

Remuneration report

Dear Member

On behalf of the Board, I am pleased to present Australian Unity's Remuneration Report for the year ended 30 June 2019, my first as Chair of the People, Culture and Remuneration Committee.

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

Australian Unity's remuneration arrangements play an important role in the Group's ability to attract and retain the very best people and, as such, underpin the performance of the Group for the benefit of members and customers.

Last year we informed members of changes to remuneration arrangements that sought to simplify and better align reward with the longer term performance of the Group. In line with this, in FY19, executive performance was assessed in terms of performance against budget Net Profit After Tax (NPAT), with consideration also given to capital account management and cash flow generation. The Board also took account of non-financial metrics, such as the effectiveness of risk management across the Group and progress against key strategic priorities and reflected on the likely expectations of members and the wider community regarding the Group's financial and non-financial performance.

To ensure that performance in any one year is not achieved at the expense of likely future performance, the variable pay of executives is capped and a significant proportion of variable reward is deferred to future years.

Looking to FY20 and beyond

The Board endorsed further consideration and review of the Group's remuneration arrangements for FY20 and beyond, to take account of changing regulatory and community expectations. Further design changes have been agreed to ensure that the Group's executive remuneration arrangements:

- align with and drive performance in the interests of Australian Unity members and customers;
- support the Group's ability to attract and keep the best people as one element of a broader employee value proposition;
- are easily understood by executives and other employees; and
- are flexible enough to accommodate and reflect changing external circumstances, including through the capacity for the Board to exercise considerable discretion.

Key amendments include:

1. Group performance will be assessed equally against financial and non-financial performance indicators aligned to Board approved strategic and operating plans.
2. Individual performance will be assessed against a balanced set of goals aligned to strategy, behaviours consistent with our values and leadership in risk and conduct requirements.
3. Variable compensation will be awarded at the judgement of the Board, with consideration to the long term financial soundness and appropriate risk management of Australian Unity.
4. Changes to deferral arrangements to support long term sustainable performance, Group value creation and in accordance with regulatory requirements.

Over the next 12 months, the Board will continue to monitor the implementation of the program and assess the effectiveness of its remuneration arrangements to ensure they are consistent with the long-term interests of the Group.

Yours faithfully

Lisa Chung
Chair - People, Culture and Remuneration Committee

Remuneration report (continued)

Key Management Personnel (KMP)

This Remuneration Report outlines the remuneration arrangements in place and outcomes achieved for Australian Unity's KMP during 2019.

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

The names and positions of the individuals who were KMP during 2019 are set out in Table 1.

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

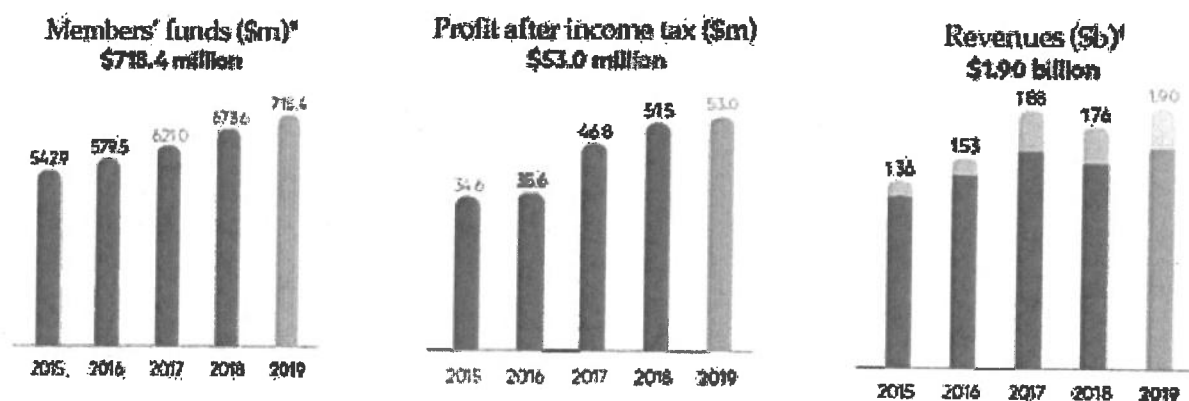
Table 1 - KMP

Non-executive director	Position
Peter Promnitz	Chair
Lisa Chung	Non-executive Director
Melinda Cilento	Non-executive Director
Paul Kirk	Non-executive Director
Su McCluskey	Non-executive Director
Greg Willcock	Non-executive Director

Key Management Personnel	Position
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Wealth & Capital Markets
Kevin McCoy	CEO Independent & Assisted Living
Matthew Walsh	CEO Retail
Esther Kerr-Smith	Group Executive, Finance and Strategy
Amanda Hagan	Group Executive, Customer, Digital & Technology

Table 2 - Five year Performance

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



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

† Revenues comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the statement of comprehensive income in the Annual report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income. The 2018 year includes the sale of the Group's corporate health insurance business, Grand United Corporate Health.

Remuneration report (continued)

Remuneration Policy

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

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

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

Senior Executive Remuneration

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

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

The **variable component** is structured to align and reward performance against longer-term goals, including people leadership, overall value creation, leadership of Australian Unity's risk management framework and long-term financial soundness. The variable compensation scheme for senior executives (referred to as True North), aligns with longer-term sustainability by deferring a significant portion (a minimum of 30 per cent) of each senior executive's variable compensation over a period of time. Senior Executive variable compensation is capped in any one year at one times fixed remuneration. If a senior executive is awarded higher variable compensation in a particular year, the amount eligible for payment is capped at the level of their fixed remuneration, with any surplus deferred to future years (these arrangements may vary in the case of retirement or cessation of employment by a senior executive). The Board may determine that some or all of any variable compensation deferred may be forfeited.

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

All remuneration, both fixed and variable, is cash based. As a mutual, Australian Unity has no shares on issue, and no director or executive has shares in Australian Unity.

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

The Remuneration Framework & Link to Performance

To deliver high quality products and services in a sustainable manner, the Group must be commercially successful and develop its business operations, 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 for senior executives are set by reference to both financial *and* non-financial objectives.

In assessing financial performance, the Board considers overall Group performance, having regard to financial performance compared to budget (NPAT) with judgement applied regarding operating cash flow and capital management. A quality overlay is also applied taking into consideration risks, member and community expectations and performance against non-financial objectives.

In reviewing the non-financial performance of each senior executive, progress against the following is considered: senior executive behaviours and values in action; strategic and commercial priority delivery at a Group level; strategic and commercial priority delivery at a platform/function or role level; and personal contribution to community, diversity and inclusion.

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

Remuneration report (continued)

Table 3 - Overview of True North Variable Compensation Scheme

Individual non-financial performance multiplied by	Each senior executive is assessed against individual target performance, and given a rating of either not delivering; delivering; exceeding or inspiring. Individual assessment considers: <ul style="list-style-type: none"> - Behaviours and values in action - Strategic and commercial priority at a Group level - Strategic and commercial priority delivery at a platform/function or role level - Personal contribution to community, diversity and inclusion
Financial Performance multiplied by	Overall financial performance compared to budget (NPAT) with judgement applied regarding operating cash flow and capital management. Quality overlay applied taking into consideration risks, member and community expectations and performance against non-financial objectives.
True North Opportunity equals	In the year under review, True North Opportunity (TNO) is a percentage from 40.0 - 75.0% of the senior executive's fixed remuneration consistent with individual contracts of employment.
Variable compensation declared	Individual performance and variable compensation outcomes are approved by the Board for each senior executive.
Variable compensation payment	In the year under review, all senior executives are subject to a minimum of 30% mandatory deferral. A higher amount may be deferred in situations where performance targets have been exceeded. Variable compensation payable in any one year cannot exceed 1x a senior executive's fixed remuneration. Any amount in excess of this limit is deferred and can be paid in future years. Deferrals are generally paid over two years - twelve months and twenty four months from the original award. Deferred amounts are subject to ongoing performance conditions.

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 (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 1 November 2017. At that meeting members approved the sum of up to \$1.485 million in aggregate fees per financial year. This increase in the sum approved took effect from 1 January 2018 and the total spend on directors fees during the 2019 year was \$1.186 million.

On 25 September 2018, the board approved an increase of 25% to Mr Kirk's director fees in recognition of the establishment of the new Subsidiaries' Accounts Audit Committee and the associated additional workload in chairing that Committee in addition to his role as chair of the Audit Committee.

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

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

Remuneration report (continued)

Remuneration tables

Remuneration for the year ended 30 June 2019

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

Name	Year	Fixed			Variable		Total remuneration \$	Variable proportion of the current year's total remuneration %	increase/ (decrease) in long service leave provision ³ \$
		Cash salary and fees ¹ \$	Non-monetary benefits ^{1,4} \$	Superannuation contributions ² \$	Cash payable (Current year variable remuneration) ¹ \$	Cash payable (Deferred variable remuneration) ² \$			
Non-executive directors									
Peter Promnitz, Chair	2019	309,469	1,000	20,531	-	-	331,000	-	-
	2018	304,759	871	20,049	-	-	325,679	-	-
Lisa Chung	2019	150,685	-	14,315	-	-	165,000	-	-
	2018	148,055	-	13,876	-	-	159,942	-	-
Melinda Cilento	2019	150,685	-	14,315	-	-	165,000	-	-
	2018	148,314	-	14,090	-	-	162,404	-	-
Paul Kirk	2019	176,545	-	16,772	-	-	193,317	-	-
	2018	148,314	-	14,090	-	-	162,404	-	-
Su McCluskey	2019	152,941	-	12,059	-	-	165,000	-	-
	2018	140,524	-	21,880	-	-	162,404	-	-
Greg Wilcock	2019	150,685	1,000	14,315	-	-	166,000	-	-
	2018	148,314	608	14,090	-	-	163,012	-	-
Non-executive directors whose appointment ceased during 2018									
Stephen Maitland (retired 1 November 2017)	2018	60,133	355	5,713	-	-	66,202	-	-
Sub-total Non-executive directors⁵									
	2019	1,091,010	2,000	92,307	-	-	1,185,317	-	-
	2018	1,095,424	1,835	103,788	-	-	1,202,047	-	-
Executives									
Rohan Mead, Group Managing Director	2019	1,142,410	1,000	24,911	641,054	73,553	1,882,928	35%	41,209
	2018	1,119,994	942	25,000	343,249	-	1,489,185	23%	18,427
David Bryant	2019	794,819	1,000	20,531	395,368	422,683	1,634,401	50%	(133,131)
	2018	785,107	942	20,049	259,444	367,088	1,432,630	44%	12,936
Amanda Hagan	2019	725,684	1,000	20,531	352,981	61,718	1,171,914	36%	18,312
	2018	718,762	942	20,049	288,016	-	1,027,769	28%	8,944
Eather Kerr-Smith (appointed Group Executive - Finance & Strategy 25 September 2017)	2019	521,769	1,000	20,531	288,808	12,600	844,708	36%	2,285
	2018	352,151	515	15,422	58,800	-	426,889	14%	1,442
Kevin McCoy	2019	639,469	1,000	20,531	379,429	65,289	1,105,718	40%	24,092
	2018	637,666	942	20,049	174,507	27,895	861,059	24%	14,972
Matthew Walsh (appointed CEO Retail 27 November 2017)	2019	525,123	5,364	23,532	302,545	194,608	1,051,172	47%	(16,383)
	2018	301,614	2,395	13,288	99,784	93,030	510,121	35%	28,727
Total	2019	5,440,284	12,364	222,874	2,370,185	830,451	8,876,158		(63,616)
	2018	5,011,718	8,514	217,855	1,223,800	488,013	6,949,700		85,448

¹ Short-term benefits

² Post-employment benefits

³ Long-term benefits

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

⁵ Non-executive directors fee increases effective for part year in 2018.

Remuneration report (continued)

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

Name	Year	Fixed		Total remuneration \$
		Cash salary and fees ¹ \$	Superannuation contributions ² \$	
<i>Non-executive directors</i> Greg Willcock	2019	83,784	6,216	90,000
	2018	82,192	5,978	88,170
Total Non-executive directors	2019	83,784	6,216	90,000
	2018	82,192	5,978	88,170

¹Short-term benefits.

²Post-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.

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

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

Name	True North opportunity amount \$	Total North amount awarded based on performance		True North variable amount payable \$	Maximum 2019 True North deferred variable amount (payable subject to ongoing performance) \$
		%	\$		
Rohan Mead	880,568	104%	915,791	641,054	274,737
David Bryant ¹	584,906	117%	684,341	395,368	288,973
Amanda Hagan	498,600	104%	518,544	362,981	155,563
Esther Kerr-Smith	382,375	108%	412,583	288,808	123,775
Kevin McCoy	438,900	124%	542,042	379,429	162,613
Matthew Walsh	369,408	117%	432,207	302,545	129,662

¹David Bryant's 2019 variable compensation exceeded the one times fixed remuneration cap. Variable compensation amounts greater have been deferred.

Remuneration report (continued)

Details of remuneration – Long term performance related variable compensation for relevant executives

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

Name	Deferred Variable Remuneration				
	Date when deferred variable remuneration was awarded	Financial year for which the deferred variable remuneration will be fully payable	Maximum total value of deferred variable remuneration \$	Proportion of deferred variable remuneration payable %	Proportion of deferred variable remuneration not earned %
Rohan Mead	28 August 2019	2020	137,368	-	-
		2021	137,369	-	-
	29 August 2018	2019	73,553	100%	75,553
		2020	73,554	-	-
David Bryant	28 August 2019	2020	186,321	-	-
		2021	102,652	-	-
	29 August 2018	2019	55,595	100%	55,595
		2020	55,595	-	-
	30 August 2017	2019	367,088	100%	367,088
Amanda Hagan	28 August 2019	2020	77,781	-	-
		2021	77,782	-	-
	29 August 2018	2019	61,718	100%	61,718
		2020	61,717	-	-
Esther Kerr-Smith	28 August 2019	2020	61,887	-	-
		2021	61,888	-	-
	29 August 2018	2019	12,600	100%	12,600
		2020	12,600	-	-
Kevin McCoy	28 August 2019	2020	81,306	-	-
		2021	81,307	-	-
	29 August 2018	2019	37,394	100%	37,394
		2020	37,395	-	-
	30 August 2017	2019	27,895	100%	27,895
Matthew Walsh	28 August 2019	2020	64,831	-	-
		2021	64,831	-	-
	29 August 2018	2019	33,356	100%	33,356
		2020	33,357	-	-
	30 August 2017	2019	161,252	100%	161,252

Remuneration report (continued)

Contract terms for relevant executives

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

Name	Employee initiated notice period¹	Employer initiated notice period²	Termination benefit³
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant	6 months	6 months	none
Amanda Hagan	6 months	6 months	none
Esther Kerr-Smith	6 months	6 months	none
Kevin McCoy	6 months	6 months	none
Matthew Walsh	6 months	6 months	none

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

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

³Entitlement to variable remuneration is set out in the Senior Executive Remuneration section above.

Use of Remuneration Consultants

With the exception of a review supporting the letter attached to this report from KPMG, confirming that remuneration paid to KMP is appropriate, the Board did not use remuneration consultants during 2019.

Remuneration report (continued)



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Ms Lisa Chang
Chairman of the People, Culture and Remuneration
Committee
Australian Unity Limited
271 Spring Street
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Contact Ben Travers 03 9288 5279
Andrew Holland 03 9288 6612

27 August 2019

Dear Ms Chang

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

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

Our view is that the FY19 remuneration for Australian Unity's KMP is reasonable and appropriate in comparison with Australian market practice.

The introduction of the additional deferral and payment capping arrangements is welcomed.

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

We confirm that all advice was:

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

Please contact me if you would like to discuss.

Yours sincerely

Ben Travers
Partner

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, PricewaterhouseCoopers, for audit and non-audit services provided during the year are set out below.

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

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

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

	2019	2018
	\$	\$
PricewaterhouseCoopers Australia		
Audit of regulatory returns	294,652	288,130
Tax compliance services	167,712	212,651
Tax consulting services	52,500	130,184
Other services	30,400	221,457
<i>Total remuneration for non-audit services</i>	545,264	852,422

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 27.

Rounding of amounts

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

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



**Peter Promnitz
Chair**



**Rohan Mead
Group Managing Director & CEO**

**Melbourne
28 August 2019**