3,185)
Transfers	-	7,209	(9,860)	(2,651)
Gain recognised in other income*	18	12,582	-	12,600
Closing balance 30 June 2015	<u>320</u>	<u>745,194</u>	<u>148,855</u>	<u>894,369</u>
Opening balance 1 July 2015	320	745,194	148,855	894,369
Acquisitions	-	65,239	6,071	71,310
Disposals	-	(3,388)	-	(3,388)
Depreciation	-	-	(3,882)	(3,882)
Transfers	-	(4,546)	4,546	-
Gain recognised in other income*	12	18,156	-	18,168
Closing balance 30 June 2016	<u>332</u>	<u>820,655</u>	<u>155,590</u>	<u>976,577</u>

*Included in the gain recognised in other income:
 Unrealised gain recognised in the profit or loss attributable to
 assets held at the end of the financial year

2016	<u>12</u>	<u>18,156</u>	-	<u>18,168</u>
2015	18	12,582	-	12,600

11 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 quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2016 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	820,655	Discount rate	10.0% - 14.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -8.7 million/+\$11.3 million (2015: -\$8.0 million/+\$10.0 million).
		Property growth rate	0.0% - 4.0%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +\$16.2 million/-\$14.8 million (2015: +\$14.8 million/-\$13.4 million).
		Average length of residents' stay	4-7 years for serviced apartment, 9-14 years for independent living unit	The higher the average length of stay, the lower the fair value.
Land and buildings	155,590	Discount rate	8.25% - 16.3%	The higher the discount rate, the lower the fair value
		Terminal yield	7.4% - 7.6%	The higher the terminal yield, the lower the fair value
		Capitalisation rate	7.5% - 14.0%	The higher the capitalisation rate, the lower the fair value
		Rental growth rate	3.3% - 3.4%	The higher the growth rate, the higher the fair value

Valuation processes

The Group's Independent & Assisted Living Services business unit 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 & Compliance Committee. Discussions of valuation processes and results are held between the valuation team, the Audit & Compliance 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 Group engages independent accredited valuers at least every three years to determine the fair value of the land and buildings classified as property, plant and equipment and other non-owner occupied investment properties.

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 in the balance sheet. These had the following fair value as at the end of the reporting period:

	2016		2015	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Current and non-current assets				
Mortgage loans	716,861	717,412	622,598	623,173
Advances	3,967	3,659	4,116	3,888
	720,828	721,071	626,714	627,061
Current and non-current liabilities				
Australian Unity Bonds	250,000	262,500	-	-
Australian Unity Notes	-	-	120,000	123,360
Development finance loans	8,521	8,271	25,345	23,841
Lease liabilities	-	-	1	1
Retirement Village Investment Notes	56,306	56,677	70,247	70,459
Subordinated capital notes	30,000	29,942	30,000	28,188
Term deposits	412,986	412,807	314,850	314,446
	757,813	770,197	560,443	560,295

The carrying amounts of trade receivables, held-to-maturity investments and trade payables are assumed to approximate their fair values due to their short term nature. 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. These assets and liabilities are categorised under level 3 in the fair value hierarchy.

Non-financial assets and liabilities

12 Non-financial assets - Property, plant and equipment

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 1 July 2014					
Cost or fair value	16,433	135,060	30,561	24,484	206,538
Accumulated depreciation	-	(11,191)	(21,203)	(20,634)	(53,028)
Net book amount	16,433	123,869	9,358	3,850	153,510
Year ended 30 June 2015					
Opening net book amount	16,433	123,869	9,358	3,850	153,510
Additions	2,255	19,679	3,071	677	25,682
Acquisition of subsidiary	-	-	438	-	438
Disposals	(295)	(41)	(200)	(18)	(554)
Other transfers	(3,679)	1,028	2,651	-	-
Transfers to investment properties	-	(7,209)	-	-	(7,209)
Depreciation charge	-	(3,185)	(2,506)	(1,251)	(6,942)
Closing net book amount	14,714	134,141	12,812	3,258	164,925

12 Non-financial assets - Property, plant and equipment (continued)

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 30 June 2015					
Cost or fair value	14,714	146,019	34,025	22,936	217,694
Accumulated depreciation	-	(11,878)	(21,213)	(19,678)	(52,769)
Net book amount	<u>14,714</u>	<u>134,141</u>	<u>12,812</u>	<u>3,258</u>	<u>164,925</u>
Year ended 30 June 2016					
Opening net book amount	14,714	134,141	12,812	3,258	164,925
Additions	70	6,001	4,775	5,022	15,868
Transfers from investment properties	-	4,546	-	-	4,546
Disposals	-	-	(117)	-	(117)
Depreciation charge	-	(3,882)	(2,664)	(1,324)	(7,870)
Closing net book amount	<u>14,784</u>	<u>140,806</u>	<u>14,806</u>	<u>6,956</u>	<u>177,352</u>
At 30 June 2016					
Cost or fair value	14,784	156,566	38,033	27,066	236,449
Accumulated depreciation	-	(15,760)	(23,227)	(20,110)	(59,097)
Net book amount	<u>14,784</u>	<u>140,806</u>	<u>14,806</u>	<u>6,956</u>	<u>177,352</u>

(a) Valuations of land and buildings

The Group generally obtains an independent valuation for its land and buildings at least every three years. Refer to note 11(ii) for further details regarding the valuation. The Group has concluded that the highest and best use of the land and building is their current use.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2016 \$'000	2015 \$'000
Land		
Cost	13,503	13,433
Net book amount	<u>13,503</u>	<u>13,433</u>
Buildings		
Cost	153,295	142,748
Accumulated depreciation	(20,704)	(16,950)
Net book amount	<u>132,591</u>	<u>125,798</u>

13 Non-financial assets - Investment properties

Investment properties consist of the Group's interests in retirement village independent living units, development sites and other non-owner occupied property as specified below. A number of the retirement village development sites are intended to be sold upon completion and the required occupancy targets being met.

	2016 \$'000	2015 \$'000
Retirement village independent living units	501,048	451,494
Retirement village property funds	72,841	63,557
Development sites (including development sites intended to be sold)	242,382	225,529
Non-owner occupied property	4,614	4,614
	820,885	745,194

(a) Movements of investment properties

	2016 \$'000	2015 \$'000
At fair value		
Balance at the beginning of the financial year	745,194	674,275
Acquisitions	65,469	51,128
Net fair value movements	18,156	12,582
Transfers from/(to) property, plant and equipment	(4,546)	7,209
Disposals	(3,388)	-
Balance at the end of the financial year	820,885	745,194

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

	2016 \$'000	2015 \$'000
Revenue	49,101	38,569
Expenses	(26,006)	(23,962)
Changes in fair value recognised in profit or loss	18,156	12,582
	41,251	27,189

14 Non-financial assets - Intangible assets

	Goodwill \$'000	Management rights and customer contracts \$'000	Computer software \$'000	Bed & other licences \$'000	Total \$'000
At 1 July 2014					
Cost	13,847	40,678	102,891	10,740	168,156
Accumulation amortisation	-	(5,947)	(60,408)	-	(66,355)
Net book amount	13,847	34,731	42,483	10,740	101,801
Year ended 30 June 2015					
Opening net book amount	13,847	34,731	42,483	10,740	101,801
Acquisition of subsidiaries/businesses	11,743	37,886	-	-	49,629
Additions	-	785	18,085	1,915	20,785
Disposals	-	-	(143)	-	(143)
Amortisation charge	-	(2,290)	(9,309)	(64)	(11,663)
Transfers from property plant and equipment	-	-	503	-	503
Closing net book amount	25,590	71,112	51,619	12,591	160,912
At 30 June 2015					
Cost	25,590	79,402	82,623	12,655	200,270
Accumulation amortisation	-	(8,290)	(31,004)	(64)	(39,358)
Net book amount	25,590	71,112	51,619	12,591	160,912
Year ended 30 June 2016					
Opening net book amount	25,590	71,112	51,619	12,591	160,912
Acquisition of subsidiaries/businesses	151,369	23,793	137	-	175,299
Additions	-	4,293	24,160	-	28,453
Reclassification	(887)	887	-	-	-
Disposals	-	-	(1,507)	-	(1,507)
Amortisation charge	-	(2,656)	(9,892)	(96)	(12,644)
Closing net book amount	176,072	97,429	64,517	12,495	350,513
At 30 June 2016					
Cost	176,072	108,375	103,110	12,655	400,212
Accumulated amortisation	-	(10,946)	(38,593)	(160)	(49,699)
Net book amount	176,072	97,429	64,517	12,495	350,513

The management rights included those with an indefinite life of \$35,910,000 as at 30 June 2016 (2015: \$24,757,000). The balance of \$24,757,000 is related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are profitable and expected to continue their operations on a going concern basis. The addition of \$11,153,000 during the year represents the identifiable intangible assets recognised in the preliminary accounting for Home Care NSW acquisition (refer note 21(a)).

Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) purchased from other approved providers are valued at cost. Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) initially granted to the Group by the Department of Health and Ageing are not ascribed a value. At 30 June 2016, the Group held 231 purchased licences and 654 granted licences (2015: 231 purchased licences and 458 granted licences).

(a) Impairment tests for goodwill and management rights

The carrying amount of goodwill and management rights is allocated to the Group's cash generating units (CGUs) identified according to entities within each business segment.

14 Non-financial assets - Intangible assets (continued)

(a) Impairment tests for goodwill and management rights (continued)

A segment-level summary of the goodwill and management rights allocation is presented below:

	2016 \$'000	2015 \$'000
Healthcare	9,063	5,167
Independent & assisted living	178,534	18,978
Investments	32,735	33,818
Personal financial services	53,169	38,739
	<u>273,501</u>	<u>96,702</u>

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections based upon financial forecast approved by the directors, covering a four year financial period. Cash flows beyond the four year financial period are extrapolated using estimated growth rates appropriate for the CGU.

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

The post-tax discount rate of 6.30% applied to cash flow projections represents the Group's weighted average cost of capital (2015: 7.04%). A 1.30% growth rate (2015: 1.30%) was applied to cash flows beyond the four year period for which financial budgets were available.

(c) Impact of possible changes in key assumptions

It is recognised that actual time value of money may vary to what has been estimated. Based on this, it is concluded that any possible change in the post-tax discount rate of up to 13.0% (2015: 9.56%) per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

15 Non-financial liabilities - Deferred tax balances

	2016 \$'000	2015 \$'000
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Accrued expenses	8,091	7,689
Fixed assets	12,078	10,139
Capitalised expenditure	2,701	2,408
Policy bonus credits	23,776	22,187
Provisions	15,821	10,774
Risk Equalisation Trust Fund	2,759	3,002
Tax losses	2,061	2,457
Trust distribution	11,431	7,341
Unrealised losses	1,308	2,015
Other assessable items	1,277	644
Total deferred tax assets	<u>81,303</u>	<u>68,656</u>

15 Non-financial liabilities - Deferred tax balances (continued)

	2016 \$'000	2015 \$'000
Deferred tax liabilities		
Allocable cost adjustment on consolidation	1,013	1,013
Fixed assets and investment properties	65,628	56,444
Management rights	19,698	10,146
Risk Equalisation Trust Fund	9,145	9,001
Tax deferred	2,755	2,238
Unrealised gains	40,752	38,079
Other deductible items	3,952	2,472
Total deferred tax liabilities	142,943	119,393
 Net Deferred tax liabilities	 61,640	 50,737

16 Non-financial liabilities - Provisions

	2016 \$'000	2015 \$'000
Employee benefits provision	48,870	17,822
Outstanding claims	63,336	58,556
Other provisions	8,839	8,314
	121,045	84,692

Outstanding claims provision

Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. Claims reported but not yet paid are included as provisions. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit or loss. Refer to note 24 for the movements in outstanding claims provision.

17 Equity

(a) Reserves

	2016 \$'000	2015 \$'000
Asset revaluation reserve	2,462	2,462
Reserve for credit losses	2,042	1,698
Cash flow hedges reserve	(1,122)	(2,204)
	3,382	1,956

17 Equity (continued)

(a) Reserves (continued)

	2016 \$'000	2015 \$'000
Movements:		
<i>Asset revaluation reserve</i>		
Balance at the beginning of the financial year	2,462	2,462
Balance at the end of the financial year	2,462	2,462
<i>Reserve for credit losses</i>		
Balance at the beginning of the financial year	1,698	1,594
Transfer from retained earnings	344	104
Balance at the end of the financial year	2,042	1,698
<i>Cash flow hedges reserve</i>		
Balance at the beginning of the financial year	(2,204)	(2,190)
Movements in hedging value during the year	1,546	(20)
Deferred tax	(464)	6
Balance at the end of the financial year	(1,122)	(2,204)

(b) Nature and purpose of other reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of land and buildings used by the Group as owner occupied property.

(ii) Reserve for credit losses

The reserve for credit losses is required under Prudential standards to cover risks inherent in the loan portfolios.

(iii) Cash flow hedges reserve

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

(c) Retained earnings

Movements in retained earnings were as follows:

	2016 \$'000	2015 \$'000
Balance at the beginning of the financial year	285,004	250,555
Transfer to reserve for credit losses	(344)	(104)
Profit for the year	35,562	34,553
Balance at the end of the financial year	320,222	285,004

18 Cash flow information

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

	2016 \$'000	2015 \$'000
Profit after income tax for the year	35,562	34,553
Depreciation and amortisation	20,543	18,605
Impairment provision on investments in joint ventures	838	(777)
Investment gains	1,379	(8,339)
Fair value gains on investment property	(18,156)	(12,582)
Loss on disposal of intangible assets	1,507	-
Share of net profit or loss of associates and joint ventures	1,074	(1,526)
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,394	(7,294)
Increase in loans and advances	(92,522)	(62,190)
Decrease in current tax assets	-	2,428
Increase in other operating assets	(1,840)	(5,270)
Increase in trade and other payables	13,543	3,865
Increase in deposits liability	99,822	42,561
Increase in current tax liabilities	521	15,288
Increase in deferred tax liabilities	3,011	6,409
Increase in provisions	7,896	6,145
Increase in benefit fund policy liabilities	58,398	12,704
Increase/(decrease) in other operating liabilities	(18,541)	7,388
Net cash inflow from operating activities	<u>115,429</u>	<u>51,968</u>

Risk Management

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

19 Critical accounting estimates and judgements

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

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

(a) Critical accounting estimates and assumptions

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

19 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Fair value of financial instruments

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

(ii) Estimated impairment of loans and advances

The accounting policy requires the Group to assess impairment at least at each reporting date. The provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on experienced judgement. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

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

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

(iv) Retirement village investment property

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

(v) Insurance liabilities

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

(vi) Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of each reporting period. In determining the present value of the liability, attrition rates and pay increases as a result of projected inflation have been taken into account.

(vii) Income taxes

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

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

(i) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences. The Group considers it probable that future taxable profits will be available to utilise these temporary differences.

(ii) Classification of life insurance liabilities

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

19 Critical accounting estimates and judgements (continued)

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

(iii) Interest in subsidiaries, associates and joint ventures

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

For interests in other entities where the Group does not have control, the Group exercises significant judgements to determine whether it has significant influence over the entity or joint control of an arrangement. Where there is a joint arrangement, the Group further determines whether it is structured as a joint operation or a joint venture. The Group has determined as investments in associates those relationships where significant influence over another entity exists. The Group has concluded that the joint arrangement investments in Next Rural Financial Management Pty Ltd and Lifestyle Manor Anglesea Pty Ltd (LMA) are joint ventures. The Group does not have power to control LMA even though it has a 51% ownership interest.

20 Financial risk management

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

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

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

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

The Group Audit and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures. The Group Audit and Compliance Committee is assisted in its role by Group Audit, Group Compliance and Finance & Strategy. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Finance & Strategy measures the quantitative aspects of the controls. The results of these reviews are reported to the Group Audit and Compliance Committee and the board.

(a) Market risk

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

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

20 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial investment will fluctuate as a result of movements in international exchange rates. The Group's main foreign exchange risk arises from its holding in foreign investment funds.

As at the end of the reporting period, if the foreign exchange rates had increased or decreased by 10% (2015: 5%), with all other variables held constant, the impact would have been as follows:

Judgements of reasonably possible movements	Impact on post-tax profit		Impact on equity	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Exchange rates +10% (2015: +5%)	(1,929)	(1,105)	(1,929)	(1,105)
Exchange rates -10% (2015: -5%)	1,929	1,181	1,929	1,181

(ii) Price risk

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

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

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

The table below summarises the impact of changes in securities prices assuming the prices had increased or decreased by 10% (2015: 5%) at the end of the reporting period with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

Judgements of reasonably possible movements	Impact on post-tax profit		Impact on equity	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Securities prices +10% (2015: +5%)	5,443	3,322	5,443	3,322
Securities prices -10% (2015: -5%)	(5,443)	(3,544)	(5,443)	(3,544)

The price risk for unlisted securities is immaterial and therefore it was not included in the sensitivity analysis.

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

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2016 and 2015, the Group's borrowings at variable rate were denominated in Australian Dollars.

20 Financial risk management (continued)

(a) Market risk (continued)

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

	2016 \$'000	2015 \$'000
Financial assets		
Cash and cash equivalents	358,302	305,434
Financial assets at fair value through profit or loss	81,923	102,563
Loans and advances	557,381	488,309
	<u>997,606</u>	<u>896,306</u>
Financial liabilities		
Australian Unity Bonds (i)	250,000	-
Australian Unity Notes	-	120,000
Call deposits	297,687	309,867
Development finance loans	8,521	25,345
Loan payable to related entity	5,100	5,100
Subordinated capital notes (ii)	30,000	30,000
Interest rate swap, at notional principal amounts	(30,000)	(90,000)
	<u>561,308</u>	<u>400,312</u>
Net exposure	<u>436,298</u>	<u>495,994</u>

(i) The Australian Unity Bonds issued in December 2015 carry a 2.80% fixed margin resulting in a total interest rate at 30 June 2016 of 5.09%. The variable interest component of the bonds was hedged via an interest rate swap at 2.20% effective from 14 July 2016 and will expire on the maturity of the bonds.

(ii) The subordinated capital notes carry a 3.00% fixed margin (2015: 3.00%) resulting in a total interest rate at 30 June 2016 of 5.26% (2015: 5.27%). Only the variable interest portion is hedged via an interest rate swap.

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

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

As at the end of each reporting period, the Group's exposure to interest rate risk was immaterial.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed on a group basis to ensure that this risk is minimised. Credit risk arises from derivative financial assets, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an internal assessment is made in relation to the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

20 Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables

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

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

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

Loans and advances

Loans and advances are largely secured by physical property and advanced on conservative LVR (Loan Value Ratio). The Building Society holds collateral when required, as security for its residential, commercial and personal loans, thus reducing the amount of financial loss that may arise from any defaults. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans and advances, net of any provisions for impairment. Loan mortgage insurance is generally taken out for any residential mortgages with an LVR in excess of 80%. Accordingly, the financial effect of these measures is that remaining credit risk on loans is very low. Some lending products will be mostly unsecured (e.g. personal loans). Loans impairment experience supports the assignment of a credit risk rating of satisfactory or better. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group Board. The compliance with credit limits by wholesale customers is regularly monitored by management.

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade \$'000	Other grade \$'000	\$'000	\$'000	\$'000
At 30 June 2016					
Cash and cash equivalents	916,728	-	-	-	916,728
Trade and other receivables	440	73,567	16,842	1,680	92,529
Financial assets at fair value through profit or loss	511,568	1,064,085	-	-	1,575,653
Held-to-maturity investments	66,789	-	-	-	66,789
Loans and advances	609,500	134,233	23,525	2,105	769,363
Investments in joint ventures	-	22,736	-	-	22,736
Other financial assets	-	24,057	-	-	24,057
	2,105,025	1,318,678	40,367	3,785	3,467,855
At 30 June 2015					
Cash and cash equivalents	903,307	-	-	-	903,307
Trade and other receivables	390	78,405	8,979	508	88,282
Financial assets at fair value through profit or loss	516,885	952,548	-	-	1,469,433
Held-to-maturity investments	78,827	-	-	-	78,827
Loans and advances	592,967	71,459	11,369	316	676,111
Investments in joint ventures	-	19,424	-	-	19,424
Other financial assets	-	22,451	-	-	22,451
	2,092,376	1,144,287	20,348	824	3,257,835

20 Financial risk management (continued)

(b) Credit risk (continued)

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

Credit risk further arises in relation to irrevocable loan commitments provided to the customers of the Building Society. The irrevocable loan commitments are binding contracts to extend credit to customers as long as no violation of any condition in the contracts. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of \$10,991,000 (2015: \$17,214,000).

The Group provides financial guarantees to certain parties amounting to \$26,744,000 (2015: \$6,777,000). These financial guarantees are only provided in exceptional circumstances and are subject to specific board approval. The maximum credit risk exposure of the financial guarantees is the maximum amount that could be paid if the guarantee is called on.

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

(c) Liquidity risk

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

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

Maturities of financial liabilities

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

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

For the financial guarantee and building society credit commitments, as the probability and value of the obligation that may be called on is unpredictable; it is not practical to state the timing of any potential payment.

20 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	Over 5 years \$'000	No specific maturity \$'000	Total \$'000
At 30 June 2016						
Trade and other payables	107,667	-	-	-	-	107,667
Current tax liabilities	15,879	-	-	-	-	15,879
Interest bearing liabilities						
AU Bonds	6,247	6,247	293,208	-	-	305,702
Subordinated capital notes	1,007	1,007	6,750	33,224	-	41,988
Development finance loan	8,665	-	-	-	-	8,665
Call deposits	304,995	-	-	-	-	304,995
Term deposits	287,952	117,998	12,190	-	-	418,140
Mortgage offset savings accounts	77,710	-	-	-	-	77,710
Retirement Village Investment Notes	8,419	17,919	34,906	-	-	61,244
Lease liability	-	-	-	-	-	-
Loan payable to related entity	5,150	-	-	-	-	5,150
	700,145	143,171	347,054	33,224	-	1,223,594
Benefit fund policy liabilities	90,536	89,074	-	-	1,776,420	1,956,030
Other liabilities	4,160	-	-	-	692,298	696,458
Total liabilities	918,387	232,245	347,054	33,224	2,468,718	3,999,628
At 30 June 2015						
Trade and other payables	84,233	-	-	-	-	84,233
Current tax liabilities	15,288	-	-	-	-	15,288
Interest bearing liabilities						
AU Notes	4,170	122,433	-	-	-	126,603
Subordinated capital notes	1,007	1,007	8,052	36,123	-	46,189
Development finance loan	482	9,691	16,757	-	-	26,930
Call deposits	320,273	-	-	-	-	320,273
Term deposits	226,937	70,264	22,317	-	-	319,518
Mortgage offset savings accounts	63,844	-	-	-	-	63,844
Retirement Village Investment Notes	15,688	6,258	49,752	-	-	71,698
Lease liability	1	-	-	-	-	1
Loan payable to related entity	5,153	-	-	-	-	5,153
	637,555	209,653	96,878	36,123	-	980,209
Benefit fund policy liabilities	97,045	133,385	-	-	1,667,202	1,897,632
Other liabilities	1,970	-	-	-	587,669	589,639
Total liabilities	836,091	343,038	96,878	36,123	2,254,871	3,567,001

20 Financial risk management (continued)

(d) Capital risk management

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

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

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

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

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the 2016 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, the economic, operational and capital needs of the business.

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

(e) Insurance risk

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

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

Product design

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

Claims management

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

Insurance risk and experience monitoring

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

Prudential capital requirements

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

Risk equalisation

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

Concentration of insurance risk

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

20 Financial risk management (continued)

(e) Insurance risk (continued)

Ability to vary premium rates

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

Preventative health programs

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

(f) Operational risk management

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

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

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

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

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

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

Group structure

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

- changes to the structure that occurred during the year as a result of business combinations,
- principal subsidiaries included in the consolidated financial statements,
- interests in joint ventures,
- parent entity, health insurance and building society financial information, and
- reconciliation of profit attributable to members of Australian Unity Limited.

21 Business combination

During the year the Group made a few strategic acquisitions to complement organic growth. The following section discusses the significant acquisition activities in the Group's business segments.

(a) Independent and Assisted Living

Home Care NSW

On 19 February 2016, Australian Unity Home Care Pty Ltd acquired all of the issued share capital in Australian Unity Home Care Service Pty Ltd (AUHCS) from the New South Wales Government. AUHCS provides in-home care services to approximately 50,000 clients across New South Wales and has approximately 4,300 employees.

21 Business combination (continued)

(a) Independent and Assisted Living (continued)

The Australian Unity Group operates with a strong social purpose, centred on providing solutions to demographic challenges facing Australia from the aging population and the rise of chronic disease. The business combination is in line with the Group's strategy to expand the breadth and scale of its service offerings and create Australia's leading home care business, one that offers a true continuum of client-directed care.

Details of the purchase consideration, net assets acquired and goodwill recognised in the preliminary accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash payments	109,360
Net assets acquired based on the provisional fair value at the date of acquisition:	
Cash and cash equivalents	24,370
Receivables	4,041
Property, plant and equipment	3,719
Intangible assets	22,229
Goodwill	132,022
Trade and other payables	(8,121)
Unearned income	(22,960)
Provisions	(34,809)
Deferred tax liabilities	(7,094)
Other liabilities	(4,037)
Total	109,360

The goodwill recognised above is related to the value of expected synergy benefits from the business combination, customer relationships, workforce and other items that do not qualify to be separately recognised. As at the date of this report the determination of goodwill and identifiable intangible assets has not been finalised. The accounting for the business combination will be finalised within 12 months of the purchase.

(b) Healthcare

Lincs Healthcare

In December 2015, Remedy Healthcare Group Pty Ltd (Remedy) acquired the business of Lincs Healthcare Pty Ltd, a home-based nursing, personal care and allied health services provider in South East Queensland. The business assets acquired included goodwill, client contracts, intellectual property, stock, plant and equipment. As part of the agreement, at least 90% of the employees were transferred to Remedy who then assumed the leave liability in relation to the transferring employees. The acquisition is in line with the Group's strategy to rapidly grow the Allied Health business segment and to expand joint initiatives between Healthcare and Independent & Assisted Living businesses. The joint initiatives will give the Group the opportunity to achieve synergies and build a nursing workforce that will support aged care and community care.

Details of the purchase consideration, net assets acquired and goodwill recognised in the preliminary accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash payment	1,850
Deferred payment	617
Contingent consideration	588
Total	3,055
Net assets recognised as a result of the acquisition	
Property, plant and equipment	98
Customer contracts	1,477
Goodwill	2,038
Deferred tax liability	(443)
Provision	(115)
Total	3,055

The goodwill recognised above is related to the value of expected synergy benefits from the acquisition, customer relationships, workforce and other items that do not qualify to be separately recognised. The acquisition accounting will be finalised within 12 months of the purchase.

21 Business combination (continued)

(c) Personal Financial Services

Flinders Australia

In July 2015 Australian Unity Advice Pty Ltd acquired all of the issued shares in Flinders Australia Ltd (Flinders). Flinders is a group of companies that provides estate planning, administration and estate services to the retail market, mainly in Victoria. The acquisition is intended to grow the financial services business through a diversification into a complementary business in trustee services.

Details of the purchase consideration, net assets acquired and goodwill recognised in the accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash consideration	13,000
Deferred payment	1,000
Total	14,000
Net assets recognised as a result of the acquisition	
Cash and cash equivalents	83
Receivables	1,422
Office equipment	71
Intangible assets	137
Goodwill	14,399
Deferred tax asset	205
Trade and other payables	(1,770)
Provisions	(477)
Current tax liabilities	(70)
Total	14,000

The goodwill recognised above is related to the value of expected synergy benefits from the acquisition, customer relationships, workforce and other items that do not qualify to be separately recognised.

(d) Cash flow information

	\$'000
Outflow of cash for the above business acquisitions, net of cash acquired	
Cash payments	125,388
Less: cash acquired	(24,453)
Plus: Direct costs related to the acquisitions	2,988
Total	103,923

(e) Finalisation of accounting for the acquisitions in the previous reporting year

INS Healthcare

In September 2014, Australian Unity Retirement Living Management Pty Ltd (AURLM) acquired INS Health Care for \$5,829,000. In the preliminary accounting for the business combination, the Group reported in its financial statements for the year ended 30 June 2015 a total of goodwill and management rights of \$6,138,000. The determination of goodwill and management rights was subject to further clarification in regards to the changes in the allocation of government home care packages to be effective from 1 February 2017. The acquisition accounting was finalised in the current reporting period. The net assets recognised included goodwill of \$4,631,000, management rights of \$887,000 with a finite life of five years and customer contracts of \$886,000 with a finite life of 10 years.

22 Subsidiaries

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

Wholly-owned by the Parent entity	Wholly-owned by the controlled entities
Australian Unity Advice Pty Ltd	Australian Unity Aged Care Investments Pty Ltd
Australian Unity Finance Limited	Australian Unity Aged Care Trust #1
Australian Unity Funds Management Limited	Australian Unity Aged Care Trust #2
Australian Unity Group Services Proprietary Limited	Australian Unity Aged Care Trust #4
Australian Unity Health Care Pty Ltd	Australian Unity Aged Care Trust #5
Australian Unity Health Limited	Australian Unity Bondi Trust
Australian Unity Investment Real Estate Ltd	Australian Unity Campbell Place AC Land Trust
Australian Unity Personal Financial Services Limited	Australian Unity Campbell Place RV Land Trust
Australian Unity Property Limited	Australian Unity Care Services Pty Ltd
Australian Unity Retirement Living Investments Limited	Australian Unity Carlton Aged Care Trust
Australian Unity Retirement Living Services Limited	Australian Unity Carlton Retirement Trust #1
Australian Unity Strategic Holdings Pty Limited	Australian Unity Home Care Pty Ltd
Australian Unity Strategic Investments Pty Ltd	Australian Unity Home Care Service Pty Ltd
Big Sky Building Society Limited	Australian Unity Investments Trust
Big Sky Financial Planning Pty Ltd	Australian Unity Lilydale Development Trust
Grand United Corporate Health Limited	Australian Unity Retirement Development Management Pty Ltd
Lifepan Australia Friendly Society Limited	Australian Unity Retirement Living Holdings Pty Ltd
Remedy Healthcare Group Pty Ltd	Australian Unity Retirement Living Management Pty Ltd
	Australian Unity Retirement Village Trust #1
	Australian Unity Retirement Village Trust #2
	Australian Unity Retirement Village Trust #5
	Better Home Care Pty Ltd
	Campbell Place Development Manager Pty Ltd
	Certainty Financial Pty Ltd
	Flinders Australia Ltd
	Rathdowne Place Residences Project Manager Pty Ltd
	The Australian Unity Mornington Development Trust
	The Australian Unity Sienna Grange Development Trust
	The Australian Unity Victoria Grange Development Trust
	The Governor's Retirement Resort Pty Ltd

23 Parent entity financial information

(a) Summary financial information

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

	2016 \$'000	2015 \$'000
Balance sheet		
Cash and cash equivalents	28,452	24,161
Other current assets	22,569	5,292
Current assets	51,021	29,453
Non-current assets	775,788	643,758
Total assets	826,809	673,211
Current liabilities	35,028	39,559
Non-current liabilities	254,900	130,892
Total liabilities	289,928	170,451
Members' balances	255,625	255,625
Reserves	-	(1,047)
Retained earnings	281,256	248,182
Total equity	536,881	502,760
Profit for the year	33,074	37,953
Total comprehensive income for the year	33,074	37,953

(b) Guarantees entered into by the Parent entity

The Parent entity provides a financial guarantee of up to \$5 million for computer equipment lease transactions entered into by a wholly-owned subsidiary company. This guarantee will expire in October 2017.

(c) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2016 and 2015.

(d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2016 and 2015.

24 Health insurance financial information

The disclosures below relate only to the health insurance activities of the relevant controlled entities and do not therefore include the non-insurance activities of the healthcare businesses.

(a) Details of income and expenses

	2016 \$'000	2015 \$'000
Premium revenue	833,408	799,403
Claims expense	(706,759)	(685,665)
Net Risk Equalisation Trust Fund recoveries	35,373	29,226
State levies	(5,560)	(5,308)
Net claims incurred	(676,946)	(661,747)
Acquisition costs	(42,942)	(39,144)
Other underwriting expenses	(2,950)	(3,438)
	(45,892)	(42,582)
Underwriting result	110,570	95,074
Net investment income	13,883	16,654
Employee benefits expense	(33,393)	(28,967)
Other expenses from ordinary activities	(29,144)	(23,610)
Finance costs	(3,371)	(3,221)
	(52,025)	(39,144)
Profit before income tax	58,545	55,930
Income tax expense	(15,887)	(15,433)
Profit after income tax	42,658	40,497

(b) Net Risk Equalisation Trust Fund (RETF) receivable

	2016 \$'000	2015 \$'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	7,591	7,130
Net RETF raised during the year	35,373	29,226
Net RETF received during the year	(36,155)	(28,765)
Balance at the end of the financial year	6,809	7,591

24 Health insurance financial information (continued)

(c) Outstanding claims provision

	2016 \$'000	2015 \$'000
Outstanding claims - central estimate of the expected present value of future payments for claims incurred	56,571	52,410
Risk margin	5,383	4,685
Claims handling costs	1,382	1,461
Gross outstanding claims liability	63,336	58,556

Movement in the gross outstanding claims provision (current liabilities)

Balance at the beginning of the financial year	58,556	57,274
Claims incurred during the year	710,176	688,247
Claims paid during the year	(701,979)	(684,383)
Movement in other components	(3,417)	(2,582)
Balance at the end of the financial year	63,336	58,556

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

The risk margin of 9.3% (2015: 8.7%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2015: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

The outstanding claims estimate for the retail health business is derived using all data combined in an aggregate model. As such, diversification benefits have been implicitly allowed for in this process. The outstanding claims liability has been estimated using both a stochastic model, based on historical experience, and the modified chain ladder method. Subsequent judgement is then applied to both the outcomes in determining the value of the liability to hold. Consequently, changes in assumptions will not have a material impact on the estimate.

The outstanding claims estimate for the corporate health business is derived using separate calculations on the data for hospital claims and ancillary claims. The outstanding claims liability has been estimated based on historical experience using the modified chain ladder method.

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 1.84 months (2015: 1.82 months).

Impact of changes in key variables

The following table shows the impact on amounts recognised in the financial statements of the Group's health insurance subsidiaries arising from movements in selected key variables.

	Movement in variable	2016 Profit/(loss) after tax \$'000	Net assets \$'000	Movement in variable	2015 Profit/(loss) after tax \$'000	Net assets \$'000
Central estimate	+5%	(1,980)	(1,980)	+5%	(1,834)	(1,834)
Central estimate	-5%	1,980	1,980	-5%	1,834	1,834
Claims handling	+10%	(97)	(97)	+10%	(102)	(102)
Claims handling	-10%	97	97	-10%	102	102

(d) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2016 (2015: \$nil) at a 75% (2015: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

25 Building society financial information

The disclosures below relate only to the building society activities of the wholly owned subsidiary, Big Sky Building Society Limited as an individual entity.

(a) Financial performance summary

	2016 \$'000	2015 \$'000
Interest income	33,504	32,330
Interest expense	(15,317)	(16,225)
Net interest income	<u>18,187</u>	<u>16,105</u>
Non-interest income	3,438	2,710
Total income	<u>21,625</u>	<u>18,815</u>
Other operating expenses	(16,748)	(15,510)
Profit before income tax	<u>4,877</u>	<u>3,305</u>
Income tax expense	(1,468)	(1,000)
Profit after income tax	<u>3,409</u>	<u>2,305</u>

(b) Financial position summary

	2016 \$'000	2015 \$'000
Cash and cash equivalents	31,157	15,223
Financial assets at fair value through profit or loss	39,165	28,424
Held-to-maturity investments	57,125	68,669
Loans and advances	731,272	638,433
Other assets	2,844	3,507
Total assets	<u>861,563</u>	<u>754,256</u>
Interest bearing liabilities	795,691	698,471
Other liabilities	7,771	4,575
Total liabilities	<u>803,462</u>	<u>703,046</u>
Net assets (Equity)	<u>58,101</u>	<u>51,210</u>

(c) Capital adequacy

	2016 \$'000	2015 \$'000
Reserves and retained earnings	58,101	51,210
Less regulatory prescribed adjustments	(836)	(1,019)
Regulatory capital base	<u>57,265</u>	<u>50,191</u>
Risk weighted exposures	<u>406,672</u>	<u>341,657</u>
Capital adequacy ratio	<u>14.08%</u>	<u>14.69%</u>

26 Reconciliation of profit attributable to members of Australian Unity Limited

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
For the year ended 30 June 2016			
Revenue and other income	1,272,178	-	1,272,178
Direct life insurance premium revenue	-	540	540
Outwards reinsurance expense	-	(258)	(258)
Deposits received - investment contracts with DPF*	-	43,837	43,837
Investment income	-	100,500	100,500
Other	-	3,931	3,931
Total revenue and other income	1,272,178	148,550	1,420,728
Life insurance claims expense	-	1,800	1,800
Benefits and withdrawals paid - investment contracts with DPF*	-	98,276	98,276
Expenses, excluding finance costs	1,212,749	30,562	1,243,311
Total expenses, excluding finance costs	1,212,749	130,638	1,343,387
Finance costs	(21,095)	-	(21,095)
Share of net profits/(losses) of associates and joint ventures	(1,074)	-	(1,074)
Profit before income tax	37,260	17,912	55,172
Income tax expense	(1,698)	(17,912)	(19,610)
Profit after income tax	35,562	-	35,562
For the year ended 30 June 2015			
Revenue and other income	1,100,426	-	1,100,426
Direct life insurance premium revenue	-	539	539
Outwards reinsurance expense	-	(248)	(248)
Deposits received - investment contracts with DPF*	-	63,331	63,331
Investment income	-	115,021	115,021
Total revenue and other income	1,100,426	178,643	1,279,069
Life insurance claims expense	-	2,524	2,524
Benefits and withdrawals paid - investment contracts with DPF*	-	154,164	154,164
Expenses, excluding finance costs	1,038,406	1,219	1,039,625
Total expenses, excluding finance costs	1,038,406	157,907	1,196,313
Finance costs	(20,613)	-	(20,613)
Share of net profits/(losses) of associates and joint ventures	1,526	-	1,526
Profit before income tax	42,933	20,736	63,669
Income tax expense	(8,380)	(20,736)	(29,116)
Profit after income tax	34,553	-	34,553

*DPF = Discretionary Participating Feature

Unrecognised items

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

27 Commitments

(a) Capital commitments

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

	2016 \$'000	2015 \$'000
<i>Payable within one year:</i>		
Investment property	11,212	21,783
Total capital commitments	<u>11,212</u>	<u>21,783</u>

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

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

	2016 \$'000	2015 \$'000
Within one year	11,380	4,349
Later than one year but not later than five years	19,421	13,124
Later than five years	1,816	561
	<u>32,617</u>	<u>18,034</u>

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 2.78 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(c) Credit related commitments

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

	2016 \$'000	2015 \$'000
Irrevocable approved but undrawn loans	10,991	17,214
Revocable loans with balances available for redraw	40,591	42,263
Revocable undrawn lines of credit, credit cards and overdrafts	28,739	29,652
	<u>80,321</u>	<u>89,129</u>

28 Contingencies

Contingent liabilities

Contingent liabilities exist in relation to future anticipated calls on shares held by the Group in the joint ventures, Wingate Asset Management Pty Limited, Seres Asset Management Limited, Altius Asset Management Pty Ltd, FedInvest Pty Ltd and Certainty Financial. As at 30 June 2016, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited amounted to \$496,800 for 6,210,000 shares at 8.0 cents each (2015: \$496,800 for 6,210,000 shares at 8.0 cents each);
- Seres Asset Management Limited amounted to \$259,624 for 4,500,000 shares at 5.77 cents each (2015: \$167,683 for 2,750,000 shares at 6.10 cents each); and
- Altius Asset Management Pty Ltd amounted to \$nil (2015: \$339,575 for 425,000 shares at 79.9 cents each).
- Fedinvest Pty Ltd amounted to \$75,000 for 335,000 shares at 22.39 cents each (2015: \$282,960 for 314,400 shares at 90.0 cents each).

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.

Guarantees

Guarantee for computer equipment

The Parent entity provides a financial guarantee of up to \$5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 30 June 2016, there was \$183,000 (2015: \$653,000) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantees

The Group has entered into bank guarantee arrangements totalling \$26,561,000 (2015: \$6,124,000) 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.

Liquidity support scheme

Big Sky Building Society Limited (BSBS), a wholly owned subsidiary of the Group, is a party to the Credit Union Financial Support Scheme (CUFSS) until 31 December 2016. CUFSS is a voluntary scheme in which all CUFSS participants who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each guarantee being \$100.

As a CUFSS member, BSBS:

- may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another CUFSS participant requiring financial support;
- may be required to advance permanent loans of up to 0.2% of total assets per financial year to another CUFSS participant requiring financial support; and
- agrees, in conjunction with other members, to fund the operating costs of CUFSS.

At 30 June 2016, no funding was required by and paid to CUFSS (2015: \$nil).

The Group had no other contingent assets or liabilities at 30 June 2016.

29 Events occurring after the reporting period

In August 2016, Australian Unity Limited was selected by the Queensland Government as the preferred tenderer for the \$1.1 billion Herston Quarter project in Brisbane. The Company plans to develop and then take an ongoing role in an integrated health, ageing and research precinct in the Herston Quarter, which would provide Queenslanders with access to leading health, hospital and aged care services. The new project, integrated within the existing Herston Health Precinct, is designed to attract, train and retain the best clinicians, health workers, researchers, academics and students.

29 Events occurring after the reporting period (continued)

The Herston Quarter is adjacent to the Royal Brisbane and Women's Hospital in inner suburban Brisbane. The masterplan for the five hectare site includes a public rehabilitation hospital, a private hospital, residential aged care, retirement living and student accommodation, health research, childcare, a co-working hub and education and training facilities. Over the next few months the Company will work with the Queensland Government to document and finalise the contracts and the masterplan.

The board is not aware of any other matter or circumstance arising since 30 June 2016 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

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

30 Related party transactions

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key management personnel

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

(d) Transactions and balances with related parties

Transactions between the Group and related parties for the financial years ended 30 June 2016 and 2015 were as follows:

- Dividends received from joint ventures, \$1,080,550 (2015: \$4,328,571).
- Investment management fees charged by joint ventures, \$4,370,871 (2015: \$4,443,696).
- Commission, director fees and other costs charged to joint ventures, \$659,421 (2015: \$1,830,310).
- Performance fees charged to joint ventures, \$4,849,159 (2015: \$nil).
- Donations to a related charity organisation, \$376,363 (2015: \$433,663).
- Rental income from related entity, \$177,668 (2015: \$519,996).
- Loans provided to related entities, \$28,887 (2015: \$664,615).
- Investment income from related entities, \$6,507,720 (2015: \$15,147,206).

Balances with related parties as at the end of the reporting period were as follows:

- Trade and other receivables from related entities as at 30 June 2016, \$14,164 (2015: \$186,229).
- Trade and other payables to related entities as at 30 June 2016, \$822,444 (2015: \$670,193).
- Loans receivable from related entities as at 30 June 2016, \$31,346,140 (2015: \$31,317,253).
- Loan payable to related entity as at 30 June 2016, \$5,100,000 (2015: \$5,100,000).
- Wholesale cash fund and financial assets at fair values through profit or loss managed by related entities are disclosed in notes 5 and 6.

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

31 Key management personnel disclosures

(a) Key management personnel compensation

	2016 \$	2015 \$
Short term employee benefits	6,573,882	6,012,124
Post employment benefits	255,235	282,849
Long term benefits	688,183	446,971
	<u>7,517,300</u>	<u>6,741,944</u>

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

(b) Other transactions with key management personnel

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

32 Remuneration of auditors

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

(a) Audit and other assurance services

	2016 \$	2015 \$
Ernst & Young Australian firm		
Audit and review of financial statements	1,201,833	1,157,960
Audit of regulatory returns	330,000	327,040
Total remuneration for audit and other assurance services	<u>1,531,833</u>	<u>1,485,000</u>

(b) Taxation and other services

Ernst & Young Australian firm		
Tax compliance services	190,000	314,080
Tax consulting services	925,000	543,893
Other services	-	9,500
Total remuneration for taxation and other services	<u>1,115,000</u>	<u>867,473</u>

Total auditors' remuneration

<u>2,646,833</u>	<u>2,352,473</u>
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It is Australian Unity Limited's policy to employ Ernst & Young on assignments additional to their statutory audit duties only where Ernst & Young's expertise and experience with Australian Unity Limited's business are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

33 Benefit fund policy liabilities

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

(a) Analysis of policy liabilities

	2016 \$'000	2015 \$'000
Life investment contract liabilities	858,016	796,482
Life insurance contract liabilities - guaranteed element	1,038,291	1,039,137
Life insurance contract liabilities - other	489	440
Unvested policyholder liabilities	59,234	61,573
Total policy liabilities	1,956,030	1,897,632
Expected to be realised within 12 months	179,610	230,430
Expected to be realised in more than 12 months	1,776,420	1,667,202
	1,956,030	1,897,632

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

(b) Reconciliation of changes in policy liabilities

	2016 \$'000	2015 \$'000
Life investment contract liabilities		
Balance at the beginning of the financial year	796,482	719,881
Increase recognised in the profit or loss	9,429	35,633
Premiums recognised as a change in contract liabilities	131,694	114,710
Claims recognised as a change in contract liabilities	(79,589)	(73,742)
Balance at the end of the financial year	858,016	796,482
Life insurance contract liabilities		
Balance at the beginning of the financial year	1,039,577	1,102,777
Decrease recognised in the profit or loss	(797)	(63,200)
Balance at the end of the financial year	1,038,780	1,039,577
Unvested policyholder liabilities		
Balance at the beginning of the financial year	61,573	62,270
Decrease recognised in the profit or loss	(2,339)	(697)
Balance at the end of the financial year	59,234	61,573
Net policy liabilities at the end of the financial year	1,956,030	1,897,632

33 Benefit fund policy liabilities (continued)

(c) Analysis of policy liability revenue and expenses

	2016 \$'000	2015 \$'000
Revenue and other income		
Total life insurance contract premium revenue	44,377	63,870
Reinsurance expense	(258)	(248)
Life insurance contract claims revenue	44,119	63,622
Interest income	5,281	5,529
Distribution income	70,707	87,848
Realised gains	6,843	25,816
Unrealised gains/(losses)	17,669	(4,192)
Other income	3,931	20
Total revenue from life insurance business	148,550	178,643
Expenses		
Total life insurance and participating contract claims expense	100,076	156,688
Life insurance contract claims expense	100,076	156,688
Management fees	23,779	22,661
Other expenses	490	6,822
Movement in life insurance contract liabilities	(797)	(63,200)
Movement in invested policyholder liabilities	(2,339)	(697)
Movement in life investment contract liabilities	9,429	35,633
Total expenses from life insurance business	130,638	157,907

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2016. The actuarial report was prepared by the appointed actuary Mr Richard Land BCom FIAA, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence #411770. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

Policy Liability Valuations for Defined Benefit Funds

The defined benefit funds comprise the following:

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

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

33 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

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

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2016 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate ¹	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14) ²
Assurance Benefit Fund	13.5	2.29%	1.80%	30%	0.34%	100%
Funeral Fund	17.5	2.53%	0.70%	0%	1.83%	70%
Life Assurance Benefit Fund	11.0	2.10%	2.25%	30%	-0.11%	75%
Central Sick and Funeral Fund	11.0	2.10%	2.00%	0%	0.10%	60%
Funeral and Ancillary Benefit Fund	15.0	2.40%	2.00%	0%	0.40%	100%
Travel Protection Fund	14.0	2.33%	1.50%	0%	0.83%	100%
Whole of Life Funeral Fund	12.5	2.21%	1.50%	0%	0.71%	100%

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2015 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate ¹	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2011-13) ³
Assurance Benefit Fund	13.0	3.45%	1.80%	30%	1.15%	100%
Funeral Fund	15.5	3.65%	0.70%	0%	2.95%	70%
Life Assurance Benefit Fund	11.0	3.28%	2.25%	30%	0.72%	75%
Central Sick and Funeral Fund	10.0	3.20%	2.00%	0%	1.20%	60%
Funeral and Ancillary Benefit Fund	14.0	3.53%	2.00%	0%	1.53%	100%
Travel Protection Fund	13.0	3.45%	1.50%	0%	1.95%	100%
Whole of Life Funeral Fund	11.5	3.32%	1.50%	0%	1.82%	100%

Notes:

1 The zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term.

2 ALT 2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.

3 ALT 2011-13 refers to Australian Life Tables (Male and Female) 2011-2013.

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

The following additional assumptions apply:

- For the Funeral and Ancillary Benefit Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Benefit Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2015: 2.5 percent) per annum; and
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 4.0 percent (2015: 4.0 percent) of deaths will result in claims and the average claim amount is \$1,000 (2015: \$1,000) inflating at 2.5 percent (2015: 2.5 percent) per annum.

33 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

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

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

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

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

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

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

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

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

33 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds. The key assumptions for the policy liability calculations for the funeral funds at 30 June 2016 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate ¹	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012-14) ²
Capital Guaranteed Funeral Bond (Non Taxable)	8.5	2.36%	2.83%	0%	-0.47%	110%
Capital Guaranteed Funeral Bond (Taxable)	10.5	2.47%	2.83%	30%	-0.25%	115%
Capital Secured Funeral Bond	7.5	2.29%	3.00%	0%	-0.71%	100%
Funeral Bond	7.0	2.25%	1.50%	0%	0.75%	100%
Prepaid Funeral Fund	7.5	2.29%	1.50%	0%	0.79%	110%
Funeral Fund No 2 - Non Taxable	9.0	2.38%	2.23%	0%	0.15%	110%
Funeral Fund No 2 - Taxable	9.0	2.38%	2.23%	30%	0.10%	110%
Tax Minimiser Funeral Fund	9.5	2.41%	1.50%	30%	0.63%	150%

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2015 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate ¹	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2011-13) ³
Capital Guaranteed Funeral Fund (Non Taxable)	8.0	3.26%	2.70%	0%	0.56%	110%
Capital Guaranteed Funeral Fund (Taxable)	10.0	3.51%	2.70%	30%	0.57%	115%
Capital Secured Funeral Fund	7.0	3.10%	2.20%	0%	0.90%	100%
Funeral Bond Fund	7.0	3.10%	1.50%	0%	1.60%	100%
Prepaid Funeral Fund	7.0	3.10%	1.50%	0%	1.60%	110%
Funeral Fund No 2 - Non taxable	8.5	3.33%	2.00%	0%	1.33%	110%
Funeral Fund No 2 - Taxable	8.5	3.33%	2.00%	30%	0.93%	110%
Tax Minimiser Funeral Fund	9.0	3.41%	1.50%	30%	1.34%	150%

Notes

- 1 The zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term plus an illiquidity premium.
- 2 ALT2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.
- 3 ALT2011-13 refers to Australian Life Tables (Male and Female) 2011-2013.

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

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

Taxation

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

Surrender values

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

33 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions (continued)

Profit carriers

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

Restrictions on assets

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

Assets backing policy liabilities

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

Future participating benefits

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

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

Sensitivity analysis

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

Effects of changes in assumptions

There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2016. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

33 Benefit fund policy liabilities (continued)

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

Concentrations

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

Interest rate risk

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

Credit risk

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

(f) Solvency and capital adequacy information

The Group is required by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2016 and 2015.

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

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

(g) Disaggregated information - Benefit Funds

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

34 Disaggregated information - Benefit funds

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits	Investment	Other	Claims	Other	Before Tax	After Tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2016							
Non-investment linked benefit funds - Life insurance contracts	282	8,440	37	1,800	6,450	509	-
Investment linked benefit funds - Life investment contracts with DPF*	43,837	72,181	3,722	98,276	7,481	13,983	-
Investment contracts without DPF*	-	19,879	172	-	16,631	3,420	-
Total	44,119	100,500	3,931	100,076	30,562	17,912	-

30 June 2015

Non-investment linked benefit funds - Life insurance contracts	291	5,024	-	2,524	2,098	693	-
Investment linked benefit funds - Life investment contracts with DPF*	63,331	55,997	-	154,164	(44,118)	9,282	-
Investment contracts without DPF*	-	54,000	-	-	43,239	10,761	-
Total	63,622	115,021	-	156,688	1,219	20,736	-

*DPF = Discretionary Participating Features

	Assets		Liabilities		Equity
	Investments	Other	Life Insurance	Other	\$'000
	\$'000	\$'000	\$'000	\$'000	
30 June 2016					
Non-investment linked benefit funds - Life insurance contracts	62,651	1,728	62,845	1,534	-
Investment linked benefit funds - Life investment contracts with DPF*	864,843	180,531	1,035,169	10,205	-
Investment contracts without DPF*	845,451	34,133	858,016	21,568	-
Total	1,772,945	216,392	1,956,030	33,307	-
30 June 2015					
Non-investment linked benefit funds - Life insurance contracts	57,061	2,406	58,632	835	-
Investment linked benefit funds - Life investment contracts with DPF*	863,163	195,112	1,042,518	15,757	-
Investment contracts without DPF*	800,653	29,959	796,482	34,130	-
Total	1,720,877	227,477	1,897,632	50,722	-

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

*DPF = Discretionary Participating Features

34 Disaggregated information - Benefit funds (continued)

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

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium	Investment	Other	Claims	Other	Before tax	After tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2016							
Assurance benefit fund	-	1,453	-	630	757	66	-
Central sick and funeral fund	-	796	-	149	647	-	-
Funeral and ancillary benefits fund	7	2,303	-	657	1,653	-	-
Funeral fund	-	2,063	-	193	1,869	1	-
Life assurance benefit fund	-	1,635	-	131	1,054	450	-
Other	275	190	37	40	470	(8)	-
Total	282	8,440	37	1,800	6,450	509	-

30 June 2015							
Assurance benefit fund	-	1,147	-	1,303	(516)	360	-
Central sick and funeral fund	-	477	-	185	293	(1)	-
Funeral and ancillary benefits fund	8	1,313	-	632	689	-	-
Funeral fund	-	987	-	174	813	-	-
Life assurance benefit fund	-	968	-	187	579	202	-
Other	283	132	-	43	240	132	-
Total	291	5,024	-	2,524	2,098	693	-

	Assets		Liabilities		Equity Coverage of Solvency Reserve %
	Investments \$'000	Other \$'000	Life insurance \$'000	Other \$'000	
30 June 2016					
Assurance benefit fund	10,617	(45)	9,907	665	76
Central sick and funeral fund	7,321	-	7,311	10	90
Funeral and ancillary benefits fund	14,904	677	15,323	258	100
Funeral fund	14,156	84	14,290	(50)	100
Life assurance benefit fund	14,091	(16)	13,837	238	98
Other	1,562	1,028	2,177	413	
Total	62,651	1,728	62,845	1,534	

30 June 2015					
Assurance benefit fund	10,738	(57)	10,380	301	71
Central sick and funeral fund	6,791	-	6,773	18	89
Funeral and ancillary benefits fund	12,389	1,564	13,884	69	100
Funeral fund	12,409	12	12,420	1	100
Life assurance benefit fund	13,319	(126)	13,037	156	96
Other	1,415	1,013	2,138	290	
Total	57,061	2,406	58,632	835	

34 Disaggregated information - Benefit funds (continued)

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

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits	Investment	Other	Claims	Other	Before Tax	After Tax
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2016							
Bonus accumulation fund	310	2,105	-	12,844	(11,124)	695	-
Capital guaranteed bond	241	2,019	-	12,594	(10,543)	209	-
Funeral fund no 2	1,115	25,124	2,971	17,260	7,468	4,482	-
NextGen investments capital guaranteed fund	4,869	1,297	-	8,600	(2,635)	201	-
Tax minimiser funeral fund	32,744	22,426	-	18,307	30,951	5,912	-
Other	4,558	19,210	751	28,671	(6,636)	2,484	-
Total	43,837	72,181	3,722	98,276	7,481	13,983	-
30 June 2015							
Bonus accumulation fund	377	2,837	-	15,421	(13,174)	967	-
Capital guaranteed bond	229	3,029	-	8,981	(6,241)	518	-
Funeral fund no 2	1,262	20,230	-	18,396	249	2,847	-
NextGen investments capital guaranteed fund	24,409	2,069	-	58,315	(32,222)	385	-
Tax minimiser funeral fund	32,295	9,329	-	17,737	21,782	2,105	-
Other	4,759	18,503	-	35,314	(14,512)	2,460	-
Total	63,331	55,997	-	154,164	(44,118)	9,282	-

	Assets		Liabilities		Equity Coverage of Solvency Reserve %
	Investments	Other	Life insurance	Other	
	\$'000	\$'000	\$'000	\$'000	
30 June 2016					
Bonus accumulation fund	101,260	(101)	100,699	460	100
Capital guaranteed bond	91,559	71	91,457	173	99
Funeral fund no 2	214,054	18,100	227,386	4,768	93
NextGen investments capital guaranteed fund	64,699	121	64,604	216	99
Tax minimiser funeral fund	206,741	50,606	254,655	2,692	90
Other	186,530	111,734	296,368	1,896	
Total	864,843	180,531	1,035,169	10,205	
30 June 2015					
Bonus accumulation fund	114,376	(261)	112,952	1,163	100
Capital guaranteed bond	104,272	56	103,328	1,000	100
Funeral fund no 2	203,486	25,165	223,798	4,853	93
NextGen investments capital guaranteed fund	68,099	108	67,842	365	99
Tax minimiser funeral fund	180,771	49,819	226,427	4,163	89
Other	192,159	120,225	308,171	4,213	
Total	863,163	195,112	1,042,518	15,757	

34 Disaggregated information - Benefit funds (continued)

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

	Revenue		Expenses	Profit/(loss) for the year	
	Investment \$'000	Other \$'000	Other \$'000	Before Tax	
				Before Tax \$'000	After Tax \$'000
30 June 2016					
Education savings plan	2,609	-	2,466	143	-
Growth investment	676	-	389	287	-
Managed investment	2,034	-	1,351	683	-
NextGen investments	7,762	-	7,052	710	-
Select strategies	3,480	-	2,742	738	-
Other	3,318	172	2,631	859	-
Total	19,879	172	16,631	3,420	-

30 June 2015					
Education savings plan	8,128	-	6,929	1,199	-
Growth investment	2,800	-	2,106	694	-
Managed investment	4,354	-	3,440	914	-
NextGen investments	19,067	-	15,678	3,389	-
Select strategies	12,004	-	9,060	2,944	-
Other	7,647	-	6,026	1,621	-
Total	54,000	-	43,239	10,761	-

	Assets		Liabilities	
	Investments \$'000	Other \$'000	Life insurance	
			Life insurance \$'000	Other \$'000
30 June 2016				
Education savings plan	132,269	9,435	139,482	2,222
Growth investment	22,414	442	21,779	1,077
Managed investment	59,855	647	59,641	861
NextGen investments	414,361	5,583	412,893	7,051
Select strategies	128,917	1,198	123,171	6,944
Other	87,635	16,828	101,050	3,413
Total	845,451	34,133	858,016	21,568

30 June 2015				
Education savings plan	119,480	8,184	123,772	3,892
Growth investment	24,956	457	23,600	1,813
Managed investment	69,177	694	65,622	4,249
NextGen investments	331,624	1,985	323,208	10,401
Select strategies	151,210	1,069	143,568	8,711
Other	104,206	17,570	116,712	5,064
Total	800,653	29,959	796,482	34,130

35 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures. The financial statements are for the consolidated entity consisting of Australian Unity Limited (Parent entity) and its subsidiaries, referred to in these financial statements as the Group.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(iii) New and amended accounting standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2015:

- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Part C)*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

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

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 35(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, balance sheet and statement of changes in equity respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (refer to (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures, but not joint operations.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

35 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees are changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 35(p).

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with members of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to members of Australian Unity Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(vi) Life insurance benefit funds

The Group's life insurance operations are conducted within separate benefit funds as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the benefit funds are consolidated in the Group's financial statements.

(c) Benefit fund policy liabilities

(i) Classification

The Group's life insurance liabilities are held within separate benefit funds as required by the *Life Insurance Act 1995*. The activities of the benefit funds are included within the consolidated financial statements but are governed and managed separately. Life insurance liabilities are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non-participating life investment contract liabilities in accordance with AASB 1038 *Life Insurance Contracts*.

Life insurance contracts are contracts which transfer significant insurance risk at the inception of the contract. Insurance risk is considered to be significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Life investment contracts are contracts regulated under the *Life Insurance Act 1995* but that do not transfer significant insurance risk. Life investment contracts are further categorised into participating and non-participating contracts. Participating life investment contracts are contracts that contain a discretionary participation feature ("DPF"). A DPF is a contractual right to receive as a supplement to guaranteed benefits, additional benefits: (i) that are likely to be a significant portion of the total benefits; (ii) whose amount or timing is contractually at the discretion of the issuer; and (iii) that are based on the performance of a specified pool of assets.

35 Summary of significant accounting policies (continued)

(c) Benefit fund policy liabilities (continued)

Participating life investment contract liabilities are classified and accounted for in the same manner as life insurance contract liabilities, that is under the requirements of AASB 1038 *Life Insurance Contracts* and are referred to in these financial statements as life insurance contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 139 *Financial Instruments* and are referred to in these financial statements as life investment contract liabilities.

Life investment contract liabilities include investment linked contracts in which the Group issues a contract where the benefit amount is directly linked to the market value of the investments held by the benefit fund. While the underlying assets are registered in the name of the benefit fund and the investment linked policyowner has no direct access to the specific assets, the contractual arrangements are such that the investment linked policyowner bears the risks and rewards of the benefit fund's investment performance. The Group derives fee income from the administration of the investment linked contracts.

Non-investment linked business is business in which the Group issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event.

(ii) Valuation

The fair value of life insurance contract liabilities are determined using a projection method. The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method. Further details of the actuarial assumptions used in the calculation of these policy liabilities are set out in note 33.

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

(iii) Claims expense

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

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

(d) Borrowing costs

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

(e) Borrowings

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

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

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

35 Summary of significant accounting policies (continued)

(f) Business combinations

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

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

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

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

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

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

(g) Cash and cash equivalents

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

(h) Deferred acquisition costs

Acquisition costs represent commission and other expenses incurred in relation to the acquisition of health insurance contracts. These costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised on a straight line basis over a period in line with the average expected duration of the customer relationships to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. The average expected duration of the customer relationships is reassessed annually.

(i) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

35 Summary of significant accounting policies (continued)

(i) Derivatives and hedging activities (continued)

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in members' equity are shown in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain/(loss) relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expenses.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves as equity. The gain/(loss) relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain/(loss) existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain/(loss) that was reported in equity is immediately reclassified to profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(j) Employee benefits

Employees engaged in the Group's operations are employed by related entities, Australian Unity Group Services Proprietary Limited, Big Sky Building Society Limited and Lifeplan Australia Friendly Society Limited.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on high quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the end of each reporting period, regardless of when the actual settlement is expected to occur.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

35 Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

(iv) Superannuation

The Group contributes to the Australian Unity Staff Superannuation Plan (a sub plan of the Freedom of Choice Employer Sponsored Superannuation Plan), the Hesta Superannuation Fund and other complying superannuation funds nominated by employees. The Australian Unity Staff Superannuation Plan is open to new members and is an accumulation fund, where the employer contributions are fully vested in the member. The Hesta Superannuation Fund is an industry based fund for employees working in the retirement village complexes and aged care facilities. The Group is required to contribute to the above mentioned plans in accordance with the Superannuation Guarantee Legislation.

One of the Group's subsidiaries makes contributions to three external defined benefit superannuation schemes that provide defined benefit amounts for employees on retirement. These schemes are closed to new members from the Group. The net obligation in respect of these defined benefit schemes is calculated separately for each of the relevant Group employees by estimating the amount of future benefits that they have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity. The Group does not consider its net obligation in respect of these defined benefit schemes to be material as at the end of each reporting period.

(k) Financial guarantee contracts

A financial guarantee contract is a contract requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with terms of the debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Australian Unity Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains/(losses) resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain/(loss). For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain/(loss) and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in other comprehensive income and accumulated in reserves as equity.

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

35 Summary of significant accounting policies (continued)

(m) Goods and Services Tax (GST) (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Government grants

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

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

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

(o) Health insurance

(i) Classification

Health insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a health insurance contract, it remains as a health insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Group has determined that all current contracts with health insurance policyholders are health insurance contracts.

(ii) Claims expense

Health insurance claims include all claim losses occurring during the year, whether reported or not, and any adjustments to claims outstanding from previous years.

(p) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(q) Income tax

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

35 Summary of significant accounting policies (continued)

(q) Income tax (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

Australian Unity Limited (Parent entity) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The Parent entity, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The Parent entity also recognises the current tax assets or liabilities, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities under the tax consolidated group entered into a tax funding agreement under which the wholly-owned entities fully compensate the Parent entity for any current tax payable assumed and are compensated by the Parent entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Parent entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The Parent entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

35 Summary of significant accounting policies (continued)

(q) Income tax (continued)

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 35(f). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Impairment is determined by assessing the recoverable amount, based on value in use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Bed licences are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Management rights

Management rights acquired separately are initially recognised at cost. The cost of management rights acquired in a business combination is their fair value as at the date of acquisition. Management rights with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of management rights over their estimated useful lives, which vary from 4 to 20 years. These management rights are assessed for impairment whenever there is an indication that they may be impaired. Management rights with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(iv) Computer software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of software and licences over their estimated useful lives, which vary from 4 to 7 years.

(s) Inventories

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

(t) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

35 Summary of significant accounting policies (continued)

(t) Investment properties (continued)

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains/(losses) on the derecognition of an investment property are recognised in the profit or loss in the year of derecognition.

Retirement village investment property relates to interests in retirement village independent living units and aged care facilities where the aged care facilities are managed by operators which are not part of the Group. These investments are initially measured at cost and when the facilities are complete, or substantially complete, they are stated at fair value. The fair value represents the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, such as average length of residence and expected changes in property prices.

Land held for development purposes of investment property is also classified as investment property.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset (refer to note 35(w)) and sold to a retirement village operator.

(u) Investments and other financial assets

Classification

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and advances and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months of the end of the reporting period; otherwise they are classified as non-current.

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities within 12 months of the end of the reporting period, which are classified as current assets.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in a reclassification of all held-to-maturity investments as available-for-sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held-to-maturity investments to available-for-sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held-to-maturity in the financial year of the sale or reclassification and the following two financial years.

Recognition and derecognition

Purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership.

Measurement

Financial assets are initially measured at fair value plus, where they are not financial assets at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs of financial assets at fair value through profit or loss are expensed. Loans and advances and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains/(losses) arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit or loss in the period in which they arise.

35 Summary of significant accounting policies (continued)

(u) Investments and other financial assets (continued)

The fair values of quoted investments are based on closing bid prices. If the market prices are not available (e.g. for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Loans and advances

Loans and advances are subject to recurring review and assessed for possible impairment. Indicators of objective impairment include an accumulation of repayment defaults, knowledge of financial difficulty of borrowers, probability of bankruptcy of borrowers and difficulties with the borrower to negotiate arrangements to repay arrears or pay out the loan balance.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired. Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

If there is objective evidence that an impairment loss on the assets has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred but including an allowance for proceeds of realisation of collateral and other credit enhancements) discounted at the original effective interest rate for fixed rate loans and at the current effective interest rate for variable rate loans. The carrying amount of the assets is reduced through the use of a provision account and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

In the case where a loan is restructured, the process may involve extending payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, the arrears profile of the member is extinguished after six months if the member has complied with the renegotiated terms.

When there is no realistic prospect of future recovery and all collateral has been realised, impaired loans are written off against the relevant provision for impairment.

(ii) Held-to-maturity investments

The Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the profit or loss.

(v) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Group as a lessee

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the leased assets' fair value or the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over their useful life. However, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term, the assets are depreciated over the shorter of the asset's useful life and the lease term.

35 Summary of significant accounting policies (continued)

(v) Leases (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Group as a lessor

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(w) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the consolidated balance sheet.

(x) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the end of each reporting period under insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims Incurred But Not Reported (IBNR), claims Incurred But Not Enough Reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments of claims expected to be settled within one year are not discounted as the undiscounted value approximates their present value. The expected future payments of other claims are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(y) Property, plant and equipment

(i) Cost and valuation

Freehold land and buildings on freehold land are measured on a fair value basis. The fair value is based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. At the date of any revaluation adjustment made, any accumulated depreciation is restated proportionately with the change in the gross carrying amount so that the net carrying amount of the asset after the revaluation equals its revalued amount. At the end of each reporting period, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to other comprehensive income and accumulated in the asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the profit or loss, the increase is first recognised in the profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the profit or loss.

All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

35 Summary of significant accounting policies (continued)

(y) Property, plant and equipment (continued)

(ii) Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected useful life. Estimates of remaining useful lives are reassessed annually for major items.

The expected useful lives are as follows:

Category	Useful life
Buildings	40 years
Plant and equipment	5 - 20 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount and included in the profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

Non-property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the assets come into operational service.

(z) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(aa) Refundable lease deposits

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ab) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(ac) Reserve for credit losses

The reserve for credit losses is used by a building society subsidiary company to recognise an additional impairment allowance for credit losses required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to this regulatory authority. It is recognised as an appropriation of retained earnings to non-distributable reserves. This additional impairment allowance is not permitted by Australian Accounting Standards to be recognised as an impairment charge against loans and overdrafts or recognised as an expense in the Consolidated Statement of Comprehensive Income.

35 Summary of significant accounting policies (continued)

(ad) Resident loans

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ae) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Aged care income

Income and government subsidies for the provision of aged care facilities and related services are recognised as the services are provided.

(ii) Deferred management fee

Deferred management fee represents income relating to managed retirement village assets is recognised on the turnover from one resident to another of independent living units in the retirement village and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit.

(iii) Dividends and distributions

Dividends and distributions are recognised when the Group's right to receive the income is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 35(p).

(iv) Fair value gains on investment properties

Fair value gains on investment properties are recognised when they arise.

(v) Health insurance premium revenue

Health insurance premium revenue is recognised in the profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract. The proportion of premium received or receivable not earned in the profit or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

(vi) Interest income

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

(vii) Life insurance premium revenue and fees

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

(viii) Other revenue

Commissions from reinsurance are recognised when the Group's right to receive the commission is established.

(ix) Property, funds management and administration fee income

Fee income is recognised based upon the contractual obligations of the Responsible Entity/Trustee to perform certain tasks.

(x) Rental income

Rental income from investment properties is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

35 Summary of significant accounting policies (continued)

(ae) Revenue recognition (continued)

(xi) Resident levies

Income from the provision of services to retirement village residents is recognised as the services are provided.

(xii) Retirement village and aged care facility management fees

Fees for the management of retirement villages and aged care facilities are recognised as management services are provided.

(af) Risk Equalisation Trust Fund

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the *Private Health Insurance (Risk Equalisation Administration) Rules 2007*, all health insurers must participate in the Risk Equalisation Trust Fund (RETF). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

The amounts receivable from the RETF are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(ag) Securitisation

The Group participates in a loan securitisation program whereby mortgage loans are sold as securities to a third party. The Trustee of the securitisation program has funded the purchase of housing mortgage loans through the issue of securities. The securities issued by this entity do not represent deposits or liabilities of the Group. The Group does not guarantee the capital value or performance of the securities, or the assets of that entity. The Group does not guarantee the payment of the interest or the repayment of principal due on the securities. The Group is not obliged to support any losses incurred by investors in that entity and does not intend to provide such support. The risks and rewards of each security do not rest with the Group. Accordingly, the Group no longer hold the relevant mortgage loans in its balance sheet (refer to derecognition of financial assets disclosed in note 35(u)). In accordance with contractual arrangements, the Group receives income from the third party to service the loans which is included in non-interest income.

(ah) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided as part of the monthly management reporting document. The chief operating decision maker has been identified as the Group Executive Committee that has delegated responsibility from the board for the achievement of the business strategic and operational plans approved by the board.

(ai) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost. They are presented as current liabilities unless payment is not due within 12 months after the end of each reporting period.

(aj) Trade and other receivables

Trade and other receivables, which are generally settled on 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate at the date of recognition of the receivable. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

35 Summary of significant accounting policies (continued)

(ak) Unexpired risk liability

At the end of each reporting period the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the profit or loss. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

(al) New standards and interpretations not yet adopted

The Australian Accounting Standards Board (AASB) has issued some new and amended accounting standards that are not mandatory for 30 June 2016 reporting periods. The table below sets out the standards that are relevant to the Group.

AASB	Title	Operative Date *)
AASB 9 AASB 2010-7 AASB 2014-7 AASB 2014-8	Financial Instruments Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)	1 January 2018
AASB 14	Regulatory Deferral Accounts	1 January 2016
AASB 2014-1 (Part D-E)	Amendments to Australian Accounting Standards	Part D - 1 January 2016; Part E - 1 January 2018
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
AASB 15 AASB 2014-5 AASB 2015-8 AASB 2016-3	Revenue from contracts with customers Amendments to Australian Accounting Standards arising from AASB 15 Amendments to Australian Accounting Standards – Effective Date of AASB 15 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 1, 127 & 128]	1 January 2016
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128]	1 January 2016

35 Summary of significant accounting policies (continued)

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

AASB	Title	Operative Date *)
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	1 January 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12 & AASB 128]	1 January 2016
AASB 1057	Application of Australian Accounting Standards	1 January 2016
AASB 2015-6	Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-For-Profit Public Sector Entities	1 July 2016
AASB 2015-7	Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-For-Profit Public Sector Entities	1 July 2016
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017
AASB 16	Leases	1 January 2019

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

The above standards are not yet effective for the annual reporting period ended 30 June 2016. The Group has not applied the above standards in preparing the current year financial statements. Where applicable, the Group will apply the amendments to the annual reporting periods beginning on or after the operative dates set out above. The application of these standards is not expected to have a material impact to the amounts reported in the consolidated financial statements.

The following is the Group's assessment on the potential impacts of the major amendments in the standard requirements.

(i) AASB 9 Financial Instruments and related amendments

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard requires all financial assets to be recognised at fair value except for debt instruments with basic features. Where debt instruments' contractual cash flows are solely payments of principal and interest on the outstanding principal, these instruments are recognised at amortised cost. For financial assets at fair value, any movements in fair value must be recognised in the profit or loss. Only fair value movements of those equity instruments that are not held for trading are permitted to be recognised in other comprehensive income. The standard introduces an expected-loss impairment model that requires entities to account for credit losses on a more timely basis starting from when the financial instruments are first recognised. The standard also includes a substantially-reformed approach to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

AASB 9 is not applicable until 1 January 2018, but is available for early adoption. Based on the initial assessment, the Group's debt instruments that are classified as financial assets at fair value through profit or loss and held-to-maturity investments would satisfy the condition for classification and measurement under AASB 9. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The new impairment model based on the expected credit loss will have a potential impact to the Group. The Group is determining the amount of the potential impact and will finalise its assessment over the next twelve months, including whether AASB 9 will be early adopted. If AASB 9 is early adopted, it can be applied retrospectively with the prior year impacts being taken up in the opening retained earnings.

35 Summary of significant accounting policies (continued)

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

(ii) AASB 15 Revenue from contracts with customers

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the effects of applying AASB 15 on the financial statements and has identified certain areas that are likely to be affected. At this stage, the Group is determining the effect on the financial statements and will finalise its assessments of the effect over the next twelve months.

(iii) AASB 16 Leases

AASB 16 will primarily affect accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (a right to use the leased item) and a financial liability to pay rentals for all lease contracts with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors will not significantly change. The standard also requires enhanced disclosures. AASB 16 is not applicable until 1 January 2019 with limited early adoption permitted. The Group has started to consider the impact this standard will have on the Group's operations and its financial statements. The application of this standard will not have any impact on the gearing ratio covenant of the Australian Unity Bonds.

(am) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less any adjustments for impairment losses. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(an) Comparative information

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

In the directors' opinion:

- (a) the financial statements and notes set out on pages 32 to 115 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 35; and
- (c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

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

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



Peter Promnitz
Chair



Rohan Mead
Group Managing Director & CEO

South Melbourne
31 August 2016

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

Report on the financial report

We have audited the accompanying financial report of Australian Unity Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 35(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Australian Unity Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 35(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 28 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Unity Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



T M Dring
Partner
Melbourne
31 August 2016