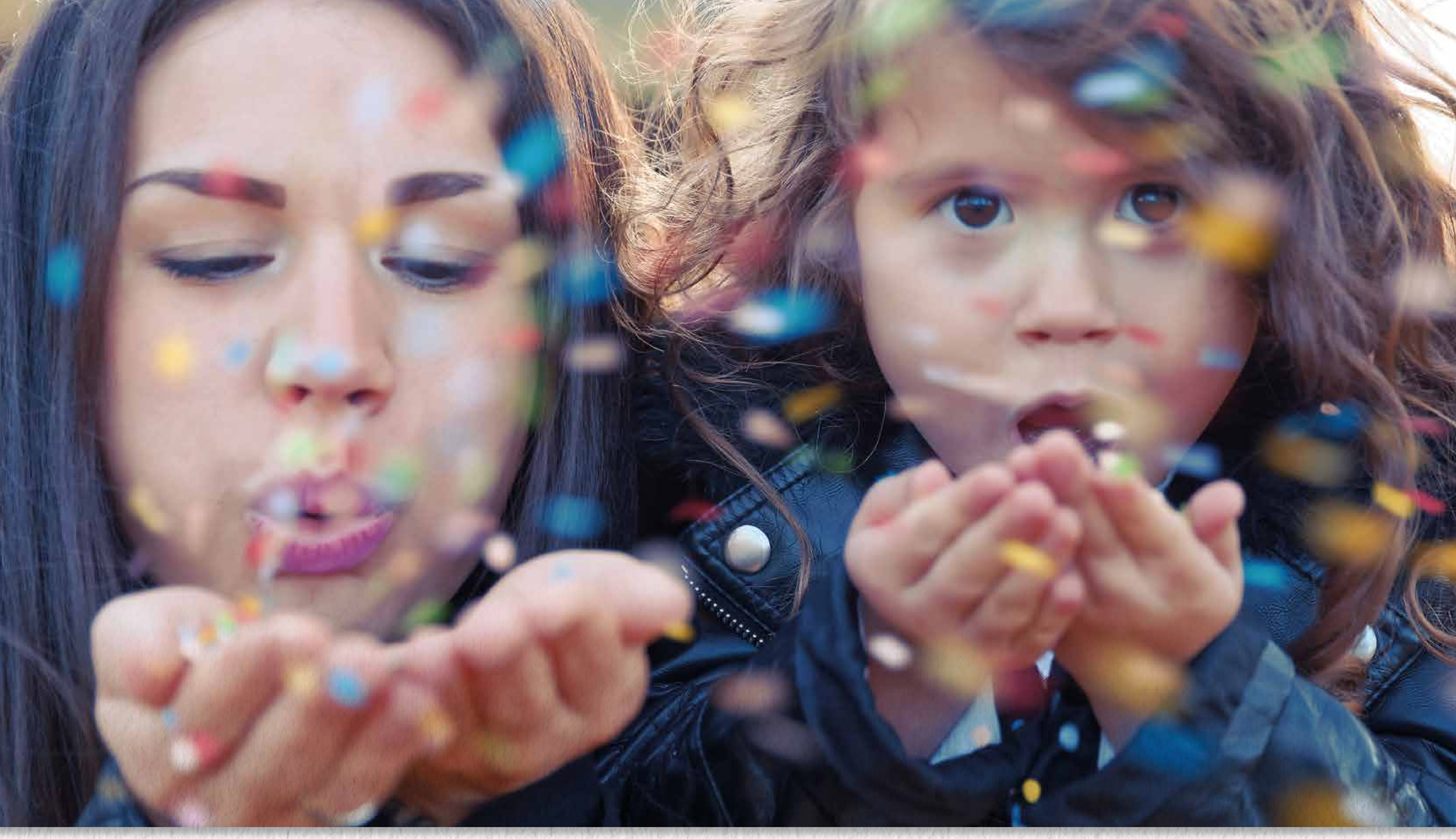
Annual Report 2015

Australian Unity

Creating community value



Creating community value

2015 at a glance

70.2%

increase in Funds Under Advice

20%

increase in staff across Australian Unity

16.6%

increase in profit after tax

13.7%

increase in operating earnings

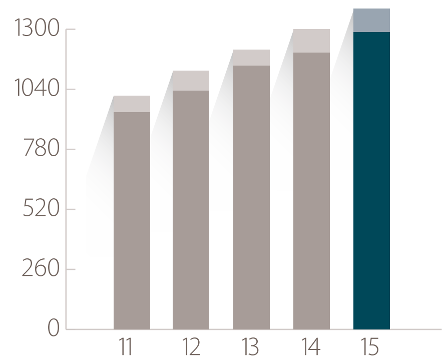
$464m

being invested in Retirement Living development projects

$14.6m

reduction in claims paid by participating health insurers resulting from hospital substitution services provided by Remedy Healthcare over the past year

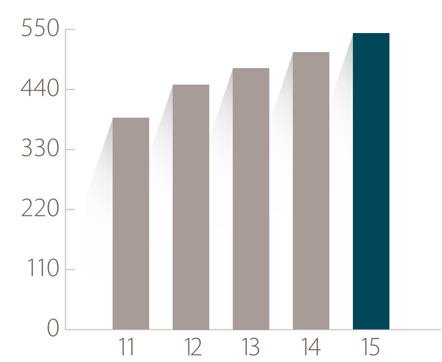
$ $1.40b



Revenues ($billion)†

2014 $1.30
2013 $1.21
2012 $1.12
2011 $1.01

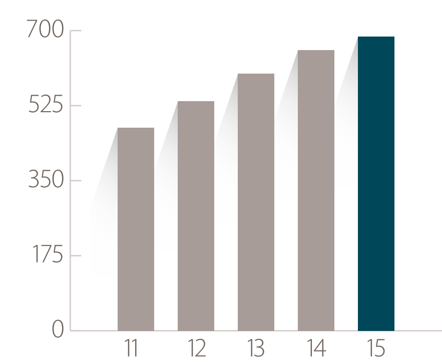
$ $543m



Members' funds ($million)‡

2014 $508
2013 $479
2012 $449
2011 $388

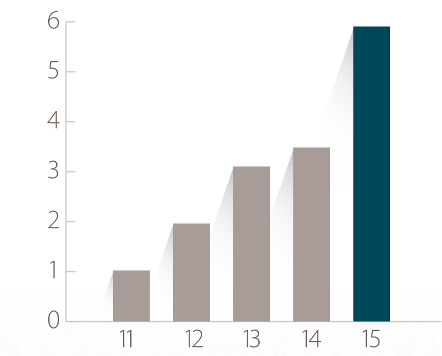
$ $686m



Health claims paid ($million)

2014 $655
2013 $599
2012 $535
2011 $474

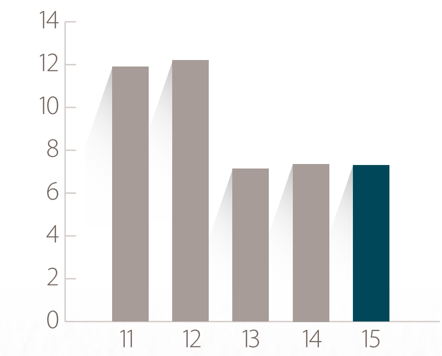
$ $5.93b



Funds under advice ($billion)#

2014 $3.48
2013 $3.10
2012 $1.96
2011 $1.02

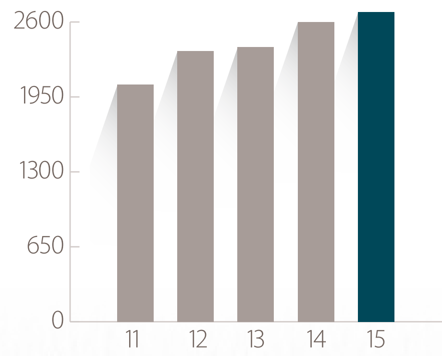
$ $7.33b



Funds under management ($billion)*

2014 $7.36
2013 $7.13
2012 $12.24
2011 $11.94

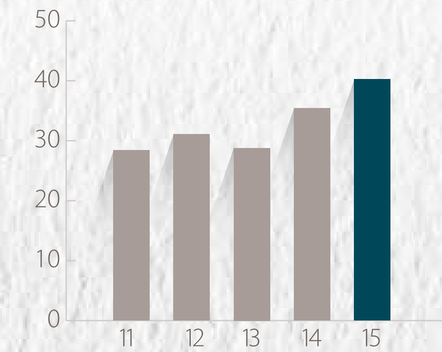
2,683



Retirement units and aged care beds

2014 2,599
2013 2,382
2012 2,350
2011 2,056

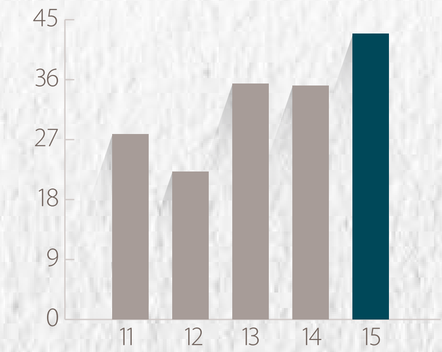
$ $40.3m



Operating earnings ($million)Σ

2014 $35.4
2013 $28.8
2012 $31.1
2011 $28.4

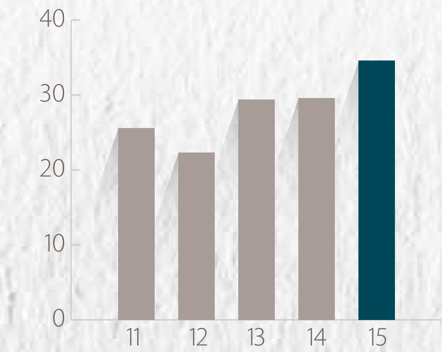
$ $42.9m



Profit before tax ($million)

2014 $35.1
2013 $35.4
2012 $22.2
2011 $27.8

$ $34.6m



Profit after tax ($million)

2014 $29.6
2013 $29.4
2012 $22.3
2011 $25.6

† 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 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.

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

Funds under advice: The total value of client funds invested through Australian Unity financial planners.

* Funds under management: Investors' funds managed by the Australian Unity investments business and its joint venture partners.

Σ Operating earnings: profit before tax attributable to members of Australian Unity less investment income, borrowing costs exclusive of accommodation bond interest reclassification and discontinued operations and business acquisition costs.

Chairman's report

Business results

I am delighted to report that Australian Unity has once again had a strong year of performance and continued to make sound headway towards our strategic objectives.

Notwithstanding continuing economic uncertainty and political instability, the Group reported an after-tax profit of $34.6 million, up 16.6 percent on the previous year. More importantly, we were able to progress toward a number of key goals. These include:

- The commencement of construction of independent living units at our landmark Rathdowne Place Wellbeing Precinct in Carlton, Melbourne, following on from the successful opening of the aged care facility last year;
- The opening of the Peninsula Grange aged care facility in Mornington, to the south east of Melbourne, which we intend to grow into another landmark example of our Better Together person-centred care model;
- The continued rapid growth and expansion of our Home Care operations;
- The stable performance of our health insurance businesses, in a turbulent year for the sector, and its continued focus on innovation to respond to changing customer needs;
- The increase in funds under advice of the Personal Financial Services business by more than 70 percent;
- The growth of the Big Sky Building Society relative to other building societies and the banks, even though it was disadvantaged in capital weightings versus the major banks; and
- The continued sound performance of our investment businesses in volatile financial markets.

These business results are, in most instances, a culmination of many years of work and planning. I am particularly pleased to note that these achievements, many of them stepping stones to wider ambitions, indicate that we remain firmly on track towards our overall goal to enable millions of Australians to enjoy wellbeing.

External environment

The results should also be viewed in the context of a business environment that remains uncertain, largely as a result of domestic and international economic and political uncertainty.

The domestic economic situation, fuelled by uncertain economic indicators and consumer confidence, has its roots in global factors. However, most in the business community believe that the domestic uncertainty is exacerbated by the continued inability of our politicians to engage with the necessary reform agenda and to effectively and candidly communicate with the electorate regarding progress on these fronts. In last year's report I mentioned the concern the Group held over the state of Australia's governance processes. I am pleased to say that we have been encouraged of late by the increasing number of voices in the community demanding an end to the dysfunctional policy-making environment in order to move the country forward. Australian Unity remains committed to contributing to non-partisan discussion as to how the Australian governance system and processes could work better.

175 years

One small part of our contribution was made during the year at the launch of the book titled *Of no personal influence… How people of common enterprise unexpectedly shaped Australia*. This celebrated the company's role in Australia's history over the past 175 years. At the launch, held at Parliament House in Canberra, we brought together politicians and policy influencers to discuss the future of democracy in Australia in a collaborative conversation.

Mutuality

At 175 years old, I think it is fair to say Australian Unity is perhaps the oldest and one of the most significant, of Australia's mutuals. The Australian Senate currently has an inquiry into the role of mutuals and cooperatives in the Australian economy and we were able to present our perspective in a formal submission during the year. When I joined Australian Unity, I was attracted by the mutual structure and its ability to not only survive but to contribute to our community in unique ways. In the time I have been at Australian Unity my faith in the value that the mutual structure generates for its customers, members and the community has further strengthened. I believe the mutual structure is as relevant for these times as at any time in our history—it ensures the focus is on delivering long term, community value.

Business structure and Board renewal

On 1 September 2015, the board appointed a new director, Su McCluskey. Su is the former CEO of the Regional Australia Institute and a past Executive Director of the Office of Best Practice Regulation. She was a member of the Harper Review of Competition Policy and has held senior policy positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. Su was named the winner of the 2013 Australian Financial Review and Westpac Regional Woman of Influence Award and the 2014 winner of the Women in Australian Agribusiness outstanding contribution to policy category. My fellow directors and I look forward to the contribution Su's broad experience will add to our discussions.

Su's appointment is a continuation of the board's work in significant renewal over the last few years, which I have previously discussed in this annual letter. This renewal has occurred hand in glove with the business rethinking the vision of what it wants to be, and putting strategies in place to achieve these aims. Considerable work has gone into strengthening the balance sheet and broadening the company's funding streams. We have revamped management reporting systems and sharpened our productivity measures. This has enabled us to embark on significant merger and acquisition activity, some of which came to fruition in the year under review and will be discussed in this report, and some of which is still in the pipeline. Our investment in adding to the people capability within the business has also contributed to the strengthening of the business capacity of the Group and our management succession bench.

As I reflected upon all this during the year and saw the evolving strength of the leadership team and the board of directors, it became clear to me that there was no better time for me to retire than once the final pieces of this stage of board refreshment and succession planning were firmly in place. I have announced my intention to do so in March 2016, just prior to the commencement of the new annual planning cycle for the business. My time with Australian Unity has been a great joy to me—especially given the people I have been privileged to meet and work with from within and around the Group. This will make moving on difficult but I cannot think of a better time to hand over the leadership baton than with the business in such good health on many dimensions. My fellow directors have elected Peter Promnitz as Deputy Chairman and Chairman designate. Peter 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 and it is pleasing to be able to hand over to such a strong successor.

I would like to take this opportunity to thank everyone who worked with me over recent years to help reshape the board, including my fellow directors who have retired, and who are scheduled to retire, in order to make way for refreshment. I would also like to give sincerest thanks to Rohan Mead and the members of the Group's management who have worked tirelessly to put in place the strategies and programs that are now energising the business, and the tools for measuring our progress—and who from day to day are the ones who lead the team of people that really make this business work.

Glenn Barnes

Glenn Barnes
Chairman

Our challenges and opportunities

- Global and domestic economic uncertainty
- Policy and regulatory changes
- Rising rates of chronic disease
- Population growth and workforce challenges
- Technological and digital game changers
- Changing consumer needs

Group Managing Director's report

Business expansion

It is not usual for a report to members concerning a financial period to begin with events that occurred after the close of the financial year but, this year, I think it is pertinent to so begin.

On 28 August 2015, we announced that we had signed an agreement with the NSW Government to take over the operations of its entire Home Care business in NSW—some 50,000 clients and 4,000 staff, for a payment of $114 million. This development is a major milestone for the Group, as it significantly advances our brand and operating footprint in NSW and allows us to expand our Better Together model of client-directed care to more families and communities across Australia. Our plans are designed to enable us to offer true continuum of care for these clients as their needs change.

In another major announcement that occurred after the close of the financial year, on 1 July 2015 we acquired Flinders Australia Limited, an estate planning and administration services company. The considerable work that led to the announcement occurred in the year under review. We believe older Australians and their advisers are looking for trusted providers of these sensitive and important financial services. It is our intention to grow this business, including by applying for a full trustee licence, to make a full range of fiduciary services available to ordinary Australians.

These acquisitions are in line with our ambition to enable millions to enjoy wellbeing. Some years ago, Australian Unity set out to build a diversified portfolio of interconnected businesses. This was in response to our observations that customers were increasingly needing a broader range of wellbeing-related products and services; coupled with our assessment that our largest business area, private health insurance, would come under increasing pressure due to the relentless forces affecting healthcare inflation, and therefore premium affordability. So, traditional healthcare services had to be broadened and connected services developed. Our response has been to invest heavily in innovation in the healthcare business, while continuing to expand our services to other areas of wellbeing need.

2015 performance

This year, the success of that portfolio strategy is clear. Each segment improved its operating and financial performance. Overall, the company reported revenues of $1.4 billion, up 7.5 percent. Operating earnings also increased strongly—up 13.7 percent to $40.3 million; while profit before tax attributable to members rose 22.4 percent to $42.9 million.

I am most pleased to report that the company's employees continue to work strongly on responding to our challenges and optimising our opportunities. During the year, we successfully completed 11 acquisitions with a total investment of $42 million. These additions spanned the company's service platforms, including in home care, allied health, retirement villages, financial advice and general insurance broking.

The Group also implemented significant productivity initiatives, including finalising implementation for a new people management information system and company-wide logistics management, digital procurement and accounts payable system.

Challenges, opportunities and results

Private health insurance has become a sector characterised by fierce price competition but with, in our view, insufficient public attention on benefits competition. In any insurance product, benefits are the flip side of prices. The presence of market aggregators has increased churn in the industry, as customers are feeling affordability stress. Unfortunately, the core driver of the affordability crisis—the increasing cost of health treatment itself—is not being adequately addressed by governments or the health sector more generally. While, the industry is now firmly in an environment where advertising expenditure is rising while customer attrition across all funds is also rising. Regulatory constraints, however, on the kinds of products health funds can provide remain tight, crimping efforts by the sector and ourselves to innovate and respond to some of the challenges.

Notwithstanding, we have continued to invest in customer-facing capability, including omni-channel communications to enable customers to switch from digital to voice conversations with our customer service team; as well as investing in our digital capability more generally. Our business intelligence systems have also become a key focus, enabling, for example, detailed analysis of claims data in order to build our strength in chronic disease intervention. Significant effort was spent on developing a mental health program designed to improve health outcomes and reduced hospitalisations relating to mental illness, which is one of the areas where claims are rising at a frightening rate. This program, run by our Remedy Healthcare business, will be launched shortly and, like our other Remedy programs, will be made available to other health insurance funds as well as the public health sector.

Another approach has been to continue to advocate for better public policy in healthcare, particularly policy that would aim to increase productivity and reduce wastage in the sector. This year we joined forces with other mutual funds to promote the Members Own Health Fund alternative; and we continue to work on building our innovation capabilities to look for new solutions to these entrenched problems. We are optimistic about the future for each of these endeavours.

Our Investments division's strong financial return results compared favourably to the benchmarks for its leading products, broadly providing very good returns for customers while contributing positively to the company's financial performance. The division was challenged by continued stagnation in investment market flows, which contributed to a lack of growth of our Funds Under Management. This was steady at $7.3 billion compared to the previous year. Big Sky Building Society performed strongly, increasing its loans by 10.7 percent as compared to 8.0 percent for the broader banking sector.

The Retirement Living division had another strong year and will be the part of the Group responsible for the expanded Home Care operations. This will build on the rapid growth in this area over the past five years.

Following on from last year's successful opening of Rathdowne Place, in Melbourne's Carlton, the business welcomed its first residents to the Peninsula Grange Aged Care facility in Mornington, Victoria. Also modelled on our Better Together philosophy, the facility has proved popular with locals and is already ahead of the schedule for accepting new residents. During the year the out of date Wahroonga Aged Care facility in Glen Waverley, Melbourne, was wound down in preparation for redevelopment. Once again, our innovative Better Together model will be used for the rebuilt facility, Campbell Place.

Our Personal Financial Services business posted high growth once again—rapidly increasing its funds under advice for the third year in a row. The business fully integrated Certainty Financial into its operations, as well as acquiring Premium Wealth Management, a general insurance broking operation, and the previously mentioned Flinders estate planning business.

Wellbeing

Australian Unity continues to have strong ambitions for the future. We believe personal and community wellbeing are highly linked to the kind of products and services we deliver. There are many challenges facing the provision of these high-trust services. These will be met in part by innovation within businesses such as ours, but will also need improved policy thinking and implementation by governments, state and federal. We continue to engage with governments and work with industry groups, such as the Business Council of Australia, to encourage a sophisticated conversation about the fiscal and policy challenges facing Australia. In the meantime, we play our part by providing the best possible services we can.

I would like to thank the Australian Unity Limited board of directors for the support and encouragement of management as we seek to address these challenges, and also thank all my staff and colleagues for their ongoing hard work and diligence. Additionally, at this time I would like to express my particular thanks to the Chairman, who has announced his planned retirement, for his personal encouragement and mentoring over the past several years.

Rohan Mead
Group Managing Director & CEO

How we are responding to our challenges and opportunities

- Delivering tailored product and service approaches that respond to consumer needs and address complexity
- Focusing on financial performance management and productivity across the portfolio
- Building scale
- Establishing ourselves as both a policy and consumer advocate
- Driving innovation capability and processes across the organisation

Governance chart

Glenn Barnes
Chairman B Ag Sc (Melb), CPM, FAMI, FAIM, FAICD, SF Fin, FRSA

Rohan Mead
Group Managing Director & CEO, AMP (Harvard)

Melinda Cilento
BA, BEc (Hons), MEc

Eve Crestani
Dip Law (BAB), FAICD

Su McCluskey
BComm, FCPA, MAICD
Appointed 1 September 2015

Stephen Maitland OAM, RFD
BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, FFin

Peter Promnitz
BSc (Hons), AIAA, FAICD

Greg Willcock
BComm, FCPA, FAICD, MAIM, FFin

Australian Unity Limited Board of Directors

Group Managing Director & CEO

Board Committees

Audit and Compliance Committee
Chairman: Stephen Maitland

Human Resources, Remuneration and Nominations Committee
Chairman: Eve Crestani

Investments Committee
Chairman: Peter Promnitz

Risk Committee
Chairman: Greg Willcock

Australian Unity Group Executives

Revenue Units

Support Units

Investments

David Bryant
FFin, FAIM, FAICD
Chief Executive Officer, Investments and Chief Investment Officer

Personal Financial Services

Steve Davis
CFP, GAICD
Chief Executive Officer, Personal Financial Services

Healthcare

Amanda Hagan
BSc (BIT), SIA, GAICD
Chief Executive Officer, Healthcare

Retirement Living

Derek McMillan
BSc (Hons), Dip Ed
Chief Executive Officer, Retirement Living

Human Resources

Jane Petersen
PGDip (Bus)
Group Executive, Human Resources

Corporate Development

Kimina Lyall
BA (Journ), GAICD
Group Executive, Corporate Development

Group Governance

Verran Fehlberg
BEc (Acc), LLB
General Counsel, Company Secretary and Chief Risk Officer

Finance and Strategy

Kevin McCoy
BComm, HDip Acc, CA, PMP
Chief Financial Officer

Anthony Connon
BA (Oxon), FCA, FAICD
Strategic Adviser to the Group Managing Director

Business Technology

Tahir Tanveer
M InfoTech, BA Econ, Grad Dip Info Sys
Group Executive, Business Technology

Board of directors at 26 August 2015 with the exception of Su McCluskey, who was appointed to the board on 1 September 2015, after the signing of the 2015 financial accounts. Full biographies of the board of directors for the year under review are on pages 47-48.

Australian Unity at a glance

Australian Unity is a national healthcare, financial services and retirement living organisation providing services to around 850,000 Australians, including 300,000 members nationwide.

6.5 million
hours of care provided across Australian Unity home care and aged care per annum

850,000
customers nationwide access a range of wellbeing services from Australian Unity

300,000
customers who are members of Australian Unity Limited

35,000
health coaching and chronic disease management hours per year

2,500
staff across Australian Unity

We seek to enable millions to enjoy wellbeing in its broadest sense.

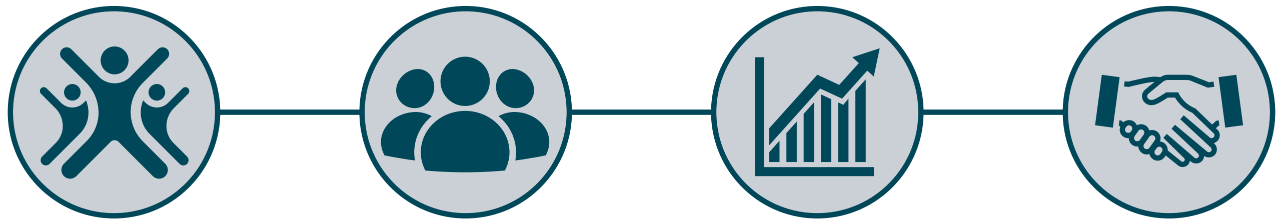
We aim to engage millions of Australians and assist them to be proactive about their wellbeing—their physical, social and financial quality of life.

Our strategy for achieving this is to continue to build an interconnected portfolio of businesses that foster wellbeing.

We will continue to build and deliver sought after products and services that are relevant to our customers while building a company with financial substance and a balanced approach to risk.

The strategy will be supported by continued investment in four key areas we refer to as our enablers—as well as our bold, warm and honest culture.

Our interconnected businesses



Healthcare
Empowering millions to improve their health

Retirement Living
Creating communities that enhance wellbeing

Investments
Providing financial solutions for investors for each life stage

Personal Financial Services
Inspiring clients to take charge of their financial wellbeing

Our ambition
- To enable millions to enjoy wellbeing

Our way of being
- To be bold, warm and honest in everything we do

Our enablers
- People and leadership
- Architecture and technology
- Innovation
- Business intelligence

Our long term goals
- To reach millions of customers and their families
- To build a highly influential national brand
- To provide sought-after products and services
- To achieve and sustain financial substance with a balanced approach to risk

Creating community value

Australian Unity is one of Australia's oldest mutual companies, with origins dating back 175 years. Established in response to unmet community needs in 1840, the organisation still aims to identify and help solve the health and financial needs of its members, customers and the broader community.

Australian Unity operates with a strong commercial approach, but with this primary purpose at heart: the members of the company—as governors and guardians—are first and foremost customers. This means they have a stake in the company's performance as a provider of needed services, as well as its financial sustainability. It also means the company creates community value, or value that extends beyond financial results.

Today, Australia is facing increasing pressure from an ageing population and Australians are faced with new challenges as individuals. These include creating financial security in an increasingly uncertain economic environment; dealing with the rise of chronic diseases; and finding a financially secure and healthy life in retirement. At a community level, Australians will increasingly need access to services, delivered both at home and in specific built forms, to meet these needs. At the same time, fiscal challenges facing governments across the country will continue to constrain the development of these assets. New ways of thinking, new business models, new funding models, and new services will be required. This can be thought of as the social infrastructure challenge.

The structure of Australian Unity and its business model is designed to enable adaptive responses to these challenges. The company operates a portfolio of businesses, each competing in markets of high personal need and delivering earnings to the Parent entity, Australian Unity Limited. As a mutual, Australian Unity distributes no profits to external stakeholders, and can take a long term view of how and where to invest capital in order to expand or develop wellbeing services for the community.

One of Australian Unity's strategic goals is to further build its business platform through diversity and scale. In recent decades the company has built on its traditional strength in private health insurance, and the historical provision of financial services, using their success to spearhead growth in associated wellbeing activities: chronic disease management and in-home rehabilitation; financial advice; investment products; and retirement, aged, and home care. The most recent addition to this portfolio was the acquisition—on 1 July 2015—on a business that will enable Australian Unity to add estate planning and administration to the portfolio.

In recent years, the board and executives have focused on capability development to support the growth strategy. Key areas of attention have included: building leadership capability; developing a sharpened customer lens by investing in responsive systems; identifying key business drivers through enhanced business intelligence tools; stimulating innovation; upgrading or introducing key technology platforms; and identifying a strong pipeline of investment opportunities and the capacity to fund them.

How Australian Unity is responding to the social infrastructure challenge facing the community

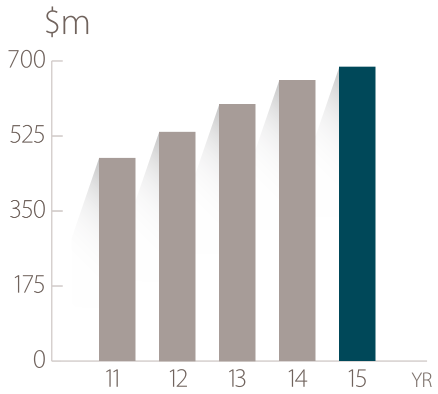
How we contribute	Company goals	Current success level	Short term objective
Social Infrastructure Challenge: Ageing demographic			
Retirement Living Innovating new models of accommodation and care; and developing new assets to support them	Build scale in aged care and retirement villages in integrated sites that become Home Care service hubs Extend Home Care services	All 19 retirement village sites provide integrated Home Care services, while seven offer (or plan to offer) co-located aged care	Build knowledge-based partnerships to extend our Better Together model; expand home care to operate across larger geographic areas
Social Infrastructure Challenge: Rise of chronic disease and pressure on existing acute models of care			
Healthcare Building evidence-based chronic disease management and coaching; in-home rehabilitation services	Rapidly increase scale in care provision that demonstrates reduced hospitalisations and better outcomes, seeking to serve both public and private healthcare clients across the community	32 private health insurers and their customers access services. The first contract with a public health region was established in 2015	Implement a mental health program for both private and public clients; continue to rapidly build scale and demonstrate outcomes-based evidence
Social Infrastructure Challenge: Government fiscal constraints			
Investments Creating new capital streams through investment vehicles for direct and institutional customers	Become a major facilitator of social infrastructure capital	Existing funds include the market-leading Healthcare Property Fund; unique Retirement Village Investment Notes; the Retirement Village Property Fund and Retirement Village Development Fund, which will enable the establishment of new villages and aged care facilities	Develop a strong pipeline with interest from institutions, family offices and individual investors
Healthcare Reduce strain on the public health system with valued health insurance alternatives	Innovate new private health insurance products that customers love	Currently there is strong internal expertise in lean start-up innovation, with new products launched as learning tools. The customer experience processes have been completely revamped, with positive results	Successful launch of a suite of sought-after products
Social Infrastructure Challenge: Pressure on personal retirement incomes and financial security			
Personal Financial Services Fee-for- service based financial advice	Rapidly build scale in services that help people grow, protect and manage their wealth from one generation to the next	Year on year growth of 70.2 percent in funds under advice to $5.9 billion (2014: $3.5 billion)	Expand suite of services to include trustee and estate planning services accessible and affordable for Australian families
Investments Building strategic investment products across asset classes	Build a cyclically diversified financial services platform	The portfolio ranges from shares, property, bonds and unit trusts built in-house or with partners who have specific asset class expertise	Expand products to suit a wider range of investors, including direct retail, institutions and family offices
Investments Establishing banking services that allow individuals to reach important personal milestones	Grow the authorised deposit-taking institution Big Sky Building Society	Products are being respositioned to address market demand and accelerate digital delivery	Grow assets and total customer base significantly

Business highlights

Healthcare

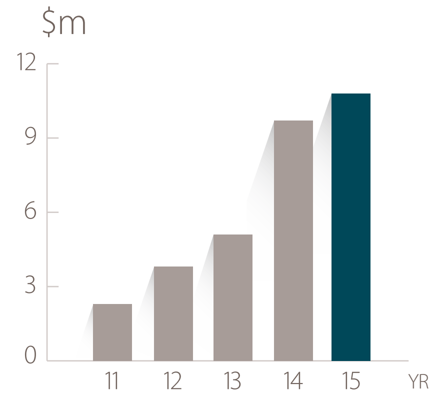
$828.3m in total segment revenue (2014: $789.2m)

$56.2m ^in adjusted EBITDA (2014: $43.6m)



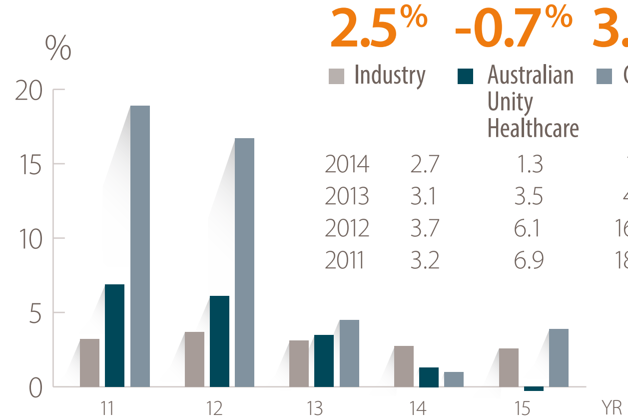
$686m Health claims paid ($million)

2014	$655
2013	$599
2012	$535
2011	$474



$10.8m Remedy Healthcare revenue

2014	$9.7
2013	$5.1
2012	$3.8
2011	$2.3



Policyholder growth (%)

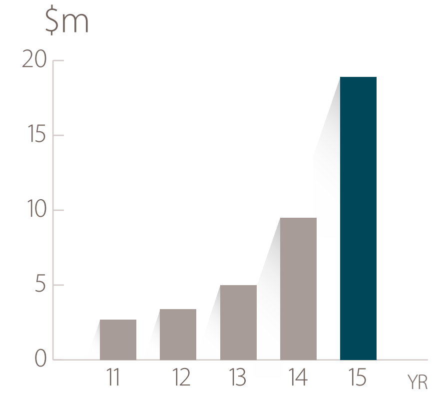
2.5% Industry **-0.7%** Australian Unity Healthcare **3.9%** GU Health

	Industry	Australian Unity Healthcare	GU Health
2014	2.7	1.3	1.0
2013	3.1	3.5	4.5
2012	3.7	6.1	16.7
2011	3.2	6.9	18.9

Retirement Living

$106.8m in total segment revenue (2014: $89.2m)

$23.9m ^in adjusted EBITDA (2014: $21.3m)



$18.9m Home care revenue ($million)

2014	$9.5
2013	$5.0
2012	$3.4
2011	$2.7

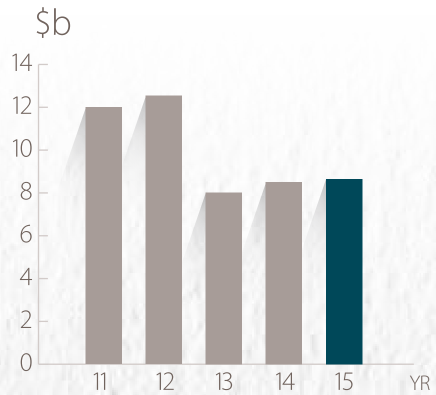
Total **$464m** Retirement Living development pipeline

Rathdowne Place	**$123m**
Retirement Village Stage 1	$63m
Retirement Village Stage 2	$60m
Lifestyle Manor	**$48m**
Lifestyle Manor Stage 2	$48m
Peninsula Grange	**$161m**
Retirement Village	$161m
Sienna Grange	**$53m**
Retirement Village	$28m
Aged Care	$25m
Campbell Place	**$79m**
Retirement Village and Aged Care	

Investments

$107.2m in total segment revenue (2014: $103.2m)

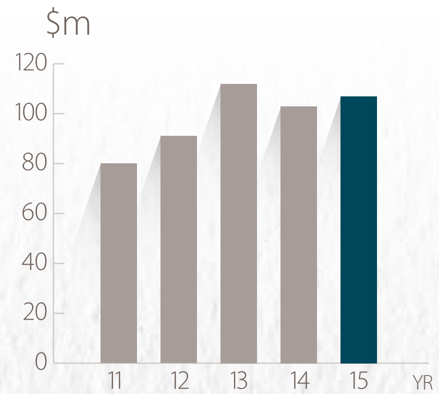
$14.8m ^in adjusted EBITDA (2014: $13.8m)



$8.65b Funds under management, administration and advice ($billion)*

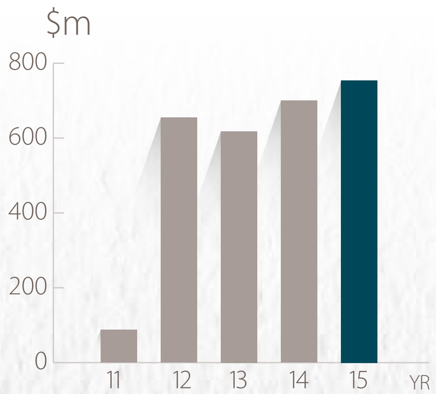
2014	$8.51
2013	$8.03
2012	$12.54
2011	$12.00

*Funds under management, administration and advice (FUMAA) includes funds under administration and advice in each of the Platypus, Federation Alliance and Big Sky Financial Planning businesses.



$107.2m Total segment revenue ($million)

2014	$103.2
2013	$111.7
2012	$90.8
2011	$80.0



$754m Big Sky total on balance sheet assets ($million)

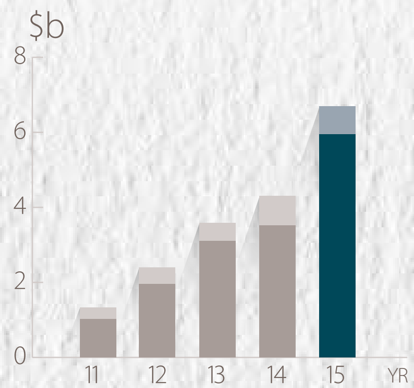
2014	$700
2013	$619
2012	$655
2011	$88

Personal Financial Services

$56.9m in total segment revenue (2014: $39.8m)

$3.9m ^in adjusted EBITDA (2014: $2.3m)

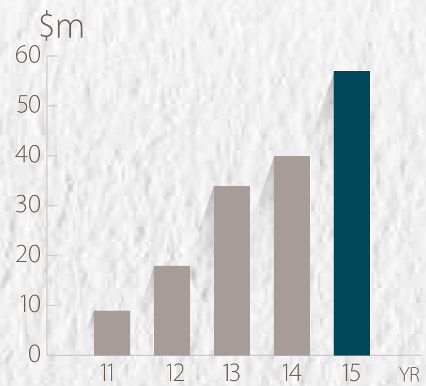
^in adjusted earnings before interest, tax, depreciation and amortisation



$6.69b Funds under advice and loan book combined (2011–2015) ($billion)*

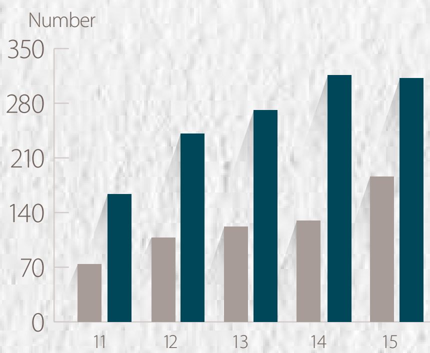
2014	$4.26
2013	$3.59
2012	$2.39
2011	$1.33

*Loans under advice as shown as the top section of the bar chart.



$56.9m Total segment revenue ($million)

2014	$39.8
2013	$33.7
2012	$18.0
2011	$9.2



183 Advisers **309** Accountants

Number of advisers and referring accountants

	Advisers	Accountants
2014	125	314
2013	118	277
2012	109	242
2011	71	163

Healthcare

Australian Unity's healthcare business combines the provision of health insurance with the delivery of healthcare services including dental services, hospital in the home, rehabilitation in the home, chronic disease management, integrated care and other preventative health services.

The business is committed to helping members manage their health risk factors before they develop a chronic disease, to better manage their long term conditions, to better co-ordinate care and to get people from hospital into the comfort of their own home as soon as possible.

The business is one of the nation's largest health insurance providers with 225,738 policyholders throughout Australia. Through its wholly owned subsidiary Remedy Healthcare, the business is the largest provider of integrated telephonic and in-home healthcare services in the country.

Business areas

Retail health insurance

16%
increase in the number of overseas visitor and worker policyholders

GU Health

27,788
policyholders (2014: 26,738)

Remedy Healthcare

13,543
people who received Remedy services across aged care, coaching and home based programs.

Dental

61,638
patients visited an Australian Unity dental clinic during the year

Progress and priorities

What we achieved:

- Australian Unity joined with 14 other not-for-profit and mutual health funds to launch Members Own Health Funds in February 2015.
- Remedy Healthcare acquired physiotherapy aged care business, Physio Connect, which marked a key milestone in the company's evolution and expansion into aged care.
- Reduced hospital claims by $14.6 million paid by participating health insurers resulting from hospital substitution services provided by Remedy Healthcare over the past year.

Where we were challenged:

- Customers are increasingly downgrading their products, therefore receiving less value, in a response the industry predicted would result from government policy settings over recent years.
- 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.

In the coming year we plan to:

- Further upgrade digital channels focusing on using mobile communications, websites, mobile phones, tablets and applications, to create more user friendly ways to access services and buy products.
- Focus on growing Remedy Healthcare's national footprint through organic growth and acquisitions.

2015 Review

Retail health insurance

The number of retail health fund policyholders decreased by 0.7 percent to 197,950 at 30 June 2015 (2014: 199,367). Commercially sustainable policyholder growth proved challenging during the year with acquisition costs rising across retail health funds.

Australian Unity's strategy is to prioritise long term sustainability of its policyholder base, investment in hospital substitution and preventative health services over short term policyholder growth.

The retail health insurance business also provides health insurance to overseas visitors and workers. During the year ended 30 June 2015, the number of overseas visitor and worker policyholders in this business increased by 16 percent.

Corporate Health Insurance – GU Health

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively to the corporate market. GU Health experienced strong policyholder growth during 2015, with the number of policyholders increasing by 3.9 percent to 27,788 as at 30 June 2015 (2014: 26,738).

This year GU Health was successful in retaining its mining clients, despite the economic downturn experienced by the sector. In addition, GU Health was able to gain a significant number of clients in the IT sector, and is now the preferred supplier of health insurance in Australia to some of the world's leading information technology companies.

Remedy Healthcare

Remedy Healthcare continues to lead the industry in the provision of preventative healthcare and hospital discharge support programs that help members stay healthy and more effectively self-manage any emerging and existing conditions they have.

Remedy provides hospital substitution services to 32 out of 35 of the private health insurers in the country. Over the past year Remedy has reduced hospital claims paid by these health insurers by $14.6 million from these services.

Dental

Australian Unity acquired a dental clinic in Hughesdale, Victoria in September bringing the number of Australian Unity operated dental clinics to five. The other dental clinics are located in the Melbourne CBD, South Melbourne, Box Hill and Rowville.

The business expanded the communities it serves during the year, updated its clinical equipment and facilities and extended its workforce.

For more details on Australian Unity Healthcare's 2015 results, see the Operating and Financial Review on page 39

Retirement Living

Australian Unity Retirement Living provides Aged Care, Home Care and Retirement communities. In 2015 the business successfully continued its strategy of co-locating care on single sites and increasing its reach to senior Australians by providing assistance with daily living and other care services in the home.

Australian Unity Retirement Living's growth continues to be driven by the development of new retirement communities and expansion of its home care services, both of which support the daily living and care needs of 21st century retirees.

Business areas

Retirement communities

19 retirement communities in Victoria and New South Wales

2,074 independent living units (2014: 1,986)

Aged care

5 aged care facilities in Victoria and New South Wales

609 operational aged care beds (2014: 613), with a further 170 beds in development

Home care

400,000+ hours of home care provided compared to 100,000 hours last year

430+staff an increase of 75 percent (2014: 246)

Progress and priorities

What we achieved:

- Opened Peninsula Grange Aged Care in Mornington and commenced construction of Rathdowne Place—The Residences.
- Home Care revenue almost doubled to $18.9 million during the year and increased the number of staff by 75 percent.
- Successfully launched the Retirement Village Development Fund for Rathdowne Place, The Residences.

Where we were challenged:

- The closure, and relocation of residents from, Wahroonga Aged Care facility ahead of its planned redevelopment.
- Significant work was undertaken to ensure the business can provide the increased choice and control that consumers are seeking in preparation for the Consumer Directed Service Model, taking effect from July 2015.

In the coming years, we plan to:

- Continue to invest in developing sought-after accommodation and services for Australia's vulnerable populations.
- Continue to pursue home care acquisition opportunities and sites for retirement communities that will further strengthen Australian Unity's foothold in areas where demand exists.

2015 Review

Retirement Communities

Australian Unity Retirement Living owns and operates 19 retirement communities in Victoria and New South Wales (NSW). Its portfolio consists of 2,074 (2014: 1,986) independent living units and 609 (2014: 613) operational aged care beds.

Elderslee, an existing managed village on the Central Coast of NSW, was acquired during the year. Portfolio growth was driven by development that continued at Peninsula Grange in Mornington Victoria, Victoria Grange in Vermont South in Victoria, and Sienna Grange in Port Macquarie, NSW.

Home Care

Home Care continued to be a significant growth area for the business. During 2015, growth in Home Care was again driven by acquisition and organic growth. The acquisitions of INS Healthcare and KNS Essential Care, which commenced in the 2014 financial year, were both completed in 2015.

The Home Care business also had success during the year in winning valuable contracts and packages—particularly in New South Wales—where substantial Home and Community Care (HACC) tenders were secured. Home Care revenue increased to $18.9 million during the year compared to $9.5 million in the previous year.

Aged Care – Better Together

The award winning Better Together model of care provides residents with increased choice and control over their lives by supporting them with multi-skilled care partners offering a holistic range of services.

The model was successfully trialled in 2014 and results showed residents self-reported an increase in their quality of life of an estimated 15 percent. Its operation has since been extended to Rathdowne Place and Peninsula Grange. The model will be rolled out across all Australian Unity's aged care facilities over the coming year and will also be adopted in our Home Care and Retirement Village services.

Development

During the 2015 financial year, development continued in Victoria at Peninsula Grange and Rathdowne Place, Victoria Grange was completed and Wahroonga Aged Care was demolished ahead of its development. In NSW, Lifestyle Manor, Sienna Grange and The Governors all had development activity during the year. Australian Unity thanks residents for their patience as these communities are completed.

For more details on Australian Unity Retirement Living's 2015 results, see the Operating and Financial Review on page 41

Investments

Australian Unity Investments plays a key role in strengthening the financial wellbeing of its customers and connecting communities.

Australian Unity Investments offers a range of financial products and services that meet the diverse investment needs and objectives of its customers. It 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 (Lifeplan).

Business areas

Funds Management
10.2%
performance in the Platypus Systematic Growth Fund

Lifeplan
31%
increase in sales of education solutions

Real Estate Investment
$12m
in third party capital raised for the Retirement Village Development Fund

Big Sky
10.7%
increase in loans

Progress and priorities

What we achieved:

- Completed the capital raising for the Retirement Village Development Fund, a tailored investment vehicle to finance the development of 'The Residences'—part of Australian Unity's Rathdowne Place Wellbeing Precinct in Carlton, Victoria.
- Big Sky upgraded its internet banking platform to enhance functionality and improve customer experience.

Where we were challenged:

- The business was affected by low interest rates, choppy economic conditions and the crisis in the Eurozone which continued to spook investors twinned with some downturn in China's markets.

In the coming year we plan to:

- Continue to develop bespoke investment solutions for retail, large private, and Institutional clients.
- Open alternative areas of asset supply in healthcare and social infrastructure.
- Establish ongoing access to new capital sources (including collaboration with external partners and other businesses in the Australian Unity Group).

2015 Review

Funds Management

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

Equities and Fixed interest

Platypus Asset Management

A true-to-label growth manager with a long history of outperforming the Australian equities market. The Platypus Systematic Growth Fund achieved returns of 10.2 percent, while the Platypus Australian Equities Trust returned 8.6 percent.

Acorn Capital

Acorn Capital operates the largest and most experienced microcap/small cap investment teams in Australia. Acorn Microcap Trust (wholesale) returned -11.8 percent, while the Acorn Capital Asia Small Cap Fund achieved returns of 36.1 percent.

Wingate Asset Management

A specialist international equity manager that employs a benchmark unaware and contrarian value-oriented approach with a bias on quality. The Wingate Global Equity Fund returned 22.9 percent.

Seres Asset Management

A Hong Kong based investment manager that focuses on equity opportunities in the Asia Pacific region. The Seres Asian Equities Opportunities Fund returned 32.6 percent in Australian dollar terms and 7.9 percent in US dollar terms.

Altius Asset Management

A specialist fixed interest manager that employs an active and diversified strategy. The Altius Bond Fund returned 2.9 percent.

For more details on Australian Unity Investment's 2015 results, see the Operating and Financial Review on page 42

Australian Unity Real Estate and Mortgages

Australian Unity Real Estate Investment connects communities by raising money from retail and sophisticated investors, and deploying it to hospital and commercial property, retirement village development, and mortgage lending. In December 2014, Australian Unity Real Estate Investment acquired Owenlaw Trust Limited which became Australian Unity Mortgage Investments Limited. Total funds under management increased during the year to $1.88 billion (2014: $1.54 billion).

- The Healthcare Property Trust achieved a return of 7.9 percent for the year to 30 June 2015.
- The Retail Property Fund achieved an 11.3 percent return for the year to 30 June 2015.
- The Office Property Fund achieved a return of 14.3 percent for the year to 30 June 2015.
- The Diversified Property Fund achieved a return of 9.2 percent for the year to 30 June 2015.
- Australian Unity launched the Retirement Village Development Fund concept in June 2015, with $12 million of third party capital raised to invest in Rathdowne Place's 'The Residences'.

Mortgages

Following the Owenlaw acquisition noted above, Australian Unity began to offer the Australian Unity Select Mortgage Income Fund. It is a contemporary mortgage trust investment giving investors the choice of investing in individual loans rather than a pool of mortgages.

Lifeplan

Lifeplan Australia Friendly Society (Lifeplan) 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 slightly to $1.89 billion (2014: $1.88 billion).

Big Sky

Big Sky Building Society continues to focus on its core expertise of building a strong and sustainable banking and advice business. During the year, Big Sky recorded continued growth with total loans of $638 million, an increase of $62 million over the previous year.

Personal Financial Services

Australian Unity Personal Financial Services works with advisers and industry partners to provide professional advice that supports clients' financial wellbeing.

With its partners and advisers, the business provides regular financial guidance and mentoring across most aspects of clients' financial affairs, giving clients the information they need to make informed choices about their financial arrangements.

Business areas

Financial Planning

102 financial planning practices which represents a **32%** increase

Finance Broking

$2.5 million in revenue which represents a **24%** increase

General Insurance

$1.8 million in revenue which represents a **46%** increase

Progress and priorities

What we achieved:

- Strengthened the business through a number of strategic acquisitions including Premium Wealth Management, Waratah Insurance Brokers and Flinders Australia Limited*.
- A 70.2 percent increase in funds under advice to $5.93 billion.
- Achieved two long-term strategic objectives to diversify services and revenue through the introduction of a general insurance broking service and an estate planning and estate administration capability.

Where we were challenged:

- The business continued to be challenged by ongoing regulatory uncertainty and in particular debate around the Future of Financial Advice (FoFA).
- The business remains concerned about the outcomes of the Life Insurance Industry Enquiry and its review across the broader industry as it may lead to further increases in the under-insurance problem in Australia.

In the coming year we plan to:

- Extend the newly-established general insurance broking capacity in Sydney into Victoria and Queensland.
- Obtain a traditional trustee Australian financial services licence and extend our estate planning and trustee services into New South Wales and Queensland following the acquisition of estate planning and administration specialists Flinders Australia Limited.
- Work in conjunction with the business' accountants, advisers and clients to help them get the right estate plans in place to ensure that clients' financial wishes are well structured and their estate is able to pass from one generation to the next.

*Acquisition completed on 1 July 2015.

2015 Review

Acquisitions

Premium Wealth Management

Premium Wealth Management was an independent financial advisory licensee which was primarily owned by its advisers and contains a significant number of larger accounting practices. The acquisition was completed in December 2014 and increases Australian Unity Personal Financial Services financial advice capability and its exposure in the accountancy practice space. The Premium acquisition should also better position the business to take advantage of opportunities arising from the significant regulatory and environmental changes impacting the accounting profession.

At 30 June 2015, the business had 102 financial planning practices, 22 mortgage brokers as well as a general insurance broking capability.

Flinders Australia Limited

In June 2015, Australian Unity Personal Financial Services announced that it had entered into an agreement to acquire estate planning and administration specialists Flinders Australia Limited. This acquisition was completed on 1 July 2015 and will give Australian Unity a broader platform of in-demand services that enable its clients and members to protect and manage their wealth from one generation to the next.

Waratah Insurance Brokers

Australian Unity Personal Financial Services acquired Waratah Insurance Brokers in March 2015. The acquisition of Waratah, an independent Sydney-based general insurance broker, represented a major step for Australian Unity towards building a significant presence in the general insurance broking space.

Advisers

Despite continuing constraints endured as a result of regulatory debate and changes, Australian Unity Personal Financial Services was able to continue to recruit additional financial advisers to support and drive growth in this key area of the business. By 30 June 2015, the number of financial advisers had increased to 183 (2014: 125) and this number includes 54 Premium Wealth Management advisers.

Accountants

Over the year, the business focused on the active level of support being provided by their referring accountants, who are key partners in the delivery of high quality advice to clients. As a result of this focus, the actual number of accounting partnerships reduced slightly and at 30 June 2015 there were 309 accounting firms in the Australian Unity Personal Financial Services referral partner program (2014: 314).

Mortgage Broking

Loans under advice was $766 million at 30 June 2015, which was a small reduction compared to $778 million at 30 June 2014. The business recorded a small increase in the number of mortgage brokers from 21 in 2014 to 22 in 2015. Growth in loans under advice was slower than anticipated due to increased competition for purchase of loan books, which resulted in no acquisitions for the year.

General Insurance

Boosted by the acquisition of Waratah Insurance Brokers, general insurance revenue increased by 46 percent to $1.8 million. In addition to the acquisition of Waratah, growth in revenue was also achieved by the renegotiation of a key distribution agreement providing improved revenue terms.

For more details on Australian Unity Personal Financial Service's 2015 results, see the Operating and Financial Review on page 44

People

A critical success factor behind Australian Unity's business performance is the commitment and capability of its people underpinned by a strong culture centred on wellbeing.

20%

increase in Australian Unity's workforce in the past 12 months. Staff work in fields as varied as nursing, aged care, dental, mobile banking, allied health, home care, financial markets and accounting

60

managers from across the Group have received nationally accredited leadership qualifications through the Australian Unity Business School

$18,000

was raised through the Australian Unity Business School by participating managers for the community group Big Brothers Big Sisters

91%

reduction in hours lost and an 80% reduction in claims costs achieved over the past three years across the business in relation to injury prevention and management

77%

of high health risk employees who participated in the Remedy health coaching program lowered their average health risk factors

17%

average drop in glucose risk levels and 3% decrease in blood pressure were also recorded in high health risk employees who participated in the Remedy health coaching program

Engagement: Wellbeing for Performance

Australian Unity employees were invited to participate in a program designed to improve wellbeing and engagement and enable us to better understand the links between these factors and improved productivity. Australian Unity's Remedy Healthcare business provided free health risk assessments. High health risk employees were then offered a health coaching program at no cost to the individual. Through this approach employees were given the opportunity to improve their own health and productivity.

At the completion of the 12-month program, 77 percent of high health risk participants reduced their average health risk factors. There was also an average drop in glucose readings by 17 percent and blood pressure by 3 percent.

Strengthening the capability of our people

The Australian Unity Business School has been strengthening leadership and management capability for over eight years. This year the Business School partnered with a registered training organisation to deliver a nationally accredited leadership training program and 60 managers from across the Group received nationally accredited leadership qualifications.

Supporting our people to perform

During the year, the company's commitment to workplace injury prevention and injury management continued. Over the past three years there has been a 91 percent reduction in hours lost and 80 percent reduction in claims costs.

In 2015 we also initiated a new people information system that will provide our employees and managers with a range of self-service tools for pay, recruitment, career management, and organisation information. This tool, when fully operational, will provide a single source of employee data, reporting and insights to support managers to make agile and proactive decisions.

Enabling business growth

Australian Unity recognises that sourcing and developing greater depth of talent is critical to achieving our business objectives. The company's employee value proposition remains strong and robust yet flexible enough to meet the diverse needs of potential and current employees. Australian Unity is committed to sustain a working environment that engages staff through a positive culture and values; supports high levels of wellbeing, performance and productivity; provides valuable professional and personal development opportunities; and is flexible enough to meet the demands of a diverse workforce.

Expansions in the home care, allied health and finance businesses have brought new capabilities to the organisation, with accompanying demands for specialist skills. To manage this challenge, Australian Unity has been proactive in making itself known as an employer of, for example, physiotherapists; exercise physiologists; estate planning and administration specialists.

Community

Australian Unity believes it is fundamental to its purpose to support community initiatives and advocate for policy changes that enhance the wellbeing of members, customers and the broader society. This is as important now as at any time in its 175-year history.

175 year anniversary

Australian Unity celebrated its 175th anniversary with a democracy forum and launch of *Of No Personal Influence… How people of common enterprise unexpectedly shaped the world* by historian Alex McDermott

$1.10m

in total direct community contributions this year

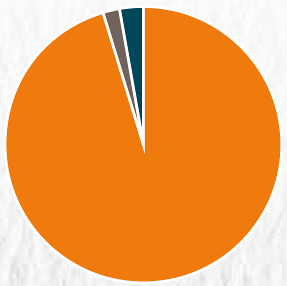
$145,000+

grants distributed to community groups across Australia in 2015

12

industry groups or policy institutes that have an Australian Unity executive as a board member

Our community contributions at a glance



2015 Total

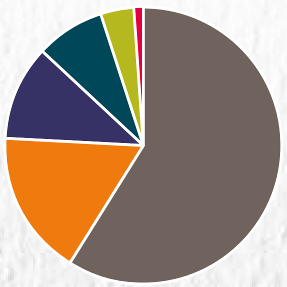
$1.10m

95%	Cash
2%	In-kind support
3%	Staff time

2014 Total **$1.11m**

96%	Cash
3%	In-kind support
1%	Staff time

Areas of support 2015 (% of $)



59	Health
17	Arts and culture
11	Social welfare
8	Education and young people
4	Economic development
1	Emergency relief

175 Year Anniversary

Australian Unity took the opportunity of its 175th anniversary in 2015 to host a democracy forum at Parliament House in Canberra entitled "Balancing Self-Reliance and Mutual Aid in a Modern Democracy". The forum included the launch of historian Alex McDermott's book *Of No Personal Influence… How people of common enterprise unexpectedly shaped the world*, commissioned by Australian Unity to examine the influence of friendly societies in Australia's history.

Advocacy

Australian Unity continues to influence national thinking about how to address Australia's social infrastructure challenge. The ageing population, rising chronic disease, insufficient retirement savings and the high cost of housing are all issues that need deep consideration by policymakers. Australian Unity's executives have collectively committed hundreds of hours to participating in private and public forums to advocate for reforms to the health system, aged care and financial services. This included service on the boards of industry associations, holding key positions on business groups, making submissions to government inquiries, taking public speaking engagements at conferences and in the media, and hosting boardroom functions with key political figures.

Australia Day

Australian Unity has a close connection with Australia Day, an idea first driven by the Australian Natives' Association, a founding antecedent of today's organisation. The Great Australia Day Breakfast this year was a celebration in its own right and also the catalyst for a new advocacy initiative. In her address to the breakfast, Business Council of Australia chief executive officer Jennifer Westacott announced that a series of health forums organised by the Business Council and Australian Unity would be held during the latter part of 2015. Beyond the breakfast, Australian Unity supported the Exxopolis luminarium—a 10-day event at Melbourne's 2015 SummerSalt Outdoor Arts Festival.

The Purple House Fund

During the year, Australian Unity, together with the Business Council of Australia, supported Indigenous communities in Central Australia and the Western Desert with the launch of the Purple House Fund, which will raise money for the Purple House. The Purple House is an Alice Springs-based organisation that provides a unique and innovative community care and social support service for patients with end-stage renal disease. The launch of the fund was also supported by the launch of a book about one of Australia's most celebrated Indigenous artists, Patrick Tjungarrayi, a major figure in the establishment of the Purple House. Funds from an Australian Unity Foundation grant also supported the Purple Fund launch with a video produced to attract donations.

Australian Unity Wellbeing Index

Australian Unity marks the 15th anniversary of the Australian Unity Wellbeing Index this year with an upcoming compendium of data in the publication *What Makes Us Happy 2015*. The publication will canvass a range of topics including who are the nation's happiest people, where do they live and what events may influence personal wellbeing. The Index examines a range of factors including health, finances, satisfaction with relationships and connectedness with community to provide an individual with a Personal Wellbeing Index score. The results have been remarkably consistent over the 15 year life of the Index, sitting at an average of around 75 out of 100, indicating that Australians' wellbeing is remarkably resilient.

Australian Unity Foundation

Since its inception in 2006, the Australian Unity Foundation has distributed nearly $1.5 million to deserving community groups and researchers as part of a commitment to support wellbeing in the wider community. This year, grants of up to $25,000 were awarded to homelessness service Hutt St Centre; regional cancer support group Country Hope; music-making group Community Music Victoria; clothing provider to the unemployed Suited to Success; support group for Diverse Sexuality and Gender people, Start Out Australia; and not for profit organisation Women's Legal Service Victoria. A Heritage Fellowship Grant was also given to Meredith Gresham, who is conducting research into the potential health benefits of automatic bidets in aged care facilities.

175 years of thinking about the future

During the year, we published *Of no personal influence… How people of common enterprise unexpectedly shaped Australia* to mark our 175th anniversary. We commissioned noted historian Alex McDermott to examine the history and influence of friendly societies, including Australian Unity and its antecedent organisations including Manchester Unity and the Australian Natives' Association.

The book recounts the humble beginnings of the friendly society movement when those with little fortune or standing in the community banded together to provide health and financial support that was otherwise unavailable. From campaigning for a centralised public school system in 1901 to the mandatory wearing of seatbelts in 1970, friendly societies have always had their members' and the wider community's interests at heart. Australian Unity is a part of this story.

Our heritage

1840
Manchester Unity IOOF founded in Victoria and first MUIOOF lodge established in Adelaide

1848
Grand United Order of Odd Fellows founded in New South Wales

1870
Manchester Unity granted Crown land to establish homes for aged and disadvantaged members

1871
Australian Natives' Association Victoria (ANA) established

1888
ANA resolves to commemorate Foundation Day (26 January)—now celebrated each year as Australia Day

1890s
ANA campaigns for Federation

1901
Australian Federation achieved and ANA member Edmund Barton becomes Australia's first Prime Minister

1904
ANA begins a tradition of publishing 'Public Questions' to create debate on issues affecting Australia and Australians

1926
Manchester Unity First Insurance Company of Victoria established

1929
Unemployed Grand United members' contribution fund launched to mitigate the effects of the Depression

1932
Landmark Manchester Unity Building, a symbol of strength and optimism during the Depression, opened in Melbourne

1940s
Friendly societies set up Housing Co-operatives—forerunner to building societies

1950
South Australian friendly societies enter into a new Medical Benefits Scheme

1962
Manchester Unity Aged Members' Centre opens in suburban Glen Waverley, Victoria

1971
BP and BHP credit unions formed—predecessors to Big Sky

1971
ANA centenary

1981
Manchester Unity opens Walmsley Friendship Village in Kilsyth, Victoria

1984
Lifeplan Australia Friendly Society created from mergers of South Australian friendly societies

1993
Australian Unity formed from merger of Manchester Unity and ANA in Victoria

1996
Australian Unity Funds Management Limited established

2001
Australian Unity Wellbeing Index launched

2002
Australian Unity Financial Planning launched (now Australian Unity Personal Financial Services)

2005
Grand United NSW merges with Australian Unity

2009
Lifeplan Australia Friendly Society merges with Australian Unity

2012
Big Sky Credit Union joins Australian Unity to form Big Sky Building Society.

Australian Unity acquires Better at Home Care.

2014
Australian Unity opens the $180 million wellbeing precinct, Rathdowne Place in Carlton, Victoria

2015
Australian Unity celebrates 175 years

2015
Australian Unity expands into estate planning and administrative services

2015
Australian Unity awarded NSW Government tender for its Home Care business

1840 | 1860 | 1880 | 1900 | 1920 | 1960 | 1980 | 2000 | 2010 | 2020

Governance statement

Australian Unity Limited is a mutual company with a number of wholly-owned and closely-held subsidiaries carrying out the major operational activities of the Australian Unity Group. Good corporate governance is a fundamental part of the culture and business practices of the Group. The key aspects of the Group's corporate governance framework and practices are set out below.

Regulatory Framework

ASX Listing Rules

Australian Unity Limited is listed on the Australian Securities Exchange (ASX) as a Debt Listing, following the issue and quotation of its Australian Unity Notes in April 2011. The Company is committed to maintaining high corporate governance standards and has adopted a governance framework that meets the ASX requirements applicable to its Notes and reflects many of the ASX Corporate Governance Principles and Recommendations as relevant to its Australian Unity Notes.

Regulators

Australian Unity's business operations are extensively regulated, including by the Australian Prudential Regulation Authority (APRA) (health insurance, parent company friendly society benefit funds, building society and life insurance); Australian Securities and Investments Commission (corporate and financial services); ASX (the Notes); state regulators (retirement living services); commonwealth regulators (aged care); and the regulation of trade practices by the Australian Competition and Consumer Commission. Australian Unity Limited is also registered as a non-operating holding company under subsection 28A(3) of the *Life Insurance Act 1995* (Cth) and regulated by APRA under that designation.

These various regulatory regimes mean that Australian Unity is required to comply with a wide range of standards and regulations that apply across its various business activities, including, for example, APRA Governance Prudential Standards APS 510 (for authorised deposit-taking institutions) and LPS 510 (for life insurers) and the Governance Standard for private health insurance in Schedule 1 of the *Private Health Insurance (Insurer Obligations) Rules 2009.*

Australian Unity Limited board of directors

The board of directors of the Company is responsible for the governance of the Group.

Board composition and expertise

As at 30 June 2015, there were seven directors on the Australian Unity Limited board, each with specific expertise and experience relevant to the Group's activities. The board comprises a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members.

The personal qualities required of Australian Unity's directors are: honesty and integrity; strategic insight; capacity to relevantly question, probe and challenge; ability to inspire and inform; extensive connectivity within the business world; an understanding of contemporary leadership and management strategies and a commitment to both the values of the Group and the highest standards of corporate governance. As well as these values, Australian Unity's directors must also possess particular skills or experience relevant to the business operations of the Group and be 'fit and proper' within the meaning of Australian legislation and regulatory regimes applicable to the Group's business operations. The particular shared skillset that the board seeks to maintain includes the following business-specific and general skills:

Business-specific skills	General skills
Healthcare	Management and human resources
Retirement living services	Financial and accounting acumen
Financial services	Legal, regulatory and public policy
Investment management	Marketing and commercial skills
Insurance	Measured risk-taking

The board, led by the Chairman, reviews the skills represented by the directors on the board regularly to ensure that the mix of skills remains appropriate to achieve the Company's objectives. It is intended that the board will be made up of directors with a broad range of skills, expertise and experience, and with a diverse range of backgrounds, including gender.

Board role and responsibilities

The role of the Australian Unity Limited board is to promote and protect the interests of the Company and its members. It does so by directing strategically and governing soundly the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

The role and responsibilities of the board are formalised in the board charter. Some of the key matters the board has reserved for itself include:

- Appointment and terms of appointment of the Group Managing Director;
- Approval of Group and business unit strategies;
- Approval of Group and business unit annual operating plans, including capital and operating budgets and the overall salaries and benefits budget;
- Approval of delegated authorities;
- Approval of financial expenditures and allocations and changes to the Group's capital structure above the Group Managing Director's delegated limits;
- Approval and adoption of annual Group accounts;
- Approval of new subsidiaries and subsidiary board members;
- Setting and monitoring the Group risk management framework, control and accountability policies and systems;
- Approval of Group policies;
- Approval of matters reserved to the board committees by their terms of reference; and
- Approval of any other matter that, in the opinion of the board, is necessary from time to time to maintain a high standard of corporate governance.

Role of Chairman

The Chairman, an independent non-executive director, is responsible for the efficient conduct of the board's meetings, setting the agenda, facilitating the work of the board at its meetings and ensuring that the procedures and standards of the board are observed.

Meetings of the board

The Australian Unity Limited board has 10 scheduled meetings each year, each usually scheduled over two days, and where necessary will meet between scheduled meetings to deal with matters as and when appropriate. Once a year the board meets to approve the strategic plan and its application to the year ahead.

Avoidance of conflicts of interests

In addition to their standing notices, directors must declare any specific conflicts of interest arising from the business of a particular meeting.

Retirement and re-election of directors

Directors (other than the Group Managing Director) serve for a term of not more than three years from the conclusion of the annual general meeting at which they are elected. No director (other than the Group Managing Director) shall retain office past the third annual general meeting following the director's appointment, although they may offer themselves for re-election at that time.

Committees

The board has established committees that are necessary to assist it in monitoring, and where relevant, advising the management of the Group and maintaining appropriate standards. Each committee comprises individual directors determined by the board to be best suited to fulfil the committee's terms of reference.

The Chairman of Australian Unity is either a member or an ex-officio member of each committee. Each committee is chaired by a non-executive director appointed by the board. Each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting.

The current key committees established by the board to assist it in the performance of its duties are as follows.

Audit and Compliance Committee

The Audit and Compliance Committee (A&C Committee) approves the annual internal audit plan and monitors the Group Audit department's performance against this plan. The main objective of the A&C Committee is to oversee the credibility and objectivity of financial reporting and the compliance with Group obligations. The A&C Committee assists the board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group. Other goals are:

- To oversee and appraise the quality of the audits conducted by both the Group's internal and external auditors;
- To determine the adequacy of the Group's controls and evaluate adherence;
- To ascertain the adequacy of management financial reports;
- To serve as an independent and objective party to review the financial information presented to members, regulators and the general public; and
- To maintain open lines of communication with the external auditor.

Risk Committee

The risk committee oversees the risk management framework for identifying, assessing, mitigating and monitoring material risks arising from the business activities of the Group, and promotes a greater awareness and commitment to risk management practices within the Group. The risk committee is also involved in shaping the Group's risk appetite and guiding the Group's strategy in line with its determined risk profile.

Investment Committee

The investment committee reviews and monitors the performance of Australian Unity Investments and any investment managers utilised by it. It also approves the investment policies, strategies and other guidelines for the Group's own investable assets. The investment committee plays a critical role in assessing and reviewing the Group's investment approach and outlook to support their appropriateness and compliance with relevant covenants.

Human Resources, Remuneration and Nominations Committee

The Human Resources, Remuneration and Nominations Committee (HR Committee) is responsible for assisting the board and Chairman in relation to remuneration, nomination and related matters. These matters include periodical evaluation of the performance of the board as a whole, its committees, individual directors and its governance process (Detailed Review). The HR Committee conducts a Detailed Review on an annual basis. They also include the identification and consideration of suitable candidates for board appointment as successors to current directors or to supplement and renew the skills and experience of the board. The HR Committee also recommends the performance measures, evaluation and remuneration of the Group Managing Director to the full board and approves the remuneration for Group Executives.

The HR Committee works to ensure that Australian Unity has remuneration policies and practices that fairly, responsibly and competitively reward executives and staff. The HR Committee's considerations on reward structures are based on business performance, external competitiveness, compliance with legal obligations, and high standards of corporate governance. All members of the HR Committee are independent non-executive directors. Independent remuneration consultants are engaged to assist the HR Committee as necessary, providing specialist market information and technical advice. Refer to the Remuneration Report for further information about remuneration consultants engaged by the HR Committee.

Remuneration

Australian Unity's remuneration policy, which was developed by the board on the advice of the HR Committee, sets the framework for rewarding all directors, officers and employees of Australian Unity.

The Remuneration Report (contained in the Directors' Report) sets out the key objectives and principles of the remuneration policy. The Report also outlines the executive remuneration structure, which comprises fixed remuneration and at-risk remuneration components, in addition to details about non-executive directors' remuneration and other information specifically required under the *Corporations Act 2001*.

Audit

External auditor

Ernst & Young (EY) has been appointed to conduct an audit of the financial report and to report to members in accordance with the requirements set out in the *Corporations Act 2001*. Its audit report is provided at the end of the financial report.

A representative from EY attends the annual general meeting and is available to answer questions from members on the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted in the preparation of the financial statements and EY's independence in relation to the conduct of the audit of the Group's financial statements.

Internal audit

The Group's audit department provides independent, objective assurance and consulting services to the Group's operations. The Group audit department assesses whether the Group's network of risk management, control and governance processes is adequate and functioning in a manner that supports various aims including: the appropriate identification, reporting and management of risks; the accuracy, reliability and relevance of financial, managerial and operating information; and that employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.

Risk management

Australian Unity is committed to the identification and quantification of risk throughout its business units and controlled entities. The board has established a comprehensive enterprise risk management policy and framework covering significant business risks and strategic considerations. The underpinning processes are consistent with the principles of the relevant Standard (AS/NZS ISO 31000).

As part of the risk management framework, all business units regularly identify, evaluate and develop action plans to manage their business risks, maintain risk registers, which are regularly reviewed and updated not less than quarterly. Higher rated risks are reviewed by the risk committee each quarter in addition to annual risk reviews by the board's risk committee, including existing and emerging risks, associated mitigation strategies and status of implementation.

Business-related proposals to be considered by the board require proposing officers to be individually accountable for the identification, measurement and mitigation of all risk involved and risk registers form part of the project management framework. There are also a number of programs in place to manage risk in specific areas, such as capital management, business continuity and emerging regulation.

The potentially adverse financial impacts associated with catastrophic risk exposures with regard to certain aspects of the company's activities, are also attenuated by the purchase of appropriate insurance cover.

The Group's risk management framework is periodically revised to facilitate a continued proactive and consistent approach to risk management across all areas of activity.

Compliance

Australian Unity has a well developed and implemented compliance framework. Compliance managers are in place in specific business units where appropriate.

The focus of this function is to ensure ongoing compliance with all laws and regulatory requirements, with particular attention to industry specific requirements.

Group-wide compliance is supported by a Group compliance training system and the computer-based compliance database.

Financial information

Financial overview

Australian Unity's financial results for the year ending 30 June 2015 are contained in the following pages. Together with the accompanying Directors' Report, the financial tables and notes are designed to present a complete picture of the company's performance. These accounts are prepared in accordance with the requirements of the Corporations Act 2001 and the relevant accounting standards.

The Directors' report outlines the activities during the year and key governance matters. It includes the Remuneration Report which explains how decisions are made on salary and incentives for senior staff and directors' fees.

There are four key Financial Statements: the Consolidated Statement of Comprehensive Income (p. 62); the Consolidated Balance Sheet (p. 63); the Consolidated Statement of Changes in Equity (p. 64) and the Consolidated Statement of Cash Flows (p. 65). Each of the financial statements contains important information on the performance of the company and they are best analysed together. These statements are followed by a set of Notes that provide further and more detailed information (beginning on p. 66).

The Consolidated Statement of Comprehensive Income lists the income and expenses that produce the overall profit after tax of $34.6 million. This combines the results of all of the company's operations from across our portfolio of businesses.

This year to further assist the reader in understanding the financial performance of the company we have streamlined the financial report and restructured the notes so that they are grouped into logical sections instead of being based upon the sequence of the accounts.

Readers can see from note 26 that the revenue presented in the statement of comprehensive income of $1.28 billion, combines the amount attributable to members of Australian Unity of $1.10 billion and the amount attributable to benefit fund policy holders of $0.18 billion. Note 26 also indicates revenue attributable to Australian Unity members has increased by nine percent year-on-year. Strong contributors to this increase included private health insurance premiums up six percent, Retirement village fees and subsidies up 23 percent and Commission income up 34 percent (as shown in note 2). During the year we changed the way we recognise revenue in the dental business and while this has resulted in a decrease in revenue of 31 percent it has been matched by with a corresponding decrease in other direct expenses.

Expenses, excluding finance costs, attributable to members of Australian Unity, refer note 26, have increased by eight percent or $74.0 million compared to the prior year. As detailed in note 3, this was primarily driven by an increase in employee benefit expenses year on year of 18 percent, or $28.9 million reflecting both organic and inorganic growth in our Home Care and Financial Planning businesses. Net private health insurance claims have increased year on year by 5 percent, or $28.7 million which compares favourably to the prior year where the increase was eight percent, or $48.4 million. Occupancy costs are a good indicator of our growth during the year and they have increased 16 percent in a favourable rental market as we have opened offices in Liverpool in New South Wales, Brisbane, and Box Hill and St Kilda Road in Melbourne.

One way to examine the performance of each of the company's businesses is to look at note 1, the Segment Information, which demonstrates the importance of our portfolio of businesses and our strategy to build up the relative strength of the non-health insurance businesses. Their growth has been solid, led by Personal Financial Services where adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA) is up 69 percent year on year reflecting the investment in several acquisitions during the year. Retirement Living had another strong performance, increasing adjusted EBITDA by 12 percent. The Investments business, which recorded a decline in growth last year, has had an 8 percent increase in adjusted EBITDA year on year.

However, a particularly strong performance by the private health insurance businesses resulted in an adjusted EBITDA increase of 34 percent. This has meant that their overall contribution is 53 percent of the company's adjusted EBITDA (excluding corporate functions and eliminations) compared to last year where it was 48 percent.

Note 1 also refers to investment income of $24.3 million. This figure represents the return the company makes on its various investments in cash, financial assets and investments in joint ventures and associates. Year on year this increased 36 percent over the previous years of $17.80 million. The reader will notice that note 2 has another investment income figure, the statutory accounts definition, of $15.2 million. This is mainly because the amount in note 2 excludes dividends and distributions, which are shown separately in note 2, and certain changes in the valuation of investments in associates and joint ventures as disclosed at note 1(c).

The Consolidated Balance Sheet details the company's assets and liabilities, along with equity. An important measure of company strength is its gearing ratio, or how much debt the company is carrying.

There is a maximum covenant set on the gearing ratio of 45 percent. Note 9(a) defines the gearing ratio and reports the ratio as being 33.7 percent as at 30 June 2015, compared to the prior year ratio of 38.3 percent. The reader will note from note 9 that the Australian Unity Notes are now classified as a current liability as they are redeemable in April 2016.

Corporate interest-bearing debt, excluding building society deposits and debt establishment costs, of $243.7 million has decreased by 12 percent over the previous year's balance of $278.2 million primarily due to a reduction in development finance loans of $27.4 million; refer note 9 Financial Liabilities Borrowings.

The Group's investment in inorganic expansion can be seen in note 21, Business combinations, where acquisitions totalling $26.8 million have been made during the year, compared to $5.0 million last year.

With the exception of cash and investment assets held and Retirement Living's retirement village and aged care operations, the businesses in which the Group is involved do not invest heavily in tangible assets. Consequently, another good indicator of expansion can be seen in note 14, Intangible assets, which have grown year on year by 58 percent. The Group's investment in technology and business acquisitions is clearly shown through the significant growth in goodwill of 85 percent, management rights and customer contracts of 105 percent and computer software of 22 percent.

Interest cover, or the proportion of earnings before interest and tax needed to make interest payments, was 3.08 times for 2015 compared to the previous year of 2.93 times. The 2015 calculation included a one-off interest item without which the interest cover would have been 3.26 times.

The final area of attention is consideration of the Consolidated Statement of Cash Flows. This statement is a summary of cash from operating, investing and financing activities—in other words cash received from customers and borrowings; along with cash paid to suppliers; to invest in or buy businesses or business equipment and to repay debt.

Overall, Australian Unity ended the year with $903 million in cash and cash equivalents, compared to $974 million the previous year. There were a combination of reasons for the decrease, including higher claims and benefits paid in our health fund and higher withdrawals from life investment contracts. On the other hand, cash outflows from investing activities were less than the previous year, largely because of an increase in refundable resident deposits that reflect the growth in the retirement living business during the year. This increase also helped reduce the need for debt. This, along with our strategy of deliberately paying down debt, reduced our cash outflows from financing activities. Overall the company is in a strong cash position and actively manages cash flow to ensure the company's ambitions and operations are matched with the cash flow needed to deliver them.

Kevin McCoy
Chief Financial Officer

Financial Report for the year ended 30 June 2015

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 39 to 49 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 26 August 2015.

Contents

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 2015.

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):

Glenn Barnes, Chairman

Peter Promnitz, Non-executive Director
(appointed Deputy Chairman 28 July 2015)

Rohan Mead, Group Managing Director & CEO

Melinda Cilento, Non-executive Director

Eve Crestani, Non-executive Director

Stephen Maitland, Non-executive Director

Greg Willcock, Non-executive Director

Ian Ferres, Non-executive Director (ceased 1 August 2014)

Warren Stretton, Non-executive Director (ceased 31 December 2014)

Company secretaries

Verran Fehlberg and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2015.

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 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 2015, the Group achieved a profit after income tax of $34.6 million, an increase of 16.6 percent over last year's $29.7 million. This solid result flowed largely from operating revenue growth generated by the Group's business segments and was achieved despite the impact of low interest rates throughout the year and equity market uncertainty in the latter months. Benefit fund revenue remained steady.

While total expenses, excluding finance costs increased to $1,199.6 million (2014: $1,124.7 million), including higher health insurance claims and benefit fund expenses, the outcome represents a sound improvement in overall trading operations with operating earnings up 13.7 percent to $40.3 million from last year.

The Group has made acquisitions across all its businesses throughout the year as detailed in note 21 to the consolidated financial statements. Nevertheless, the Group also continues to be focused on organic growth and pursuing its strategy of serving the wellbeing needs of Australians while developing longer-term plans to extend the reach of services and products to enable millions to enjoy wellbeing. This strategy requires us to continue to build a commercial, sustainable portfolio of businesses that foster wellbeing.

The Group's operations are conducted through four business segments: Healthcare, Retirement 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. Retirement Living is a provider of aged care facilities, home care services and independent living units. Investments manage investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society it also provides banking products, investment advice and insurance services. Personal Financial Services provides financial planning and finance broking services.

Key aspects of the operating, financial and strategic performance of each Group business during the 2015 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 business combines the provision of health insurance, with the delivery of healthcare services including dental services, hospital in the home, rehabilitation in the home, chronic disease management, integrated care and other preventative health services.

The business is committed to helping members manage their health risk factors before they develop a chronic disease, to better manage their long-term conditions, to better co-ordinate care and to get people home from hospital and into the comfort of their own home as soon as possible.

The business is one of the nation's largest health insurance providers with 225,738 policyholders throughout Australia. Through its wholly owned subsidiary, Remedy Healthcare, the business is the largest provider of integrated telephonic and in-home healthcare services in the country.

The company's healthcare business delivers services to the Australian community across four areas:

1. Retail health insurance;
2. Corporate health insurance (through GU Health);
3. Dental; and
4. Allied Health (through Remedy Healthcare).

Growth

The Healthcare business had a very positive year with a return to financial performance comparable to levels before government intervention and ensuing regulatory changes began to impact the business' result.

Total segment revenue for the year for the combined Healthcare business was $828.3 million at 30 June 2015 (2014: $789.2 million).

Adjusted EBITDA was $56.2 million which represents a 29.0 percent increase compared to the previous year (2014: $43.6 million).

This overall outcome reflects:

1. Improvement in the corporate health fund's (GU Health) performance following a year of strong policyholder growth and pricing adjustments necessary to address the profitability challenges experienced in the previous year;
2. Improvement in the underwriting margin in the retail health insurance fund following the annual pricing round, and optimisation of distribution arrangements; and
3. A strong result in the dental business.

Directors' report continued

Healthcare (continued)

The more favourable investment income outcome recorded during the year also assisted the business.

Australian Unity continued its investment in health service delivery with the development of a mental health program.

Retail health insurance

The number of retail health fund policyholders decreased by 0.7 percent to 197,950 at 30 June 2015 (2014: 199,367). Commercially sustainable policyholder growth proved challenging during the year with acquisition costs rising across retail health funds. Australian Unity's strategy is to prioritise long-term sustainability of its policyholder base, investment in hospital substitution and preventative health services over short-term policyholder growth.

The retail health insurance business also provides health insurance to overseas visitors and workers. During the year ended 30 June 2015 the number of overseas visitor and worker policyholders in this business increased by 16 percent.

Highlights

Members Own Health Funds

Australian Unity joined with 14 other not-for-profit and mutual health funds to launch Members Own Health Funds in February 2015. Since the launch, Members Own Health Funds has run a national awareness campaign to highlight the major points of difference between its members' funds and the bigger shareholder and overseas owned funds operating in the Australian market.

Overseas visitor health cover

Australian Unity's retail health insurance business launched a new range of products specifically designed to meet the health cover needs of overseas visitors. The range includes a Basic, Mid and Top level cover and a number of hospital and emergency cover products.

Systems upgrade

A significant amount of time was invested during the year updating the systems and technology platform across retail health insurance. The key benefits of this project include:

- A new customer relationship management system which is now driving a significant increase in sales conversions;
- Installation of a new telephony system; and
- Launch of an omni-channel sales capability giving customers the ability to choose the way that they interact with the business.

Corporate Health Insurance – GU Health

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively to the corporate market. GU Health experienced a significant level of policyholder growth during 2015, with the number of policyholders increasing by 3.9 percent to 27,788 as at 30 June 2015 (2014: 26,738).

This year GU Health was successful in retaining its mining clients, despite the economic downturn experienced by the sector. In addition, GU Health was able to gain a significant number of clients in the IT sector, and is now the preferred supplier of health insurance in Australia to some of the world's leading information technology companies.

The business also plans to innovate and diversify into communities beyond the corporate space. By extending and applying its strategic competitive advantage, GU Health aims to explore new markets and continue to work with its corporate and prospective community stakeholders to ensure long-term sustainability as a specialist fund.

Remedy Healthcare

Remedy Healthcare continues to lead the industry in the provision of preventative healthcare and hospital discharge support programs that help individuals stay healthy and more effectively self-manage any emerging and existing conditions they have.

Remedy provides hospital substitution services via its Hospital at Home and Rehabilitation At Home services to 32 out of 35 of the private health insurers in the country. Over the past two years Remedy has reduced hospital claims paid by these health insurers by at least $20 million from these two services alone.

Organically and through acquisitions, Remedy experienced growth in both patient and staff numbers during the year, bringing new customers into the business as its staff profile expanded and diversified.

During the year 7,240 new patients were enrolled in Remedy coaching and home based programs. Remedy's staff numbers grew to 130 during the year and is forecast to grow to 170 in 2016.

Highlights

Physio Connect

Remedy Healthcare finalised the purchase of highly regarded physiotherapy aged care business, Physio Connect, in March. While based in Frankston, Victoria, its physiotherapy and other allied health services extend to a number of aged care facilities across Victoria and New South Wales. This acquisition marked an important milestone in the company's evolution and will accelerate its plans to expand its allied health business into aged care.

Remedy was also successful in winning a tender with Ballarat Health Services to provide physiotherapy to residents of publicly funded aged care facilities in Ballarat. This provides an important strategic business services extension into the public health sector in Victoria.

Mental health

A telephone based program for people suffering from anxiety and depression has been developed in collaboration with Flinders University in South Australia and York University in the United Kingdom during the year. The program is based on a successful program being delivered in the United Kingdom. It will be officially launched by Remedy later in calendar 2015. The ultimate goal is to provide this program to the broader healthcare industry and the public health sectors in addition to Australian Unity members.

Corporate workplace health

Remedy was successful during this year in securing a number of contracts to provide its workplace health programs to corporate enterprises including Kmart, Carlton United Breweries, and Australian Hearing. This brought new customer communities to the business and expanded Remedy's reputation in the healthcare industry.

Dental

Australian Unity acquired a dental clinic in Hughesdale, Victoria in September 2014 bringing the number of Australian Unity operated dental clinics to five. The other dental clinics are located in the Melbourne CBD, South Melbourne, Box Hill and Rowville.

The business expanded the communities it serves during the year, updated its clinical equipment and facilities and extended its workforce.

Highlights

Australian Unity's Albert Road dental clinic was refurbished during the year bringing the clinic up-to-date with contemporary standards and consumer expectations. The company's other dental clinics were all updated during the year to now provide the latest available technology and equipment. This allows Australian Unity to undertake more complex treatments and to continue to treat patients in its own clinics, rather than having to refer them to external specialist providers.

The number of patient visiting Australian Unity dental clinics during the year increased by 9.2 percent to 61,638 (2014: 56,439).

Challenges and Risk Management in Healthcare

The private health insurance environment continues to be very challenging with affordability becoming increasingly problematic for many consumers. This has been exacerbated by, and is linked to, a history of change in government policy in recent years. However, it is health cost inflation—currently running at 7–8 percent per annum—that is forcing increases in premiums across the industry. These increases make it increasingly difficult for many consumers to afford private health insurance.

Profitable policyholder growth also remains challenging for the industry as a whole. 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.

While there are mitigation strategies in place these strategies will not solve the problem on their own. System-wide healthcare reform is needed to address these issues effectively across the industry, and particularly to halt the impact it is having on consumers whose healthcare cover is being reduced.

Outlook

Significant progress has been made in developing a new customer communication system and further investment is planned to upgrade digital channels focusing on websites, mobile phones and tablets to create more user friendly ways to access services and to buy products.

Remedy Healthcare will focus on growing its national footprint through organic growth and acquisitions including:

- Continuing growth into aged and corporate healthcare
- Expansion into other insurance markets such as life insurance
- Geographic expansion of dental care into New South Wales and other parts of Victoria; and
- Launching its mental health program later in 2015.

Retirement Living

Overview

Australian Unity Retirement Living provides Aged Care, Home Care and Retirement Communities. In 2015, the business successfully continued its strategy of co-locating care on single sites and increasing its reach to senior Australians by providing assistance with daily living and other care services in the home.

Australian Unity Retirement Living's growth continues to be driven by the development of new retirement communities and expansion of its home care services, both of which support the daily living and care needs of 21st century retirees.

The Retirement Living business recorded strong growth during 2015. Total segment revenue increased to $106.8 million (2014: $89.2 million), representing growth of 19.7 percent compared to the previous year.

This positive revenue outcome was achieved despite the closure of the former Wahroonga Aged Care facility in preparation for its total redevelopment – to be known as Campbell Place. Gains, however, from the opening of Rathdowne Place in Carlton, Victoria, Peninsula Grange Aged Care in Mornington, Victoria, and by continued growth in the Home Care business more than offset the impact of the Wahroonga closure.

Retirement Living's adjusted EBITDA of $23.9 million (2014: $21.3 million) represents a growth of 12.2 percent compared to the previous year.

Retirement Communities

Retirement Living owns and operates 19 retirement communities in Victoria and New South Wales (NSW). Its portfolio consists of 2,074 (2014: 1,986) independent living units and 609 (2014: 613) operational aged care beds.

Elderslee, an existing managed village on the Central Coast of NSW, was acquired during the year. Portfolio growth during the year was driven by development that continued at Peninsula Grange as well as Sienna Grange in Port Macquarie, NSW, Victoria Grange in Vermont South in Victoria and Lifestyle Manor in Bondi, NSW.

Home Care

Home Care continued to be a significant growth area for the business. During 2015, growth in the Home Care business was again driven by acquisition and organic growth. The acquisitions of Illawarra Nursing Service and Kenilworth Nursing Services, which commenced in the 2014 financial year, were both completed in 2015.

The Home Care business also had success during the year in winning valuable contracts and packages—particularly in New South Wales—where substantial Home and Community Care (HACC) tenders were secured. Home care revenue almost doubled to $18.9 million during the year compared to $9.5 million in the previous year.

Home Care currently employs more than 430 staff, an increase of more than 75 percent compared to the previous year (2014: 246). The business provides in excess of 400,000 hours of care each year. This is evidence of the solid scale this part of the business has achieved and our investment underscores what we consider to be growth potential in home care services.

Development

In total, 88 new units were constructed across the Retirement Living portfolio during 2015.

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

Rathdowne Place—Stage 1, Carlton Victoria

Stage 1 of the Rathdowne Place Wellbeing Precinct is the $67 million Wellbeing Centre and 162-bed aged care facility that was officially opened in September 2014. The project created 200 jobs during the construction of Stage 1 and 160 ongoing Australian Unity employees.

Rathdowne Place was a finalist in the 2015 Property Council Innovation Awards.

Rathdowne Place—Stage 2

Construction of Stage 2 of the Rathdowne Place Wellbeing Precinct, to be known as The Residences, commenced in 2015 after the Lord Mayor of the City of Melbourne broke ground on the site in June.

The Residences at Rathdowne Place will offer a unique combination of architecturally designed independent living apartments with premium facilities, allied health, home care and lifestyle services alongside the award-winning Better Together model of care.

There are currently few such retirement options available in the Melbourne inner city area, and Australian Unity Retirement Living's aim is to create a new industry benchmark with this community.

There will be 91 residential apartments in this nine-level development. Each apartment's fit out is high quality and the design camouflages the more utilitarian fittings and easy living elements needed to accommodate the needs of older people, such as walker access to bathrooms and level access throughout.

Directors' report continued

Retirement Living (continued)

Victoria Grange, Vermont South, Victoria

Construction of 26 new independent living apartments at Victoria Grange was completed in 2015. These apartments complement the villa housing and residential aged care accommodation already in place on this site and were very well received by the market with only one remaining uncontracted at 30 June 2015. Victoria Grange is the most significant retirement community completed by Australian Unity since Constitution Hill in Northmead, NSW, in 2009.

Victoria Grange was also a finalist in the 2015 Property Council Innovation Awards.

Peninsula Grange, Mornington, Victoria

The 102-bed aged care facility at Peninsula Grange was completed in 2015. This facility has been designed to support the Better Together model of care and is co-located with the successful retirement village of the same name. Peninsula Grange retirement village consists of 131 completed units, with 56 of these constructed during the last year. A further 72 units are planned for construction in 2016.

Sienna Grange, Port Macquarie, New South Wales

Six additional units were constructed at Sienna Grange in Port Macquarie in 2015. During the year, 58 aged care bed licences were allocated via the federal government's Aged Care Approvals Round for this community. Planning has commenced for construction to start in 2016.

Also in Port Macquarie, The Governor's complex is being partially redeveloped with some one-bedroom apartments demolished and to be replaced with 12 contemporary, two-bedroom apartments.

Lifestyle Manor, Bondi, New South Wales

Stage 1 of this premium retirement community was completed and all units sold in the previous financial year. Construction of Stage 2—43 independent living units—commenced during the year. All units were sold off the plan and are expected to settle by June 2016.

Wahroonga Aged Care, Victoria

The redevelopment of Wahroonga Aged Care facility in Glen Waverley, Victoria will commence in September 2015. Wahroonga had reached the end of its useful life after 52 years and is now demolished and a new co-located aged and retirement community has been approved for development in its place.

Sales and Occupancy

High occupancy levels continued to be recorded at both retirement villages and aged care facilities. Occupancy rates were 97 percent in retirement villages and 98 percent in aged care facilities when taking into account the ramp up period of newly developed facilities. These figures pleasingly, again exceed industry benchmarks.

Overall price growth was at five percent which exceeded expectations and was largely due to strong property price growth experienced in the Sydney and Melbourne residential markets flowing through to our retirement communities.

Aged Care and Better Together

The award winning Better Together model of care provides residents with increased choice and control over their lives by supporting them with multi-skilled care partners offering a holistic range of services.

The model was successfully trialled in 2014 and results showed residents self-reported an increase in their quality of life of an estimated 15 percent. Its operation has since been extended to Rathdowne Place and Peninsula Grange. The model will be rolled out across all Australian Unity's aged care facilities over the coming year and will also be adopted in our Home Care and Retirement Village services.

Development Funding

The Retirement Living business has utilised a combination of Australian Unity capital and bank debt to finance existing developments. In order to further growth, Retirement Living collaborated with Australian Unity's Investments business to develop an alternative approach to development financing.

During the 2015 financial year, with the objective of diversifying its capital sourcing, Retirement Living successfully launched the Rathdowne Place, Stage 2 Retirement Village Development Fund. This funding structure allows Australian Unity to retain ownership of the property but utilises third party external investor funding to fund development activities. This innovation was an exciting development for the business and is forecast to be replicated in a second Development Fund at Campbell Place Wellbeing Precinct.

Managing Home Care Growth

The rapid growth of the Home Care business has necessitated forward thinking to ensure clients can efficiently receive the care they require. A new Home Care client management and staff rostering software has been introduced. This is designed to assist in more effectively managing the increasing numbers of staff caring for and supporting retirees as the business grows and client needs become more complex. Further functionality will be added to the client management and rostering software during the upcoming year as increased mobile access is made available to staff.

Significant work has also been undertaken to ensure the business can provide the increased choice and control that consumers are seeking. From July 2015, all Home Care packages were transferred to a consumer directed service model, where people have more choice over the types of services provided to them and more control over costs.

Outlook

Retirement Living continues to invest in developing sought-after accommodation and services for Australia's ageing population. The business' vision leverages off its ability to provide a continuum of care to customers, in the form of home care, retirement communities and aged care, built around the concept of ageing in place; supporting older Australians to age in the community of their choosing.

The business plans to continue to assess a number of strategic home care acquisition opportunities and sites for retirement communities that will further strengthen its foothold in areas where demand continues to be identified.

Investments

Overview

Australian Unity's Investments business plays a key role in strengthening the financial wellbeing of its customers and connecting communities. It offers a range of financial products and services that meet the diverse investment needs and objectives of its customers. It 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 (Lifeplan).

The Investments business increased total segment revenue and adjusted EBITDA in 2015. This was a very creditable result in a year characterised by periods of extreme volatility. Conditions included a mix of changeable equities markets, slower than expected domestic economic growth, a declining Australian dollar, and reductions in the already low Reserve Bank of Australia (RBA) cash rate.

While the Australian Securities Exchange returned 5.6 percent for the year (measured by the S&P ASX 300), it finished the year 7.9 percent below its peak in April 2015. Measured against the $US, the Australian dollar followed a consistently downward trend over the full year.

Total funds under management, administration and advice were at $8.7 billion at the end of the year (2014: $8.5 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 business recorded an increase in total segment revenue to $107.2 million (2014: $103.2 million). This result reflects a solid performance in a competitive and challenging environment for the asset management and banking businesses. Adjusted EBITDA increased to $14.8 million for the year ended 30 June 2015 (2014: $13.8 million).

The Investments team also manages the investment portfolio of the Australian Unity Group, which achieved an overall return of 5.2 percent (2014: 5.1 percent) on the Group's investment assets for the year ended 30 June 2015. This result was above its benchmark return of 4.2 percent.

During the year, the Investments business continued to improve the efficiency and effectiveness of its operating platform. After an extensive market review, the business appointed BNP Paribas Securities Services, a wholly owned subsidiary of the BNP Paribas Group, as its custodian and administrator.

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 $226 million in funds under administration during the year. As at 30 June 2015, Federation had 35 investment managers, offering 106 managed fund options, 12 separately managed accounts, and full ASX and limited (developed countries) international direct shares for investors to choose from.

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 the Platypus Absolute Return Australian Equities Fund was developed and launched, initially for investment by wholesale clients.

Funds under management and advice	$1.27 billion (2014: $1.33 billion)
Performance for the year ended 30 June 2015:	
Platypus Australian Equities Trust	8.6 percent
Platypus Systematic Growth Fund	10.2 percent

Acorn Capital

Acorn Capital operates the largest and most experienced microcap/small cap investment team in Australia. Its experienced team offers three investment capabilities: listed and unlisted Australian microcaps, and Asia (ex-Japan) small caps. Acorn's return was impacted by the significant volatility for microcap resources and energy companies which prevailed throughout the year. The funds under management decreased during the year due to mandate redemption by several institutional investors.

Funds under management	$719 million (2014: $1.09 billion)
Performance for the year ended 30 June 2015:	
Acorn Microcap Trust (wholesale)	-11.8 percent
Acorn Capital Asia Small Cap Fund	36.1 percent

Wingate Asset Management

Wingate Asset Management is a specialist international equity manager that employs a benchmark unaware and contrarian value-oriented approach with a bias on quality. For the 12 months to 30 June 2015, the MSCI World (ex Aust) $A Net Dividends Reinvested Index achieved a 25.2 percent return. The Fund continued to perform in line with its objective; delivering less volatile, smoother returns, with significantly less market risk than the broader market.

Funds under management	$251 million (2014: $161 million)
Performance for the year ended 30 June 2015:	
Wingate Global Equity Fund	22.9 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

Funds under management	$60 million (2014: $46 million)
Performance for the year ended 30 June 2015:	32.6 percent in AUD terms
Seres Asian Equities Opportunities Fund	(7.9 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. The Altius Sustainable Bond Fund was established during the year. It is the first of its kind and sets a benchmark for funds with an ethical investment mandate for fixed interest securities.

Funds under management and advice	$608 million (2014: $549 million)
Performance for the year ended 30 June 2015:	
Altius Bond Fund	2.9 percent

Real Estate and Mortgages

Australian Unity Real Estate Investment connects communities by raising money from retail and sophisticated investors, and deploying it on hospital and commercial property, retirement village development, and mortgage lending. In December 2014, Australian Unity Real Estate Investment acquired the business of Owenlaw Trust Limited which became Australian Unity Mortgage Investments Limited.

Total funds under management increased during the year to $1.88 billion (2014: $1.54 billion).

The Healthcare Property Trust continued to expand during the year, acquiring a number of properties. It had gross assets of approximately $700 million at 30 June 2015 (2014: $550 million). The Trust achieved a return of 7.9 percent for the year to 30 June 2015.

The Retail Property Fund achieved an 11.3 percent return for investors in the year to 30 June 2015. The second stage of the Waurn Ponds Shopping Centre expansion was completed in August 2014, with the expansion adding significantly to the Centre.

Directors' report continued

Investments (continued)

The Australian Unity Office Property Fund achieved a return of 14.3 percent for the year to 30 June 2015. Australian Unity is currently developing a proposal to list the Fund on the Australian Securities Exchange, subject to approval by its board and the Fund's unitholders.

The Australian Unity Diversified Property Fund achieved a return of 9.2 percent for the year. During the year plans were announced to expand and upgrade the Busselton Central Shopping Centre in Western Australia.

The Australian Unity Rockdale Property Trust, which owns a modern retail building in south Sydney, was launched during the year.

Australian Unity launched the Retirement Village Development Fund concept in 2015. These funds have the potential to provide the Group with the ability to access external capital to accelerate development of important and much needed retirement developments. Capital-raising was completed for the first Retirement Village Development Fund, a tailored investment vehicle to finance the development of 'The Residences', which is part of Australian Unity's Rathdowne Place Wellbeing Precinct in the inner Melbourne suburb of Carlton.

Mortgages

Following the Owenlaw acquisition noted above, Australian Unity began to offer the Australian Unity Select Mortgage Income Fund. It is a contemporary mortgage trust investment offering, giving investors the option of investing in individual loans rather than a pool of mortgages.

The winding up of Mortgage Income Trust and High Yield Mortgage Trust continued during the year. Repayments to investors totalled $54 million.

Lifeplan

Lifeplan Australia Friendly Society (Lifeplan) 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 slightly to $1.90 billion (2014: $1.88 billion).

Lifeplan is a leading provider of solutions to help meet the financial challenge of education for children. During the year, sales of education solutions increased by 31 percent and recently surpassed $135 million in funds under management.

Continued training and support for investment bond advice strategies saw sales of NextGen Investments increase by 18 percent during the period. NextGen is approaching $400 million in funds under management, while Lifeplan manages over $1 billion in this category.

With over $600 million in funeral funds under management and 95,000 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 its core expertise of building a strong and sustainable banking and advice business. During the year, Big Sky recorded continued growth with total loans of $638 million—an increase of $62 million over the previous year. The deposits portfolio also experienced growth, growing $52 million to finish the year at $698 million, taking total on balance sheet assets to $754 million.

During the year, Big Sky Building Society achieved three key milestones:

- Delivery of an internet banking upgrade with enhanced functionality and improved customer experience;
- Development of its first Smartphone Application (App). The App, which will be deployed early in the new financial year, enables customers to access market leading technology, including digital wallet with near field communication capability and card less automatic teller cash withdrawals; and
- Achievement of a BBB credit rating from ratings agency Standard & Poor's (announced subsequent to year end on 15 July).

For the second year in a row, the Big Sky Cash Management Account was recognised as Cash Management Account of the year by AFR Smart Investor Blue Ribbon Awards. Big Sky was again recognised for the delivery of outstanding value for its Cash Rewards Visa Credit Card (Everyday Spender) and Low Rate Visa Credit Card (Occasional Spender) in the 2015 CANSTAR credit card rating awards.

Big Sky Financial Planning continues to grow with $694 million in funds under advice at 30 June 2015, up $55 million from the prior year.

Investments Strategy and Outlook

A major driver of Australian Unity Investments' strategic outlook is the development of solutions for a growing market of investors looking for contemporary and innovative products for particular needs (such as higher yielding investments with a measured risk profile like property), and continuing to grow its banking client base, noting outstanding recent growth in that business.

In the period ahead, Australian Unity Investments will continue to develop bespoke investment solutions for retail, large private and Institutional clients. It competes strongly in this regard due to its market profile, broad investment skill set, and unique and specialist business expertise.

Australian Unity Investments' Strategy and Outlook for 2016 includes:

- Expanding distribution and product development for targeted segments;
- Opening alternative areas of asset supply in healthcare and social infrastructure;
- Establishing ongoing access to new capital sources (including collaboration with external partners and other businesses in the Australian Unity Group); and
- Building awareness of specialised products in the advice industry through education and training.

Facing a continuing competitive and challenging environment for asset management and banking, Australian Unity Investments will continue to provide a compelling proposition focused on providing customers with financial solutions across asset management, administration, advice and banking.

Personal Financial Services

Personal Financial Services works with advisers and industry partners to provide professional advice that supports its clients' financial wellbeing. 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.

The business was significantly strengthened by a number of strategic acquisitions during the year and funds under advice increased by 70.2 percent to $5.93 billion (2014: $3.48 billion). Total segment revenue was $56.9 million which represents a 42.7 percent increase compared to the previous year (2014: $39.8 million). Personal Financial Services' adjusted EBITDA increased by almost 70 percent to $3.95 million for the year ended 30 June 2015, compared to $2.33 million in 2014.

Acquisitions

Premium Wealth Management

Premium Wealth Management is an independent financial advisory licensee which was primarily owned by its advisers and contains a significant number of larger accounting practices. The acquisition was completed in December and increases Personal Financial Services financial advice capability and its exposure in the accountants' space. The Premium acquisition should also better position Personal Financial Services to take advantage of opportunities arising from the significant regulatory and environmental changes impacting the accounting profession.

With Premium Wealth now part of Personal Financial Services the business had, at 30 June 2015, 102 financial planning practices, 22 mortgage brokers as well as a general insurance broking capability.

Flinders Australia Limited

In June 2015, Personal Financial Services announced that it had entered into an agreement to acquire estate planning and administration specialists Flinders Australia Limited. This acquisition was completed on 1 July 2015 and will give Australian Unity a broader platform of in-demand services for their clients and members, as well as the clients of their financial advisers and accountants.

This acquisition strongly reflects one of Personal Financial Services' 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.

Waratah Insurance Brokers

Personal Financial Services acquired Waratah Insurance Brokers in March 2015. The acquisition of Waratah, an independent Sydney-based general insurance broker, represented a major step for Personal Financial Services toward building a significant presence in the general insurance broking space.

Post-acquisition, Waratah was rebranded to reflect its change of owner and, together with employed brokers already operating from Australian Unity's head office in South Melbourne, will provide valuable advice to the small to medium business clients (SME) in Personal Financial Services' accountant referral networks. SME clients are the most important clients to an accounting practice and good general insurance solutions are one of the most important needs for the SMEs to protect their businesses from unexpected disasters.

Advisers

Despite continuing constraints endured as a result of regulatory debate and changes, Personal Financial Services was able to continue to recruit additional financial advisers to support and drive growth in this key area of the business. By 30 June 2015, the number of financial advisers had increased to 183, including 54 Premium Wealth Management advisers (2014: 125).

Accountants

Over the year, the business focused on the active level of support being provided by their referring accountants, who are key partners in the delivery of high quality advice to clients. As a result of this focus, the actual number of accounting partnerships reduced slightly and at 30 June 2015 there were 309 accounting firms in the Personal Financial Services referral partner program (2014: 314).

In addition, a targeted marketing campaign commenced during the year aimed at further increasing the number of relationships the business has with accountants. This campaign was timed to take advantage of legislative changes that take effect on 1 July 2016, which will require accountants who provide advice in relation to the establishment of Self-Managed Superannuation Funds (SMSF) to hold an Australian Financial Services Licence (AFSL); or be authorised by an AFSL; or work with a licensed or authorised financial adviser when providing SMSF advice. Early indications show that the campaign will be successful.

Mortgage broking

Loans under advice were $766 million at 30 June 2015, which was a small reduction compared to $778 million at 30 June 2014. The business recorded a small increase in the number of mortgage brokers up from 21 in 2014 to 22 in 2015. Growth in loans under advice was slower than anticipated due to increased competition for purchase of loan books, which resulted in no acquisitions for the year.

Across the industry there were significant levels of re-writing of loans that resulted in a higher level of run-off in the existing book. Despite this, mortgage broking continues to trend upwards and 2015 was a record year for loan settlements, which were $214 million which represents a 37 percent increase on the previous year.

Finance broking revenue also grew strongly and was $2.5 million which represents an increase of 24 percent over the previous year.

General Insurance

Boosted by the acquisition of Waratah Insurance Brokers, general insurance revenue increased by 46 percent to $1.8 million. In addition to the acquisition of Waratah, growth in revenue was also achieved by the renegotiation of a key distribution agreement providing improved revenue terms and by exerting tighter control over marketing expenditure.

The work over the year has given Australian Unity a full general insurance capacity for the first time and delivers on a key strategic objective and one long identified by accountants: prioritising insurance needs for their most important clients namely SME businesses.

Challenges and Risk Management

Regulatory uncertainty

The Personal Financial Services business continued to be challenged by ongoing regulatory uncertainty and in particular debate around the Future of Financial Advice (FoFA). Revenue from corporate superannuation advice is also under pressure as a result of the continuing impact of the MySuper reforms which are altering the employer superannuation landscape in Australia.

However, the business manages the risk inherent in regulatory change and debate by remaining fully informed, actively participating in advisory groups and other forums; and by ensuring its business model and practices are highly adaptable. Personal Financial Services has also deliberately been diversifying its revenue streams across a range of complementary businesses. This positions the business well to meet specific regulatory challenges that impact any one sector.

Life Insurance Industry Inquiry

Personal Financial Services devoted considerable effort participating in the current inquiry into financial advice within the life insurance sector. These inquiries led to the production of the Trowbridge Report, which recommended a range of changes to remuneration for life insurance advice and in particular the banning of high up-front commissions on life insurance products.

Directors' report continued

Personal Financial Services (continued)

More recent developments have seen these recommendations refined and a more reasonable outcome and transition program proposed. The proposed reduction in up-front commissions has little financial impact on the business as the majority of new insurance was already provided under a hybrid or level commission structure.

Nonetheless, the business remains concerned about the potential outcomes of the review across the broader industry as it may lead to further increases in the under-insurance problem in Australia. Under-insurance already has significant adverse impacts on the Australian community and economy. The other key concern is that in none of the discussions and recommendations was there any indication that the proposed reduction in adviser revenue would result in the life insurers passing on a reduction in premiums paid by clients.

Personal Financial Services' strategies and outlook

A major driver of Personal Financial Services' strategic outlook is capturing the growth potential emerging from the expiration of the accountants' exemption regarding providing advice in relation to SMSFs, which occurs on 1 July 2016. From that date forward, accountants will need to either become, or partner with, licensed financial advisers in order to provide this financial advice to their clients.

Personal Financial Services is actively marketing to accounting firms ahead of this with the aim of securing an increased share of this opportunity.

By focusing consistently on clients' wellbeing, Australian Unity has achieved a high level of trust across the community throughout its lengthy history and this forms the basis of the business' optimism about its competitiveness in this market.

An even more significant opportunity has been established as a result of the acquisition of Flinders Australia Limited. The incumbent private trustee organisations in Australia are focused on high net wealth clients and through Flinders, once we have obtained a traditional trustee services licence, we will be in a position to provide these services to ordinary Australians.

As Australia's population ages, there has never been a greater need for a member and client-focused mutual organisation to provide services to help vulnerable Australians who are unable to manage their own finances. Equally, with the impending transfer of wealth, having an impartial third party who can act as executor of estates, can help protect the fabric of family relationships.

The other key service opportunity from Flinders is working in conjunction with the business' accountants, advisers, clients, members and customers to help them get the right estate plans in place to help ensure that their final wishes are well structured and their estate is able to pass from one generation to the next in an efficient and effective manner.

Other innovations and strategies for 2016 include:

- Extending the newly established general insurance broking capacity in Sydney into Victoria and Queensland;
- Extending the Flinders services into New South Wales and Queensland; and
- Continuing to support Federation Managed Accounts, in partnership with Australian Unity Investments, and joint venture partner FedInvest.

The nation's already large ageing demographic continues to grow and its needs are becoming more complex. In parallel, available government support is diminishing. This phenomenon makes control and choice, as well as careful planning for the future, critically important to clients' wellbeing.

This situation presents an ongoing opportunity for business growth but alongside this opportunity lies responsibility to clients. Personal Financial Services will continue to work with other Australian Unity business segments to provide the information, advice and customised service choices clients and the broader Australian community are seeking.

Significant changes in the state of affairs

Total members' funds increased to $542,879,000 at 30 June 2015 (2014: $508,340,000), an increase of $34,539,000. This movement reflects profit for the year offset by movements in reserves.

Matters subsequent to the end of the financial year

On 1 July 2015, Australian Unity Advice Pty Ltd acquired 100 percent of the issued shares in Flinders Australia Limited ("Flinders"). The purchase price is $14 million comprising $13 million cash contribution and $1 million deferred payment that is payable after completion of the audited financial statements of Flinders for the year ended 30 June 2016. Flinders provides administration and estate services in Australia. The acquisition is in line with the Group's strategy to expand its service offerings in order to grow the financial planning business. At the date of this report, the financial statements of Flinders are not yet completed. The accounting for business combination will be finalised within 12 months of the acquisition.

The board is not aware of any other matter or circumstance arising since 30 June 2015 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 Retirement Living 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

GLENN BARNES, BAgSc (Melb), CPM, FAMI, FAIM, FAICD, SF Fin, FRSA

Mr Barnes was appointed Chairman of Australian Unity Limited on 1 June 2012. He is chairman of a number of Australian Unity Limited subsidiaries, a member of the Human Resources, Remuneration and Nominations Committee and an ex-officio member of all other board committees. He is a professional director and consultant and is currently Chairman 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.

ROHAN MEAD, Group Managing Director & CEO

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is chairman of Platypus Asset Management, deputy chair of Acorn Capital, a director of Seres Asset Management (Hong Kong) and a director of the Australian Centre for Health Research Limited. He is chairman of the Business Council of Australia's Healthy Australia task force. He is also a director of the Centre for Independent Studies 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 and a member of the Human Resources, Remuneration and Nominations Committee, Investment Committee and Audit & Compliance 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 DC. 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.

EVE CRESTANI, DipLaw (BAB), FAICD

Ms Crestani was appointed to the board of Australian Unity Limited in 1996. She is a director of a number of Australian Unity Limited subsidiaries, chairman of the Human Resources, Remuneration and Nominations Committee, and a member of the Audit and Compliance Committee. She is also chairman of Mercer Superannuation Australia Limited, a director of Mercer Outsourcing (Australia) Pty Limited, a director of Seres Capital Management Limited (Caymans) and a director of Zurich Financial Services Australia Limited and Zurich Australia Limited. Ms Crestani is qualified in law and management, and is a member of the ASX Appeal Tribunal. She consults on property and workplace transformation strategies and design. She is a founding fellow of the Australian Institute of Company Directors. She has not held any directorships of listed entities in addition to those set out above during the last three years.

STEPHEN MAITLAND, OAM, RFD, BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, FFin

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, chairman 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, Centrepoint Alliance Ltd (retiring on 31 August 2015) and of several private companies. He is also President of the Queensland Division of CPA Australia, chair of the Audit and Risk Committee of the Public Trustee of Queensland, and is an independent member of several audit and compliance committees. 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 Buderim Ginger Limited. Mr Maitland has not held any directorships of listed entities in addition to those set out above during the last three years.

PETER PROMNITZ, BSc (Hons), AIAA, FAICD

Mr Promnitz was appointed to the board of Australian Unity Limited on 1 January 2013 and appointed Deputy Chairman and Chairman-designate on 28 July 2015. It is anticipated that Mr Promnitz will assume the role of Chairman on or around 31 March 2016. He is a director of a number of Australian Unity Limited subsidiaries, Chairman of the Investment Committee and a member of the Human Resources, Remuneration and Nominations Committee and the Risk Committee. He was formerly the CEO for Mercer in Asia Pacific and a member of the global Executive Committee, 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. Mr Promnitz was previously chairman of listed company SFG Australia Limited and chairman for Australia for Marsh & McLennan Companies. He has not held any directorships of listed entities in addition to that set out above during the last three years. Mr Promnitz is a qualified actuary.

GREG WILLCOCK, BComm, FCPA, FAICD, MAIM, FFin

Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is Chairman of Big Sky Building Society Limited, a director of a number of Australian Unity Limited subsidiaries, Chairman of the Risk Committee and a member of the Audit and Compliance Committee and an ex-officio member of the Big Sky Risk Committee. Mr Willcock is also a director of the Customer Owned Banking Association (COBA), the industry advocate for Australia's customer owned banking sector. 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.

Directors' report continued

Information on directors (continued)

IAN FERRES, AM, FIAA, FAICD

Mr Ian Ferres retired as a director of the board of Australian Unity Limited on 1 August 2014 after 15 years, including as a director since 1999, and as Group Managing Director from 2002 to 2004. An actuary by profession, Mr Ferres is currently a consultant with TressCox Lawyers, Chairman of Technology Development Investment Limited and a director of Contango Microcap Limited. Mr Ferres has not held any directorships of listed entities in addition to those set out above during the last three years. On Monday 9 June 2014, Ian Ferres was appointed in the Queen's Birthday honours list as a Member in the General Division of the Order of Australia (AM) for his enormously significant service to the Finance and Investment sector through a range of advisory roles to professional organisations, and to the community.

WARREN STRETTON, FAICD, FCPA, FCIS, FGIA, FTI, FAMI CPM

Mr Stretton retired as a director of the board of Australian Unity Limited on 31 December 2014. Mr Stretton was appointed to the board of Australian Unity Limited in March 2005, following the merger with Grand United Friendly Society Limited. His career at Grand United included the roles of Financial Controller from 1989 to 1993, and Managing Director/Chief Executive Officer from 1993 to 2005. Mr Stretton played an integral role in the successful completion of the merger between Grand United and Australian Unity. He then continued to serve on the Australian Unity board, and a number of its committees and subsidiary boards, during periods of considerable market challenge and growth for the business. At the time he retired from the Australian Unity Limited board he held a Government appointment to the Medical Radiation Practice Council of NSW.

Company secretaries

VERRAN FEHLBERG, BEc(Acc), LLB, General Counsel, Company Secretary & Chief Risk Officer

Mr Fehlberg joined Australian Unity in 2000, and served as General Counsel and Company Secretary from 2006 to 2009. He then held a position abroad with law firm AdventBalance in Singapore. In early 2014, Mr Fehlberg rejoined Australian Unity and was again appointed General Counsel and Company Secretary and now also acts as Chief Risk Officer. In his role, Mr Fehlberg is responsible for managing the Group's legal, compliance, risk and secretariat functions. He is also secretary of all Group subsidiary boards. Mr Fehlberg has over 15 years' experience in the financial services sector. Before joining Australian Unity, he worked with Colonial First State and a number of Australian law firms including Ashurst, Herbert Smith Freehills and Minter Ellison.

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 19 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 2015, 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
Glenn Barnes	10	10	–	–	–	–	–	–	6	6
Peter Promnitz	10	10	–	–	–	–	–	–	–	–
Rohan Mead	10	10	–	–	–	–	6	6	–	–
Melinda Cilento	9	10	3	3	2	2	–	–	5	6
Eve Crestani	10	10	7	7	4	4	6	6	–	–
Stephen Maitland	10	10	–	–	4	4	6	6	6	6
Greg Willcock	10	10	7	7	4	4	–	–	–	–
Ian Ferres	1	1	–	–	–	–	1	1	–	–
Warren Stretton	5	5	4	4	–	–	3	3	3	3

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.

Glenn Barnes is a member of the Human Resources, Remuneration and Nominations Committee and an ex-officio member of all other board committees. Glenn Barnes' and Rohan Mead's attendances at board committees in an ex-officio capacity, and the attendance of other directors who are not members of the particular committee, are not reported above.

Remuneration Report

Details of the Group's remuneration policy in respect of the Directors and other Key Management Personnel are included in the Remuneration report on pages 51 to 61. Details of the remuneration paid to Directors and other Key Management Personnel are also detailed in the Remuneration report. The Remuneration report is incorporated in and forms part of this Directors' report.

Directors' interests and benefits

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

	2015	2014
	$	$
Ernst & Young Australian firm:		
Audit of regulatory returns	**327,040**	247,376
Tax compliance services	**314,080**	282,172
Tax consulting services	**543,893**	1,120,647
Other services	**9,500**	9,500
Total remuneration for non-audit services	**1,194,513**	1,659,695

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 50.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, 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 Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Glenn Barnes

Glenn Barnes
Chairman

Rohan Mead
Group Managing Director & CEO

South Melbourne
26 August 2015

Auditor's independence declaration

EY
Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

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

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Brett Kallio
Partner
Melbourne
26 August 2015

Remuneration Report

This Remuneration report relates to Company performance for the year ending June 2015. The remuneration basis has been changed during the year such that incentive payments for Key Management Personnel and other staff in relation to the company performance for the year have been brought forward by one month so that the full year results reflect both the company's performance and all incentives payable in respect of that performance. Previously the incentive payments reported for Key Management Personnel were not determined on an individual basis until after the financial statements had been approved by the Board and so they were not reported until the following year. This remuneration report reflects the changed basis for incentive payments and for consistency the prior year disclosures have been restated to provide details of the incentives paid in 2015 in relation to the 2014 performance year.

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 2015 ('Year'). 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

The board of Australian Unity Limited considers that its 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') in establishing and recommending the overall remuneration framework, including its governance to the board, have had particular regard to the purpose and structure of the company, the business' strategies, market conditions and expectations of relevant stakeholders. The remuneration framework has remained consistent from the 2014 year and has been benchmarked and monitored to ensure it is:

- Effective in connecting 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.

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

The Australian Unity business is a substantial and complex one with several different business streams that span a number of industries. Each of the business areas is heavily regulated and has complex market dynamics. In understanding the rationale behind the remuneration structures it is useful to consider the following dimensions of the Australian Unity Group:

A comprehensive description of the Group's activities and highlights for the year is to be found in the operating and financial review section of the Directors' Report.

As a result of the Company structure, complex industry environments and the diverse set of business activities, Australian Unity requires a high level of skill and competence from a large team of managers and directors. High-quality executives, senior managers and specialists are required to run these businesses effectively, efficiently and productively. Stringent regulatory fit and proper requirements for directors and some staff are mandatory.

To attract and retain this calibre of staff, 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 the 2015 year, Australian Unity made enhancements to the metrics that evaluate business performance and govern incentives. The enhancements broaden the measurements that evaluate business contribution, and ensure that the Group has the necessary insight and control to maximise the benefit to members, customers and residents.

The remuneration arrangements have been designed to maintain alignment with the members' interests (both short-term and long-term) and to ensure remuneration remains competitive. Accordingly, executive remuneration is made up of both short and long-term elements, as well as elements which are fixed; and elements where payment is variable according to performance levels. These arrangements enable Australian Unity to retain and attract talented people who are vital to delivering current services, a sustainable and successful future and achieving Australian Unity's strategic objectives.

Eve Crestani

Chairman, HR Committee.

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 the Key Management Personnel were:

Non-executive director	Position
Glenn Barnes	Chairman
Melinda Cilento	Non-executive Director
Eve Crestani	Non-executive Director
Ian Ferres[1]	Non-executive Director (part year)
Stephen Maitland	Non-executive Director
Peter Promnitz	Non-executive Director
Warren Stretton[2]	Non-executive Director (part year)
Greg Willcock	Non-executive Director

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 Retirement Living

1 Retired 1 August 2014
2 Retired 31 December 2014

'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.

Remuneration Report continued

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, each 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 2014 Year Godfrey Remuneration provided advice to the HR Committee on the remuneration practices for Non-executive Directors, in consideration of the competitive environment. The benchmarking advice provided indicated that the remuneration provided to directors was conservative and changes were recommended. In its annual review of remuneration for executives Godfrey Remuneration confirmed that the remuneration paid to 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 $5,500 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 chairman 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.

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.

As highlighted in the overview, Australian Unity Limited is a mutual company and is run for the benefit of its members. People become Australian Unity members by becoming a customer or employee (subject to certain conditions). Australian Unity's business strategies and objectives are strongly based on providing services to members in their capacity as customers, with a particular focus on services and benefits that contribute to their wellbeing.

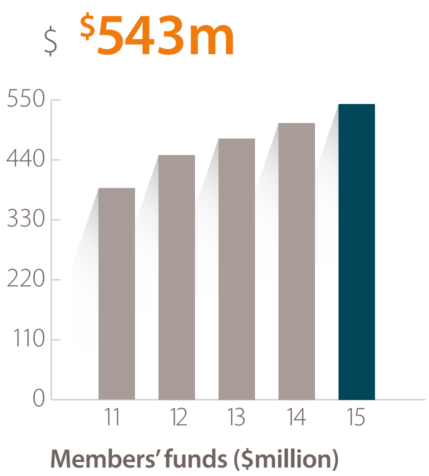
To deliver high quality wellbeing products and services in a sustainable manner, the Group needs to be commercially successful and grow the business while effectively managing risk. Australian Unity generates profits as a means to provide the capital security necessary to sustain and extend member services over the long-term. As a result, Australian Unity's strategic objectives are set by reference to both financial and non-financial objectives, and performance is assessed 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 for KMP for this year and 2016 are primarily net asset growth based, however, post 2016 this will change to a performance group worth (PGW) measure.

In respect of the short-term measures, the Group's financial performance over the 2015 year (measured by Profit after Income Tax) is relevant. The short-term performance payments in this report were paid to reward the $34.6 million profit achieved in 2015. This profit was an increase from the 2014 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 and is related to the rate of growth over the prior three years.

Figure 1: Members' funds over the last five years



When approving remuneration increases, the board and the HR Committee also have regard to non-financial objectives, which include customer satisfaction with the services provided; staff engagement and productivity; brand growth; and risk and compliance management. Over the 2015 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 2015 annual report which is attached to this report and available online at australianunity.com.au.

The Group's performance during the year across all measures was again solid, and this is reflected in the remuneration outcomes for Senior Executives and Key Management Personnel included in this report. This assessment has been made by the board taking the business context into account, together with the relative complexity and challenges associated with operating in the business areas in which the relevant KMP operate.

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 and seniority of the executive and the nature of his or her goals and responsibilities. For all executives, it is possible that no variable remuneration will be earned if the 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. No director or executive has shares or options in Australian Unity.

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 set 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 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 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 STI 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.

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.

Remuneration Report continued

4. Senior Executive Remuneration (continued)

4.3.2 Long-term Incentive: Senior Executives except the Group Managing Director

Australian Unity's LTI scheme 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.

Each year 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.

The 2014 LTI grant has a different focus from previous grants in that it attempts to create a stronger alignment with a broader set of commercial measures rather than just the achievement of target levels of growth. The 2014 grant includes many of the features of previous grants, including a three-year timeframe, capped benefits, and the target benefit is determined as a percentage of participants' Total Employment Cost (TEC). The major difference between the 2014 grant and those made previously is in the methodology for measuring performance. The 2014 grant measured performance as the change against a broad range of commercial measures from the baseline period (2014) and the targets in the maturation period (2017), while the previous grants measured compound annual growth rate in members' funds. The 2014 grant, in common with prior grants, also had the requirement that it be self-funding. This 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. Including the grant maturing for 2015, there are two remaining LTI grants that reward for targeted growth in member' funds. The description and examples that follow focus on the methodology that determined remuneration outcomes in 2015, that is, the 2012 grant, which used compound annual growth in members' funds.

The performance rights also will 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 periods from 1 July 2012 to 30 June 2015 and 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 6.50 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
- 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 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 6.50 percent and the Target Rate was 7.35 percent, and 100,000 performance rights were allocated to an executive;

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

Then:

- The number of rights available for exercise would be 40 percent, or 40,000 (this is because the 6.84 percent actual growth rate amounts to 40 percent 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 percent) = $12.20;
- Notional strike price is $10.00 plus three compounding increments of the threshold growth rate (in this case 6.50 percent) = $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

The LTI for the period from 1 July 2014 to 30 June 2017 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 percent:
Exercise Value = $100 x 1.0000 = $100.00

(d) If the Achieved Financial Performance exceeds the Target Financial Performance by 30 percent:
Exercise Value = $100 x 1.666 = $166.66

(e) Even if the Achieved Financial Performance exceeds the Target Financial Performance by more than 30 percent 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;

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 percent 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 $25.3 million;

Then

- The Achieved Financial Performance would be assessed as: $24.3 million less the after tax cost of providing 20,000 performance rights @ $166.66 each totalling $2.3 million less the financial performance in the base year of $8 million which equals $14 million; and
- The Achieved Financial Performance of $14 million is 140 percent 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 $166.66 each which is the capped exercise value even though Achieved Financial Performance was 140 percent of the Target not just 130 percent which is the point at which the value of the performance rights is capped.

Remuneration Report continued

4. Senior Executive Remuneration (continued)

Illustrative Example of LTI scheme

for the period from 1 July 2014 to 30 June 2016

Employee TBC	$200,000
Allocated rights	$300
Initial value of right	$100
Target value	$30,000
Target Financial Performance of Company	$10,000,000

	Achieved Performance		Exercise Value	LTI Payment
	$	% of Target	$	$
Target not achieved	8,000,000	0.80	0.00	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	166.66	50,000

*Exercise value is capped at $166.66 which is equal to 130% of Target Performance

Further details of KPI incentive remuneration in respect of the last three years is 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.

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 has been discontinued and he now participates in the same long-term incentive scheme as the group executives which is described in section 4.3.2. It should be noted that whilst 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 FY15 and FY16 from grants allocated in FY12 and FY13. Further information on the continuing short-term scheme and the discontinued 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 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 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.

For the short-term and long-term incentives, the Group Managing Director's performance is reviewed by the board in consultation with the HR Committee at the end of each financial year.

In each case 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. From FY17 onwards the Group Managing Director's compensation in all usual circumstances will be capped at no more than 2.33 times his fixed remuneration (base salary plus superannuation) in any one year.

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 are set out in Table 6.1.

5. Non-executive director remuneration

Australian Unity Limited'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. During the 2014 year, independent advice was received by the board on Director's fees and a recommendation was made to increase Director's fees to better reflect the market. This increase was recommended by the HR Committee before being approved by the board and made effective 1 March 2014. These changes do not impact the aggregate director fees cap approved by Members.

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 is the only remaining director entitled to receive a retirement benefit when she retires.

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

Remuneration Report continued

6. Remuneration tables

6.1 Remuneration for the years ended 30 June 2015 and 30 June 2014

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

		Fixed			Variable				
Name	Year	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)[3] $	Total remuneration $	Increase in long service leave provision[3] $	Increase in retirement benefits provision[2,5] $
Non-executive directors									
Glenn Barnes, Chairman	**2015**	**288,743**	**–**	**31,257**	**–**	**–**	**320,000**	**–**	**–**
	2014	207,616	–	65,269	–	–	272,885	–	–
Melinda Cilento	**2015**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**–**
	2014	23,658	–	2,188	–	–	25,846	–	–
Eve Crestani	**2015**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**20,000**
	2014	123,200	1,846	11,396	–	–	136,442	–	34,363
Ian Ferres	**2015**	**14,050**	**–**	**1,335**	**–**	**–**	**15,385**	**–**	**–**
(ceased 1 August 2014)	2014	124,890	–	11,552	–	–	136,442	–	17,812
Stephen Maitland	**2015**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**–**
	2014	124,890	–	11,552	–	–	136,442	–	–
Peter Promnitz	**2015**	**130,020**	**–**	**29,980**	**–**	**–**	**160,000**	**–**	**–**
	2014	119,515	–	16,927	–	–	136,442	–	–
Warren Stretton	**2015**	**49,814**	**–**	**32,032**	**–**	**–**	**81,846**	**–**	**–**
(ceased 31 December 2014)	2014	124,890	–	11,552	–	–	136,442	–	–
Greg Willcock	**2015**	**146,119**	**–**	**13,881**	**–**	**–**	**160,000**	**–**	**–**
	2014	123,350	1,682	11,410	–	–	136,442	–	–
Non-executive directors whose appointment ceased during 2014									
John Butler	2014	38,285	–	3,542	–	–	41,827	–	–
Sub-total	**2015**	**1,067,103**	**–**	**150,128**	**–**	**–**	**1,217,231**	**–**	**20,000**
Non-executive directors	2014	1,010,294	3,528	145,388	–	–	1,159,210	–	52,175
Executives									
Rohan Mead,	**2015**	**1,004,897**	**1,071**	**30,000**	**442,170**	**280,500**	**1,758,638**	**22,831**	**–**
Group Managing Director	2014	993,939	1,886	25,000	403,000	408,000	1,831,825	15,993	–
David Bryant	**2015**	**726,257**	**45,240**	**18,783**	**262,043**	**30,910**	**1,083,233**	**17,075**	**–**
	2014	660,417	95,231	24,775	275,589	66,656	1,122,668	18,060	–
Amanda Hagan	**2015**	**648,086**	**1,071**	**18,783**	**289,000**	**21,767**	**978,707**	**19,321**	**–**
	2014	589,164	2,208	17,775	63,000	56,329	728,476	15,481	–
Kevin McCoy	**2015**	**474,775**	**825**	**19,147**	**212,500**	**11,892**	**719,139**	**4,301**	**–**
(appointed Chief Financial Officer 3 March 2014)	2014	149,477	191	5,811	50,921	–	206,400	1,262	–
Derek McMillan	**2015**	**561,765**	**5,321**	**26,008**	**270,000**	**19,591**	**882,685**	**18,783**	**–**
	2014	527,798	5,991	23,496	270,750	59,146	887,181	17,400	–
Anthony Connon (ceased as Chief Financial Officer 3 March 2014)	2014	332,383	932	29,002	117,867	27,601	507,785	(14,574)	–
Total	**2015**	**4,482,883**	**53,528**	**262,849**	**1,475,713**	**364,660**	**6,639,633**	**82,311**	**20,000**
	2014	4,263,472	109,967	271,247	1,181,127	617,732	6,443,545	53,622	52,175

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, 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. Mr Ian Ferres was entitled to and received a retirement payment of $287,269.23 from the provision during the year ended 30 June 2015. The remaining provision relates solely to the value of the future retirement benefit entitlement of $309,057.50 for Ms Eve Crestani.

During the 2015 year one of the Key Management Personnel held a loan advanced by Big Sky Building Society Limited, a wholly owned subsidiary. The loan incurred interest on an arms-length basis.

A loan of $50,000 was advanced to Mr Kevin McCoy on 11 July 2013 for two years bearing interest at 5.65 percent per annum. The balance outstanding on 30 June 2015 was $19,259. Interest of $1,763 was earned during this period. There are no other loans to Key Management Personnel at 30 June 2015 or that were held at any stage during the year to 30 June 2015.

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.

	2015					2014				
Name	STI	LTI	Total variable	Fixed Remuneration	Total Remuneration	STI	LTI	Total variable	Fixed Remuneration	Total Remuneration
David Bryant										
Maximum entitlement	29%	22%	52%	48%	100%	29%	22%	51%	49%	100%
Proportion of entitlement payable	55%	8%	35%		66%	59%	19%	42%		70%
Proportion of entitlement not earned	45%	92%	65%			41%	81%	58%		
The variable proportion of total remuneration paid or payable for the year 2014-2015 was 27 percent (2014: 30 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Amanda Hagan										
Maximum entitlement	27%	20%	47%	53%	100%	26%	25%	50%	50%	100%
Proportion of entitlement payable	85%	8%	52%		77%	20%	19%	19%		60%
Proportion of entitlement not earned	15%	92%	48%			80%	81%	81%		
The variable proportion of total remuneration paid or payable for the year 2014-2015 was 31 percent (2014: 16 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%	16%	44%	56%	100%	34%	0%	34%	66%	100%
Proportion of entitlement payable	85%	8%	58%		81%	64%	0%	64%		88%
Proportion of entitlement not earned	15%	92%	42%			36%	0%	36%		
The variable proportion of total remuneration paid or payable for the year 2014-2015 was 31 percent (2014: 25 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Derek McMillan										
Maximum entitlement	27%	21%	47%	53%	100%	25%	27%	52%	48%	100%
Proportion of entitlement payable	90%	8%	55%		79%	95%	19%	55%		77%
Proportion of entitlement not earned	10%	92%	45%			5%	81%	45%		
The variable proportion of total remuneration paid or payable for the year 2014-2015 was 32 percent (2014: 36 percent), as a result of the implementation of the company's incentive policies outlined in this report.										

Remuneration Report continued

6. Remuneration tables (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.

	Long-term Incentive			
Name	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 2014	2,569	1 October 2017	428,150
	1 October 2013	1,821,182	1 October 2016	530,950
	1 October 2012	595,582	1 October 2015	363,875
Amanda Hagan	1 October 2014	2,079	1 October 2017	346,486
	1 October 2013	1,011,863	1 October 2016	295,000
	1 October 2012	419,424	1 October 2015	256,250
Kevin McCoy	1 October 2014	1,568	1 October 2017	261,323
	1 October 2013	257,253	1 October 2016	140,000
	1 October 2012	229,149	1 October 2015	140,000
Derek McMillan	1 October 2014	1,881	1 October 2017	313,488
	1 October 2013	1,272,547	1 October 2016	371,000
	1 October 2012	377,482	1 October 2015	230,625

1 The per annum compound Threshold Rates for performance rights granted 1 October 2012 and 2013 were 7.00 percent and 6.50 percent respectively. 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 Rates for performance rights granted 1 October 2012 and 2013 were 8.75 percent and 7.35 percent respectively.
For performance rights granted 1 October 2014 the Exercise Value (EV) 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.

6.4 Details of remuneration - 2015 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 2015—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.

	Short-term Incentive		Long-term Incentive					
Name	Payable re 2015[1] %	Not earned re 2015 %	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 2015 $	Maximum total value of Deferred Incentive not yet due $
Rohan Mead	85	15	1 October 2014[3]			2017	–	849,966
			1 October 2013[2]	83	17	2015	144,500	–
						2016	–	144,500
			1 October 2012[2]	80	20	2015	136,000	–

1 Mr Rohan Mead's annual incentive was awarded on 1 October 2014.
2 For LTI awarded in October 2012 and 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 Mr Mead's deferred incentive is payable in a single tranche. The October 2014 award represents 5,100 performance rights. 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 2015 was 41 percent (2014: 44 percent), as a result of the implementation of the company's incentive policies outlined in this report.

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 period[1]	Employer initiated notice period[2]	Termination benefit[3]
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant, CEO Investments	6 months	6 months	none
Amanda Hagan, CEO Healthcare	3 months	6 months	none
Kevin McCoy, Chief Financial Officer	6 months	6 months	none
Derek McMillan, CEO Retirement Living	3 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.

Independent remuneration adviser's report

GRG GODFREY REMUNERATION GROUP

Godfrey Remuneration Group Pty Limited
ABN 58 096 171 347
www.godfreyremuneration.com
Level 9, 56 Berry Street North Sydney NSW 2060
tel +61 (2) 8923 5700
fax +61 (2) 8923 5706

31 July 2015

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

Dear Ms Crestani,

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 confirm the reasonableness of Australian Unity's remuneration practices in relation to key management personnel.

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 Australian Unity received information on current market trends and practices, against which we have recently assessed reasonableness of current practices as advised to us.

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 executives both the base packages and the "at risk" components of remuneration have been set such that at target performance, the total remuneration packages fall within the market practice range observed in a large sample of listed companies of similar size and complexity to Australian Unity where direct comparisons were possible. The total remuneration packages 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 role, falling close to the middle of market data used as a reference.

Given the foregoing comments, GRG is of the view that the remuneration packages being provided to all key management personnel are reasonable and appropriate 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,

Denis Godfrey
Managing Director

Financial statements

Consolidated statement of comprehensive income

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Revenue and other income	2	**1,282,397**	1,197,432
Expenses, excluding finance costs	3	**(1,199,641)**	(1,124,723)
Finance costs	3	**(20,613)**	(18,140)
Share of net profit of associates and joint ventures		**1,526**	4,734
Profit before income tax		**63,669**	59,303
Income tax expense	4	**(29,116)**	(29,658)
Profit after income tax		**34,553**	29,645
Other comprehensive income			
Items that may be reclassified to profit or loss		**–**	–
Cash flow hedges	17(a)	**(20)**	29
Income tax relating to components of other comprehensive income	17(a)	**6**	(9)
Other comprehensive income for the year, net of tax		**(14)**	20
Total comprehensive income for the year		**34,539**	29,665
Profit for the year is attributable to:			
Members of Australian Unity Limited		**34,553**	29,645
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**34,539**	29,665

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.

Consolidated balance sheet

As at 30 June 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**903,307**	974,413
Trade and other receivables		**87,774**	82,951
Loans and advances	8	**25,510**	24,061
Current tax assets		**–**	2,428
Financial assets at fair value through profit or loss	6	**1,449,182**	1,326,143
Held-to-maturity investments	7	**78,827**	80,467
Other current assets		**22,721**	20,716
Total current assets		**2,567,321**	2,511,179
Non-current assets			
Financial assets at fair value through profit or loss	6	**20,251**	34,587
Loans and advances	8	**650,401**	588,996
Investments in associates and joint ventures		**19,424**	46,740
Property, plant and equipment	12	**164,925**	153,510
Investment properties	13	**745,194**	674,275
Intangible assets	14	**160,912**	101,801
Other non-current assets		**3,211**	603
Total non-current assets		**1,764,318**	1,600,512
Total assets		**4,331,639**	4,111,691
LIABILITIES			
Current liabilities			
Trade and other payables		**84,233**	72,668
Borrowings	9	**827,239**	661,298
Current tax liabilities		**15,288**	–
Provisions	16	**84,692**	77,476
Other current liabilities	10	**710,250**	596,046
Benefit fund policy liabilities	33	**230,430**	185,822
Total current liabilities		**1,952,132**	1,593,310
Non-current liabilities			
Borrowings	9	**112,015**	260,529
Deferred tax liabilities	15	**50,737**	43,984
Provisions		**2,895**	3,294
Other non-current liabilities		**3,779**	3,128
Benefit fund policy liabilities	33	**1,667,202**	1,699,106
Total non-current liabilities		**1,836,628**	2,010,041
Total liabilities		**3,788,760**	3,603,351
Net assets		**542,879**	508,340
EQUITY			
Members' balances		**255,919**	255,919
Reserves	17(a)	**1,956**	1,866
Retained earnings	17(c)	**285,004**	250,555
Members' balances and reserves attributable to members of Australian Unity Limited		**542,879**	508,340
Total equity		**542,879**	508,340

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

Financial statements continued

Consolidated statement of changes in equity

For the year ended 30 June 2015

		Attributable to members of Australian Unity Limited					
	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non – controlling interest $'000	Total equity $'000
Balance at 1 July 2013		255,919	1,681	221,075	478,675	1,233	479,908
Profit for the year		–	–	29,645	29,645	–	29,645
Other comprehensive income	17(a)	–	20	–	20	–	20
Total comprehensive income		–	20	29,645	29,665	–	29,665
Transactions with owners in their capacity as owners:							
Increase in ownership of majority owned subsidiary		–	–	–	–	(1,233)	(1,233)
Transfers within equity	17	–	165	(165)	–	–	–
		–	165	(165)	–	(1,233)	(1,233)
Balance at 30 June 2014		255,919	1,866	250,555	508,340	–	508,340
Balance at 1 July 2014		**255,919**	**1,866**	**250,555**	**508,340**	**–**	**508,340**
Profit for the year		**–**	**–**	**34,553**	**34,553**	**–**	**34,553**
Other comprehensive income	17(a)	**–**	**(14)**	**–**	**(14)**	**–**	**(14)**
Total comprehensive income		**–**	**(14)**	**34,553**	**34,539**	**–**	**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**	**–**	**542,879**

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

Consolidated statement of cash flows

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers		**1,119,650**	1,047,427
Claims and benefits paid		**(647,036)**	(610,858)
Payments to suppliers and employees		**(361,821)**	(329,676)
Life investment contracts - Contributions received		**178,043**	157,155
Life investment contracts - Withdrawals		**(227,906)**	(183,563)
Life insurance - Premiums received		**291**	233
Life insurance - Policy claims paid		**(2,524)**	(2,015)
Net payments of loans asset		**(62,186)**	(69,467)
Net receipts of deposits liability		**42,561**	83,762
Interest received		**39,299**	39,512
Dividends and distributions received		**8,333**	5,595
Interest and finance charges paid		**(34,387)**	(32,982)
Income tax refunds/(payments)		**(349)**	463
Net cash inflow from operating activities	18(a)	**51,968**	105,586
Cash flows from investing activities			
Payments for business combination, net of cash receipt		**(23,627)**	(3,769)
Payments for investments		**(1,110,129)**	(670,690)
Payments for property, plant and equipment		**(25,682)**	(50,492)
Payments for investment properties		**(51,128)**	(61,369)
Payments for intangible assets		**(19,165)**	(16,834)
Payments for investments in associates and joint ventures		**(9,242)**	(10,046)
Payments for the remaining non-controlling interest in a subsidiary		**–**	(1,119)
Payments for loans to related entities		**(664)**	(857)
Receipts from investments		**1,016,297**	556,010
Proceeds from sale of investment properties		**–**	1,580
Dividends received from associates and joint ventures		**5,685**	6,336
Proceeds from disposal of investment in joint ventures		**12,509**	1,447
Proceeds from disposal of property, plant and equipment		**554**	32
Net cash outflow from investing activities		**(204,592)**	(249,771)
Cash flows from financing activities			
Receipts from/(payments of) borrowings		**(27,532)**	46,159
Receipts from refundable lease deposits and resident liabilities		**109,050**	55,103
Net cash inflow from financing activities		**81,518**	101,262
Net decrease in cash and cash equivalents		**(71,106)**	(42,923)
Cash and cash equivalents at the beginning of the financial year		**974,413**	1,017,336
Cash and cash equivalents at the end of the financial year	5	**903,307**	974,413

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

Notes to the consolidated financial statements

For the year ended 30 June 2015

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 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.
Allied Health	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Health Insurance	Provision of private health insurance and management of the customer service centre.
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 and finance broking services.
Retirement Living	Provision of aged care facilities, support services, independent living units and home care services.

Although the Allied Health, 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.

(b) Segment information

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	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(18,026)	28,891	799,441	107,225	56,873	106,773	1,081,177
Inter-segment revenue	10,517	(8,615)	–	–	(1,902)	–	–
Revenue from external customers	(7,509)	20,276	799,441	107,225	54,971	106,773	1,081,177
Adjusted EBITDA	(34,352)	4,153	52,052	14,842	3,949	23,933	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 after tax from associates and joint ventures (included in adjusted EBITDA)							1,526
Total segment assets include:							
Income producing assets	16,715	1,144	346,940	801,936	4,310	18,109	1,189,154
Working capital assets	11,863	3,190	62,621	29,356	9,931	18,867	135,828
Non-interest bearing assets	104,021	5,256	12,603	52,310	41,179	348,152	563,521
Total segment assets	132,599	9,590	422,164	883,602	55,420	385,128	1,888,503
Total segment liabilities include:							
Borrowings and net inter-segment lending	121,674	–	20,000	698,470	–	99,109	939,253
Working capital liabilities	49,989	2,374	215,754	23,973	6,794	11,576	310,460
Non-interest bearing liabilities	23,074	235	11,596	5,351	7,590	48,065	95,911
Total segment liabilities	194,737	2,609	247,350	727,794	14,384	158,750	1,345,624

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2014 is as follows:

2014	Corporate Functions and Eliminations $'000	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(16,566)	34,699	754,449	103,208	39,841	89,209	1,004,840
Inter-segment revenue	10,248	(9,544)	–	–	(704)	–	–
Revenue from external customers	(6,318)	25,155	754,449	103,208	39,137	89,209	1,004,840
Adjusted EBITDA	(26,147)	4,801	38,766	13,757	2,333	21,325	54,835
Depreciation and amortisation							(16,630)
Interest expense							(20,924)
Investment income							17,796
Income tax expense							(5,432)
Profit after income tax							29,645
Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)							2,969
Total segment assets include:							
Income producing assets	15,186	2,319	327,930	761,104	2,090	13,805	1,122,434
Working capital assets	9,487	3,489	53,355	33,461	5,804	4,902	110,498
Non-interest bearing assets	111,093	2,162	9,224	49,157	26,041	351,453	549,130
Total segment assets	135,766	7,970	390,509	843,722	33,935	370,160	1,782,062
Total segment liabilities include:							
Borrowings and net inter-segment lending	130,704	–	20,000	647,584	–	125,936	924,224
Working capital liabilities	22,001	1,105	204,140	25,815	3,235	13,402	269,698
Non-interest bearing liabilities	24,419	203	9,474	3,042	2,826	39,836	79,800
Total segment liabilities	177,124	1,308	233,614	676,441	6,061	179,174	1,273,722

(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 1038 *Life Insurance Contracts* 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.

Segment revenue reconciles to total revenue as follows:

	2015 $'000	2014 $'000
Total segment revenue	1,081,177	1,004,840
Dividends and distributions (note 2)	8,333	5,595
Investment income (note 2)	15,147	8,129
Accommodation bond interest reclassification	(4,184)	(2,798)
Share of net profit of associates and joint ventures	–	(735)
Other	3,281	1,152
Revenue attributable to members of Australian Unity Limited (note 26)	1,103,754	1,016,183
Revenue from benefit funds (note 26)	178,643	181,249
Total revenue and other income	1,282,397	1,197,432

Notes to the consolidated financial statements

For the year ended 30 June 2015

1 Segment information (continued)

(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:

	2015 $'000	2014 $'000
Adjusted EBITDA	**64,577**	54,835
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	**(18,605)**	(15,344)
Merger and acquisition expenses	**(2,152)**	(1,250)
Other	**(364)**	(36)
	(21,121)	(16,630)
Interest expense		
Finance costs (note 3)	**(20,613)**	(18,140)
Accommodation bond interest classification	**(4,184)**	(2,798)
Other	**17**	14
	(24,780)	(20,924)
Investment income:		
Dividends and distributions (note 2)	**8,333**	5,595
Investment income (note 2)	**15,147**	8,129
Impairment reversal of investments in associates and joint ventures	**777**	4,075
Other	**–**	(3)
	24,257	17,796
Profit before income tax attributable to members of Australian Unity Limited (note 26)	**42,933**	35,077
Profit before income tax of benefit funds (note 26)	**20,736**	24,226
Profit before income tax	**63,669**	59,303

(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:

	2015 $'000	2014 $'000
Segment assets	**1,888,503**	1,782,062
Resident liabilities and refundable lease deposits	**541,860**	434,877
Retirement Village Property Fund consolidation	**43,455**	41,383
Netting of eligible deferred tax balances	**(41,989)**	(33,520)
Other reclassifications between assets and liabilities	**(21,877)**	(11,733)
Total assets attributable to members of Australian Unity Limited	**2,409,952**	2,213,069
Benefit fund assets (note 34)	**1,948,354**	1,922,928
Netting of eligible deferred tax balances	**(26,667)**	(24,306)
Total assets	**4,331,639**	4,111,691

(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:

	2015 $'000	2014 $'000
Segment liabilities	**1,345,624**	1,273,722
Resident liabilities and refundable lease deposits	**541,860**	434,877
Retirement Village Property Fund consolidation	**43,455**	41,383
Netting of eligible deferred tax balances	**(41,989)**	(33,520)
Other reclassifications between assets and liabilities	**(21,877)**	(11,733)
Total liabilities attributable to members of Australian Unity Limited	**1,867,073**	1,704,729
Benefit fund liabilities (note 34)	**50,722**	38,000
Netting of eligible deferred tax balances	**(26,667)**	(24,306)
Benefit fund policy liabilities (note 33)	**1,897,632**	1,884,928
Total liabilities	**3,788,760**	3,603,351

2 Revenue and other income

	2015 $'000	2014 $'000
Commission income	**56,569**	42,160
Dental sales	**15,343**	22,079
Dividends and distributions	**8,333**	5,595
Fair value gains on investment property	**12,582**	11,705
Health insurance premium revenue (note 24)	**799,403**	754,442
Interest income of building society	**32,330**	31,342
Investment income	**15,147**	8,129
Management fees revenue	**69,290**	63,613
Rental income	**2,748**	2,703
Retirement village fees and subsidies	**85,209**	69,349
Revenue of benefit funds (note 33)	**178,643**	181,249
Other income	**6,800**	5,066
	1,282,397	1,197,432

Notes to the consolidated financial statements

For the year ended 30 June 2015

3 Expenses

	2015 $'000	2014 $'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	**3,863**	2,451
Commission expense	**55,309**	46,543
Communication costs	**4,102**	4,800
Computer and equipment costs	**13,766**	11,592
Depreciation and amortisation expense	**18,605**	15,344
Employee benefits expense	**185,702**	156,845
Expenses in relation to benefit funds (note 33)	**157,907**	157,023
Financial and insurance costs	**2,630**	3,395
Fund manager and administration fees	**15,442**	11,295
Health insurance claims expense	**677,080**	646,853
Impairment of investment in associates and joint ventures	**(777)**	(3,447)
Interest expense of building society	**16,225**	15,901
Legal and professional fees	**12,905**	10,585
Marketing expenses	**14,429**	14,490
Net risk equalisation trust fund recoveries	**(29,226)**	(27,745)
Occupancy costs	**11,949**	10,341
Other direct expenses	**19,678**	30,161
Other expenses	**20,052**	18,296
	1,199,641	1,124,723
Profit before income tax includes the following specific expenses:		
Depreciation		
Depreciation - Buildings	**3,185**	1,306
Depreciation - Plant and equipment	**2,506**	1,930
Depreciation - Leasehold improvements	**1,251**	1,615
Total depreciation	**6,942**	4,851
Amortisation		
Bed & other licences	**64**	–
Computer software	**9,309**	9,042
Management rights	**2,290**	1,451
Total amortisation	**11,663**	10,493
Total depreciation and amortisation	**18,605**	15,344
Finance costs		
Interest and finance charges	**23,258**	21,030
Amount capitalised	**(2,645)**	(2,890)
Finance costs expensed	**20,613**	18,140

4 Income tax expense

	2015 $'000	2014 $'000
(a) Income tax expense		
Current tax	**(4,869)**	(8,294)
Current tax - benefit funds	**17,683**	8,294
Deferred tax	**11,085**	15,126
Deferred tax - benefit funds	**1,462**	14,856
Adjustments for current tax of prior periods	**2,164**	(1,400)
Adjustments for current tax of prior periods - benefit funds	**1,591**	1,076
	29,116	29,658
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**(4,576)**	647
Increase in deferred tax liabilities	**17,123**	29,335
	12,547	29,982

	2015 $'000	2014 $'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**63,669**	59,303
Less: profit in benefit funds	**(20,736)**	(24,226)
	42,933	35,077
Tax at the Australian tax rate of 30% (2014: 30%)	**12,880**	10,523
Non-assessable income	**(4,111)**	(3,273)
Other assessable amounts	**1,018**	686
Non-deductible expenditure	**2,115**	1,176
Other deferred tax adjustments	**(2,493)**	(2,670)
Tax in benefit funds	**20,736**	24,226
Tax credits	**(1,029)**	(998)
Over provision in prior years	**–**	(12)
Income tax expense	**29,116**	29,658

Financial assets and liabilities

5 Financial assets - Cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank and on hand	**147**	350
Bank balances	**53,073**	52,037
Deposits at call	**850,087**	922,026
	903,307	974,413

(a) Deposits at call

Deposits at call include $670,087,000 (2014: $769,526,000) held in the Australian Unity Wholesale Cash Fund.

(b) 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:

	2015 $'000	2014 $'000
Securities held by benefit funds	**1,304,486**	1,200,836
Securities held in funds managed by related entities	**164,947**	159,894
	1,469,433	1,360,730

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:

	2015 $'000	2014 $'000
Debt securities	**401,192**	36,136
Equities	**818,263**	825,855
Fixed interest securities	**35,544**	267,986
Mortgage trusts	**34,074**	38,739
Property syndicates and trusts	**15,413**	32,120
	1,304,486	1,200,836

Notes to the consolidated financial statements

For the year ended 30 June 2015

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

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

	2015 $'000	2014 $'000
Debt securities	**28,424**	37,087
Equities	**48,025**	35,261
Fixed interest securities	**52,139**	50,659
Mortgage trusts	**6,909**	8,537
Property syndicates and trusts	**29,450**	28,350
	164,947	159,894

(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:

	2015 $'000	2014 $'000
Current	**1,449,182**	1,326,143
Non-current	**20,251**	34,587
	1,469,433	1,360,730

(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 credit risk and price risk is provided in note 20.

7 Financial assets - Held-to-maturity investments

	2015 $'000	2014 $'000
Bank bills	**57,652**	55,045
Term deposits	**21,175**	25,422
	78,827	80,467

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

	2015 $'000	2014 $'000
Current		
Mortgage loans	**18,013**	16,552
Personal loans	**7,697**	7,766
Provision for impairment	**(200)**	(257)
Total - current	**25,510**	24,061
Non-current		
Mortgage loans	**604,585**	535,057
Personal loans	**10,383**	19,174
Loans to related entities	**31,317**	30,653
Advances	**4,116**	4,112
Total - non-current	**650,401**	588,996
Total loans and advances	**675,911**	613,057

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 4 June 2045 and earn interest at annual interest rates between 3.87 percent and 9.00 percent (2014: between 4.12 percent and 9.00 percent).

(b) Personal loans

The personal loans mature at various dates up to 8 June 2022 and earn interest at annual rates between 5.65 percent and 13.78 percent (2014: between 5.88 percent and 14.10 percent).

(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 $9,318,000 (2014: $8,654,000) which accrue interest on a monthly basis at an annual fixed rate of 15 percent (2014: 15 percent) and fixed rate loans of $21,999,000 (2014: $21,999,000) which accrue interest on a monthly basis at an annual fixed rate of 12 percent (2014: 12 percent).

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 2015, 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 2015, the current portion of loans and advances that were past due but not impaired amounted to $374,000 (2014: $369,000), while the non-current portion amounted to $10,995,000 (2014: $9,882,000). 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

	2015 $'000	2014 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**63,844**	50,224
Retirement Village Investments Notes	**18,077**	27,297
Lease liabilities	**1**	–
	81,922	77,521
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**7,045**	–
Unsecured interest bearing liabilities		
Australian Unity Notes	**120,000**	–
Call deposits	**309,867**	304,533
Term deposits	**294,096**	274,144
Development finance loans	**9,209**	–
Loan payable to related entity	**5,100**	5,100
	738,272	583,777
Total current borrowings	**827,239**	661,298
Non-current		
Secured interest bearing liabilities		
Lease liabilities	**–**	15
Retirement Village Investment Notes	**45,125**	43,077
	45,125	43,092
Unsecured interest bearing liabilities		
Australian Unity Notes	**–**	120,000
Australian Unity Notes establishment costs	**–**	(2,398)
Development finance loans	**16,136**	52,736
Subordinated capital notes	**30,000**	30,000
Term deposits	**20,754**	17,099
	66,890	217,437
Total non-current borrowings	**112,015**	260,529
Total borrowings	**939,254**	921,827

Notes to the consolidated financial statements

For the year ended 30 June 2015

9 Financial liabilities - Borrowings (continued)

(a) Australian Unity Notes

Australian Unity Limited issued 1.2 million unsecured redeemable notes at a face value of $100 each (Australian Unity Notes) on 14 April 2011 pursuant to the prospectus dated 11 March 2011, raising $120 million (excluding issue costs). The Australian Unity Notes are listed on the Australian Securities Exchange (code: AYU) and will mature on 14 April 2016. The notes bear interest at the three month bank bill rate (BBSW) plus a margin of 3.55 percent per annum. The interest is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year. The notes are redeemable by the issuer at the face value and any interest payable plus an early redemption payment pursuant to the prospectus.

Under the terms of the notes, Australian Unity Limited is required to maintain a Gearing Ratio of less than 45 percent as at 30 June and 31 December each year. The 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 Gearing Ratio is calculated based on the financial position of the Group, excluding Big Sky Building Society Limited. As at 30 June 2015, the Gearing Ratio was 33.7 percent (2014: 38.3 percent).

Given the exposure to interest rate movements, the Company has entered into arrangements to hedge the variable interest component of the majority of the notes. On 9 August 2011, the Company swapped the variable interest component of $60 million of the notes at 4.65 percent per annum maturing on 14 April 2016.

(b) Development finance loans

The 2015 balance of development finance loans comprised bank loan facilities for the development of retirement and aged care facilities in Mornington (Peninsula Grange) and a site in Carlton (Carlton RACF).

The loan facility for Peninsula Grange up to $23.5 million will expire in June 2016. As at 30 June 2015, this loan amounted to $9,209,000 bearing interest at 4.24 percent per annum (2014: $12,571,000 bearing interest at 4.87 percent per annum). The Group also has a loan facility for Peninsula Grange up to $8.8 million maturing in August 2017. As at 30 June 2015, the loan amounted to $7,660,000 bearing interest at 3.84 percent per annum (2014: $6,173,000 bearing interest at 4.41 percent per annum). The Group has entered into an arrangement to swap the interest rate at 2.81 percent per annum for $5 million loans related to Peninsula Grange effective from 24 July 2014 up to 24 July 2015.

The loan facility for Carlton RACF is up to $9.7 million maturing in July 2017. As at 30 June 2015, the loan amounted to $8,476,000 bearing interest at 3.29 percent per annum (2014: $32,706,000 bearing interest at 4.56 percent per annum).

At 30 June 2014, the Group had a loan facility for Victoria Grange amounting to $1,286,000 bearing interest at 4.87 percent per annum. This loan was fully repaid in 2015.

(c) 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 were utilised by the Group for the purpose of expanding the retirement 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).

AURVT#1 comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria, whilst 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 following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	2015 $'000	2014 $'000
RVIN - Series 1	3	30 November 2015	8.75%	**3,808**	–
	4	30 November 2014	8.25%	**–**	8,581
	5	30 November 2015	7.00%	**2,962**	–
RVIN - Series 2	3	31 December 2014	8.25%	**–**	4,118
	4	31 March 2015	8.00%	**–**	2,909
RVIN - Series 3	1	31 March 2016	8.50%	**145**	–
	2	30 June 2016	8.50%	**890**	–
	3	31 December 2014	8.25%	**–**	130
	5	30 June 2016	8.75%	**3,521**	–
	6	31 March 2015	8.00%	**–**	4,514
	7	30 June 2015	7.50%	**–**	7,045
	8	31 December 2015	7.00%	**6,751**	–
Interest bearing RVIN - current				**18,077**	27,297
RVIN - Series 1	3	30 November 2015	8.75%	**–**	3,808
	4	30 November 2016	8.50%	**1,318**	1,318
	5	30 November 2015	7.00%	**–**	2,962
	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**	–
RVIN - Series 2	3	31 December 2016	8.50%	**770**	770
	5	31 December 2017	6.50%	**4,118**	–
	6	31 March 2018	6.10%	**2,912**	–
RVIN - Series 3	1	31 March 2016	8.50%	**–**	145
	2	30 June 2016	8.50%	**–**	890
	3	31 December 2016	8.50%	**233**	233
	5	30 June 2016	8.75%	**–**	3,521
	8	31 December 2015	7.00%	**–**	6,751
	8	31 December 2017	7.50%	**315**	315
	8	31 December 2019	7.50%	**15**	15
	9	30 June 2017	6.50%	**6,321**	6,321
	10	31 March 2018	6.10%	**4,514**	–
RVIN - Series 4	1	30 June 2017	6.50%	**10,000**	10,000
Interest bearing RVIN - non-current				**45,125**	43,077
Total interest bearing RVIN				**63,202**	70,374
Non-interest bearing RVIN					
RVIN - Series 3	7	30 June 2015		**7,045**	–
Total RVIN				**70,247**	70,374

Notes to the consolidated financial statements

For the year ended 30 June 2015

9 Financial liabilities - Borrowings (continued)

(d) 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 percent per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2015, the interest rate applicable to the quarter commencing 11 April 2015 was 5.27 percent (30 June 2014: 5.71 percent).

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 percent per annum. With the hedge contract, the effective interest rate of the new notes is fixed at 6.71 percent per annum until 11 July 2018.

(e) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2015, this rate amounted to between nil percent and 3.70 percent (2014: between nil percent and 4.25 percent).

(f) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2015 ranging between 2.00 percent and 7.10 percent (2014: between 3.96 percent and 7.10 percent).

(g) Mortgage offset savings accounts

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

(h) Loan payable to related entity

The loan payable to related entity matures on 31 July 2016 and accrues interest on a monthly basis at the 90-day bank bill rate plus a margin of 2.00 percent. At 30 June 2015 this rate amounted to 4.14 percent (2014: 4.65 percent).

(i) 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

	2015 $'000	2014 $'000
Financial liabilities		
Refundable accommodation deposits	**128,873**	84,144
Resident loan liabilities	**456,499**	392,178
	585,372	476,322
Non-financial liabilities		
Unearned income	**120,611**	115,934
Others	**4,267**	3,790
	124,878	119,724
Total other current liabilities	**710,250**	596,046

(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 2015.

(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 2015 and 2014 on a recurring basis.

30 June 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Debt securities	–	**429,616**	–	**429,616**
Equities	–	**866,288**	–	**866,288**
Fixed interest securities	–	**87,683**	–	**87,683**
Mortgage trusts	–	**40,983**	–	**40,983**
Property syndicates and trusts	–	**44,863**	–	**44,863**
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**
30 June 2014				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Debt securities	–	73,223	–	73,223
Equities	–	861,116	–	861,116
Fixed interest securities	–	318,645	–	318,645
Mortgage trusts	–	47,276	–	47,276
Property syndicates and trusts	–	60,470	–	60,470
Other financial assets	–	–	302	302
Total financial assets	–	1,360,730	302	1,361,032
Non-financial assets				
Investment properties	–	–	674,275	674,275
Land and buildings	–	–	140,302	140,302
Total non-financial assets	–	–	814,577	814,577
Financial liabilities				
Interest rate swaps	–	3,128	–	3,128
Life investment contract policy liabilities	–	719,881	–	719,881
Total financial liabilities	–	723,009	–	723,009

Notes to the consolidated financial statements

For the year ended 30 June 2015

11 Fair value measurements (continued)

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

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

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

Financial instruments

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

Specific valuation techniques used to value financial instruments include:

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

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

Investment properties

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

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

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 2013 by CB Richard Ellis (V) Pty Ltd. Fair value is determined using the capitalisation of adjusted net profit 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 2015. All of the resulting fair value estimates are included in level 3 as explained in section (iii) below.

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

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2015:

	Other financial assets $'000	Investment properties $'000	Land and buildings $'000	Total $'000
Opening balance 1 July 2013	268	–	–	268
Adoption of AASB 13	–	617,109	80,518	697,627
Acquisitions	–	61,369	46,762	108,131
Disposals	–	(1,580)	–	(1,580)
Depreciation	–	–	(1,306)	(1,306)
Transfers	–	(14,328)	14,328	–
Gain recognised in other income*	34	11,705	–	11,739
Closing balance 30 June 2014	302	674,275	140,302	814,879
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	**320**	**745,194**	**148,855**	**894,369**
*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				
2015	**18**	**12,582**	**–**	**12,600**
2014	–	11,705	–	11,705

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 2015 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	745,194	Discount rate	10.0% - 15.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -$8.0 million/+$10 million (2014: -$7.2 million/+$9.1 million).
		Property growth rate	0.0% - 4.5%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +$14.8 million/-$13.4 million (2014: +$13.7 million/-$12.3 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	148,855	Discount rate	8.25% - 14.0%	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% - 13.5%	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 Retirement 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 Retirement 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 Retirement 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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

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:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Current and non-current assets				
Mortgage loans	622,598	623,173	551,609	552,188
Personal loans	17,880	17,880	26,683	26,683
Loans to related entities	31,317	31,317	30,653	30,653
Advances	4,116	3,888	4,112	3,709
	675,911	676,258	613,057	613,233
Current and non-current liabilities				
Australian Unity Notes	120,000	123,360	120,000	124,320
Loan establishment costs	–	–	(2,398)	(2,398)
Call deposits	309,867	309,867	304,533	304,533
Development finance loans	25,345	23,841	52,736	48,236
Lease liabilities	1	1	15	15
Loan payable to related entity	5,100	5,100	5,100	5,100
Mortgage offset savings accounts	63,844	63,844	50,224	50,224
Retirement Village Investment Notes	70,247	63,414	70,374	70,472
Subordinated capital notes	30,000	28,188	30,000	27,906
Term deposits	314,850	314,446	291,243	290,823
Refundable accommodation deposits	128,873	128,873	84,144	84,144
Resident loan liabilities	456,499	456,499	392,178	392,178
	1,524,626	1,517,433	1,398,149	1,395,553

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	Buildings	Plant and equipment	Leasehold improvements	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2013					
Cost or fair value	25,512	64,891	28,470	23,021	141,894
Accumulated depreciation	–	(9,885)	(19,498)	(19,019)	(48,402)
Net book amount	25,512	55,006	8,972	4,002	93,492
Year ended 30 June 2014					
Opening net book amount	25,512	55,006	8,972	4,002	93,492
Additions	–	46,762	3,068	662	50,492
Acquisition of subsidiary	–	–	33	30	63
Disposals	–	–	(32)	–	(32)
Net transfers from intangible assets	–	–	18	–	18
Transfers to investment properties	(6,759)	21,087	–	–	14,328
Other transfers	(2,320)	2,320	(771)	771	–
Depreciation charge	–	(1,306)	(1,930)	(1,615)	(4,851)
Closing net book amount	16,433	123,869	9,358	3,850	153,510
At 30 June 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
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	14,714	134,141	12,812	3,258	164,925

(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:

	2015	2014
	$'000	$'000
Land		
Cost	13,433	15,152
Net book amount	13,433	15,152
Buildings		
Cost	142,748	131,851
Accumulated depreciation	(16,950)	(13,267)
Net book amount	125,798	118,584

Notes to the consolidated financial statements

For the year ended 30 June 2015

13 Non-financial assets - Investment properties

Investment properties comprise 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.

	2015 $'000	2014 $'000
Retirement village independent living units	**451,494**	412,297
Retirement village property funds	**63,557**	60,953
Development sites (including development sites intended to be sold)	**225,529**	196,411
Non-owner occupied property	**4,614**	4,614
	745,194	674,275

(a) Movements of investment properties

	2015 $'000	2014 $'000
At fair value		
Balance at the beginning of the financial year	**674,275**	617,109
Acquisitions	**51,128**	61,369
Disposals	**–**	(1,580)
Net fair value movements	**12,582**	11,705
Transfers to owner occupied property	**–**	(14,328)
Transfers from property, plant and equipment	**7,209**	–
Balance at the end of the financial year	**745,194**	674,275

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

	2015 $'000	2014 $'000
Revenue	**38,569**	35,336
Expenses	**(23,962)**	(24,413)
Changes in fair value recognised in profit or loss	**12,582**	11,705
	27,189	22,628

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 2013					
Cost	11,335	40,368	86,725	10,740	149,168
Accumulation amortisation	–	(5,353)	(51,366)	–	(56,719)
Net book amount	11,335	35,015	35,359	10,740	92,449
Year ended 30 June 2014					
Opening net book amount	11,335	35,015	35,359	10,740	92,449
Acquisition of subsidiaries	2,512	737	1	–	3,250
Additions	–	430	16,183	–	16,613
Transfers from property plant and equipment	–	–	(18)	–	(18)
Amortisation charge	–	(1,451)	(9,042)	–	(10,493)
Closing net book amount	13,847	34,731	42,483	10,740	101,801
At 30 June 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	**11,743**	**37,886**	**–**	**–**	**49,629**
Additions	**–**	**785**	**18,085**	**1,915**	**20,785**
Transfers from property plant and equipment	**–**	**–**	**503**	**–**	**503**
Disposals	**–**	**–**	**(143)**	**–**	**(143)**
Amortisation charge	**–**	**(2,290)**	**(9,309)**	**(64)**	**(11,663)**
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**
Accumulated amortisation	**–**	**(8,290)**	**(31,004)**	**(64)**	**(39,358)**
Net book amount	**25,590**	**71,112**	**51,619**	**12,591**	**160,912**

The management rights included those with an indefinite life of $24,757,000 as at the end of the reporting period (2014: $21,585,000). These management rights are related to the acquisitions of responsible entities of investment funds and trusts. The responsible entities are profitable and expected to continue their operations on a going concern basis.

Residential Care Places (high care and low care) under the Aged Care Act 1997 (bed licences) 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 2015, the Group held 231 purchased licences and 458 granted licences (2014: 231 purchased licences and 446 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.

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

	2015 $'000	2014 $'000
Healthcare	**5,167**	3,067
Retirement Living	**18,978**	11,637
Investments	**33,818**	31,200
Personal Financial Services	**38,739**	2,674
	96,702	48,578

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 7.04 percent applied to cash flow projections represents the Group's weighted average cost of capital (2014: 8.70 percent). A 1.30 percent growth rate (2014: 2.90 percent) was applied to cash flows beyond the four year period for which financial budgets were available.

Notes to the consolidated financial statements

For the year ended 30 June 2015

14 Non-financial assets - Intangible assets (continued)

(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 9.56 percent (2014: 14.20 percent) per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

15 Non-financial liabilities - Deferred tax balances

	2015 $'000	2014 $'000
The balance comprises temporary differences attributable to:		
Deferred tax assets		
Accrued expenses	7,689	7,537
Fixed assets	10,139	7,683
Capitalised expenditure	2,408	1,622
Investment in associates & joint ventures	–	173
Other assessable items	7,985	5,788
Policy bonus credits	22,187	18,811
Provisions	10,774	8,212
Risk Equalisation Trust Fund	3,002	2,493
Tax losses	2,457	4,231
Unrealised losses	2,015	1,276
Total deferred tax assets	68,656	57,826
Deferred tax liabilities		
Allocable cost adjustment on consolidation	1,013	1,046
Fixed assets and investment properties	56,444	47,981
Other deductible items	12,618	4,797
Risk Equalisation Trust Fund	9,001	7,500
Tax deferred	2,238	2,852
Unrealised gains	38,079	37,634
Total deferred tax liabilities	119,393	101,810
Net deferred tax liabilities	50,737	43,984

16 Non-financial liabilities - Provisions

	2015 $'000	2014 $'000
Employee benefits provision	17,822	15,180
Outstanding claims	58,556	57,274
Other provisions	8,314	5,022
	84,692	77,476

(a) 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

	2015 $'000	2014 $'000
Asset revaluation reserve	2,462	2,462
Reserve for credit losses	1,698	1,594
Cash flow hedges reserve	(2,204)	(2,190)
	1,956	1,866
Movements:		
Asset revaluation reserve		
Balance at the beginning of the financial year	2,462	2,462
Balance at the end of the financial year	2,462	2,462
Reserve for credit losses		
Balance at the beginning of the financial year	1,594	1,429
Transfer from retained earnings	104	165
Balance at the end of the financial year	1,698	1,594
Cash flow hedges reserve		
Balance at the beginning of the financial year	(2,190)	(2,210)
Movements in hedging value during the year	(20)	29
Deferred tax	6	(9)
Balance at the end of the financial year	(2,204)	(2,190)

(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:

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	250,555	221,075
Transfer to reserve for credit losses	(104)	(165)
Profit for the year	34,553	29,645
Balance at the end of the financial year	285,004	250,555

Notes to the consolidated financial statements

For the year ended 30 June 2015

18 Cash flow information

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

	2015 $'000	2014 $'000
Profit after income tax for the year	**34,553**	29,645
Depreciation and amortisation	**18,605**	15,344
Impairment provision	**(777)**	(3,447)
Investment gains	**(8,339)**	(315)
Fair value gains on investment property	**(12,582)**	(11,705)
Share of net profits of associates and joint ventures	**(1,526)**	(4,734)
Changes in operating assets and liabilities:		
Increase in trade and other receivables	**(7,294)**	(11,436)
Increase in loans and advances	**(62,190)**	(72,281)
Decrease in current tax assets	**2,428**	128
Decrease in deferred tax assets	**–**	8,663
Increase in other operating assets	**(5,270)**	(2,261)
Increase/(decrease) in trade and other payables	**3,865**	(4,201)
Increase in deposits liability	**42,561**	83,762
Increase in current tax liabilities	**15,288**	–
Increase in deferred tax liabilities	**6,409**	15,351
Increase in provisions	**6,145**	8,806
Increase in benefit fund policy liabilities	**12,704**	51,697
Increase in other operating liabilities	**7,388**	2,570
Net cash inflow from operating activities	**51,968**	105,586

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.

(i) Fair value of financial instruments

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

(ii) Estimated impairment of loans and advances

The accounting policy requires the Group to assess impairment 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*.

(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 percent ownership interest.

Notes to the consolidated financial statements

For the year ended 30 June 2015

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.

(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 increase or decrease by five percent (2014: 10 percent), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements:	**2015 $'000**	2014 $'000	**2015 $'000**	2014 $'000
Exchange rates +5% (2014: +10%)	**(1,105)**	(627)	**(1,105)**	(627)
Exchange rates -5% (2014: -10%)	**1,181**	809	**1,181**	809

(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 5 percent (2014: 10 percent) at the end of the reporting period with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the security prices.

	Impact on post-tax profit		Impact on equity	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
Securities prices + 5% (2014: +10%)	**3,322**	6,826	**3,322**	6,826
Securities prices - 5% (2014: -10%)	**(3,544)**	(7,106)	**(3,544)**	(7,106)

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 2015 and 2014, the Group's borrowings at variable rate were denominated in Australian Dollars.

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

	2015 $'000	2014 $'000
Financial assets		
Cash and cash equivalents	**305,434**	313,318
Financial assets at fair value through profit or loss	**102,563**	50,275
Loans and advances	**552,153**	501,832
	960,150	865,425
Financial liabilities		
Deposits	**383,621**	304,533
Development finance loans (iii)	**25,345**	52,736
Loan payable to related entity	**5,100**	5,100
Australian Unity Notes (i)	**120,000**	120,000
Subordinated capital notes (ii)	**30,000**	30,000
Interest rate swap, at notional principal amounts	**(90,000)**	(96,174)
	474,066	416,195
Net exposure	**486,084**	449,230

(i) The Australian Unity Notes issued in April 2011 carry a 3.55 percent fixed margin resulting in a total interest rate at 30 June 2015 of 5.81 percent (2014: 6.26 percent). As at 30 June 2015 and 2014, only the variable interest portion of $60 million of the Notes were hedged via an interest rate swap.
(ii) The subordinated capital notes carry a 3.00 percent fixed margin (2014: 3.00 percent) resulting in a total interest rate at 30 June 2015 of 5.27 percent (2014: 5.71 percent). Only the variable interest portion is hedged via an interest rate swap.
(iii) Included in the development finance loans as at 30 June 2015 was $16,869,000 for Peninsula Grange aged care facility (2014: $6,174,000). As at 30 June 2015, $5,000,000 (2014: $nil) of the Peninsula Grange loan facility was 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 the reporting period, if interest rates had increased/decreased by 0.25 percent with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		Impact on equity	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
Judgements of reasonably possible movements:				
Interest rates + 0.25%	**312**	377	**312**	377
Interest rates - 0.25%	**(312)**	(377)	**(312)**	(377)

The movements in profit are due to higher/lower interest costs from variable rate debt and higher/lower interest income from cash equivalents and other interest bearing investments.

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

Notes to the consolidated financial statements

For the year ended 30 June 2015

20 Financial risk management (continued)

(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.

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 percent. Accordingly, the financial effect of these measures is that remaining credit risk on loans is very low. Some lending products will be mostly unsecured (eg. 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	Other grade			
	$'000	$'000	$'000	$'000	$'000
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 associates and 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
At 30 June 2014					
Cash and cash equivalents	974,413	–	–	–	974,413
Trade and other receivables	563	77,207	5,181	515	83,466
Financial assets at fair value through profit or loss	391,515	969,215	–	–	1,360,730
Held-to-maturity investments	80,467	–	–	–	80,467
Loans and advances	536,185	66,380	10,251	498	613,314
Investments in associates and joint ventures	–	46,740	–	–	46,740
Other financial assets	–	20,473	–	–	20,473
	1,983,143	1,180,015	15,432	1,013	3,179,603

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 $17,214,000 (2014: $9,753,000).

The Group provides financial guarantees to certain parties amounting to $6,777,000 (2014: $7,368,000). 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.

	Less than 6 months	6 – 12 months	1 – 5 years	Over 5 years	No specific maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2015						
Trade and other payables	84,233	–	–	–	–	84,233
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	586,667	–	–	–	585,372	1,172,039
Total liabilities	1,405,500	343,038	96,878	36,123	2,252,574	4,134,113
At 30 June 2014						
Trade and other payables	72,668	–	–	–	–	72,668
Interest bearing liabilities						
AU Notes	4,339	4,339	126,869	–	–	135,547
Subordinated capital notes	1,007	1,007	8,052	38,136	–	48,202
Development finance loan	1,219	1,219	56,509	–	–	58,947
Call deposits	305,029	–	–	–	–	305,029
Term deposits	225,106	51,917	18,669	–	–	295,692
Mortgage offset savings accounts	50,224	–	–	–	–	50,224
Retirement Village Investment Notes	15,450	16,436	42,715	5,592	–	80,193
Lease liability	–	–	13	–	–	13
Loan payable to related entity	5,134	–	–	–	–	5,134
	607,508	74,918	252,827	43,728	–	978,981
Benefit fund policy liabilities	97,211	88,611	–	–	1,699,106	1,884,928
Other liabilities	478,186	–	–	–	476,322	954,508
Total liabilities	1,255,573	163,529	252,827	43,728	2,175,428	3,891,085

Notes to the consolidated financial statements

For the year ended 30 June 2015

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 2015 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 disproportionally 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 Private Health Insurance Administration Council (PHIAC).

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.

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 associates and 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

(a) Healthcare

98 Dental

In July 2014, Australian Unity Healthcare Limited (AUHCL) acquired the business of 98 Dental The Art of Smile in South Melbourne (98 Dental), a dental practice with dental surgery facilities for $944,000. The business assets acquired included goodwill, business records, material contracts, intellectual property, stock, and equipment. As part of the agreement, 80 percent of the employees were transferred to the acquirer. AUHCL also assumed the leave liability in relation to the transferring employees. The assets recognised as a result of this acquisition included goodwill of $734,000. The acquisition is expected to grow the Group's allied health business through expansion of its dental practices.

Physio Connect

In March 2015, Remedy Healthcare Group Pty Ltd (Remedy) acquired the business of Troja Pty Ltd (Physio Connect) for $1,231,000. Physio Connect provides physiotherapy, podiatry, dietetic and pain management services to retirement village operators, residential aged care providers and residents of retirement villages and residential aged care facilities. The business assets acquired included goodwill, records, contracts, intellectual property, domain names and website. As part of the agreement, all key employees and at least 80 percent of selected employees were transferred to the acquirer. Remedy assumed the leave liability in relation to the transferring employees. In addition, at least 80 percent of the external health professionals that provided services for Physio Connect entered into new agreements with the Remedy. The acquisition is expected to grow the Group's allied health business by extending Remedy's current service offering and expanding its services to the aged care sector. In the preliminary accounting for business combination, the net assets recognised included goodwill of $849,000 and customer contracts with a finite life of $611,000. The accounting will be finalised within 12 months of the acquisition.

(b) Retirement Living

INS Healthcare

In September 2014, Australian Unity Retirement Living Management Pty Ltd (AURLM) acquired INS Health Care (INS), the home care business of the INS Group, a family owned health care business based in Wollongong, NSW for $5,829,000. INS Health Care is the dominant home care provider throughout the Illawarra, Southern Highlands and South West Sydney regions. It operated government funded home care packages and provided home care services for a number of major health organisations as well as private clients. The business assets acquired included 126 government funded home care packages, intellectual property, business records and customer contracts. As part of the agreement, the key personnel and the majority of care staff of INS were transferred to the acquirer. AURLM also assumed the leave liability in relation to the transferring employees. The acquisition is expected to provide benefits for the Group's Home Care business, including having access to a variety of new government funding sources, a strengthened platform for further growth, and synergy created with the existing Retirement Living business operations of the Group. In the preliminary accounting for business combination, the net assets recognised included goodwill and management rights totalling to $6,138,000. The final determination of goodwill and management rights is subject to clarification with regard to changes in the allocation of government home care packages to be effective from 1 February 2017. The accounting will be finalised within 12 months of the acquisition.

(c) Investments

Owenlaw Trust Limited

In December 2014, Australian Unity Strategic Investments Pty Ltd acquired 100 percent of the issued shares in Owenlaw Trust Limited for $3,680,000. The principal activities of the acquired entity are the management of two retail mortgage trusts—with approximately $80 million of funds under management—and acting as the responsible entity for the two trusts. Following the acquisition, the entity's name was changed to Australian Unity Mortgage Investment Limited. The acquisition is expected to increase the Group's market share through new product initiatives and to reduce costs through economies of scale. In the preliminary accounting for business combination, the net assets acquired included management rights with an indefinite life of $3,172,000. The acquisition accounting will be finalised within 12 months of the purchase.

(d) Personal Financial Services

Premium Wealth Management

During the 2015 financial year, Australian Unity Advice Pty Ltd acquired 100 percent of the issued shares of Premium Wealth Management Ltd (PWM). PWM is an independent financial advisory licensee primarily owned by its advisers. It provides financial services to clients throughout the east coast region of Australia. The acquisition is intended to grow the financial services business.

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

	$'000
Purchase consideration	
Cash consideration	2,435
The assets recognised as a result of the acquisition	
Cash	2,059
Receivables	1,548
Other assets	397
Management rights with a finite life	1,704
Liabilities	(3,273)
Total	**2,435**

The acquisition accounting will be finalised within 12 months of the purchase.

Notes to the consolidated financial statements

For the year ended 30 June 2015

21 Business combination (continued)

Waratah Insurance Broker

During the 2015 financial year, Australian Unity Personal Financial Services Ltd acquired the business of Waratah Insurance Broker Pty Ltd (Waratah) for $1,064,000. The business assets acquired included business records, contracts, goodwill, intellectual property, plant and equipment, and stock. The acquisition is intended to grow the financial services business through diversification of revenue into general insurance broking. In the preliminary accounting for business combination, the net assets recognised included management rights with a finite life amounting to $1,108,000. The accounting will be finalised within 12 months of the acquisition.

(e) Acquisition of joint venture entities

Certainty Financial

On 2 February 2015, Australian Unity Advice Pty Ltd obtained control over the Certainty Financial joint venture through the acquisition of the remaining 30 percent ownership interests with 50 percent of voting rights for a cash consideration of $11,007,000. Certainty Financial provide corporate advisory specialising in corporate superannuation and group insurance solutions. They also provide private clients services in financial planning, investment, finance and risk management. Certainty Financial has over 20,000 members within the corporate clients and over 23,000 private clients. In line with the Group's strategy, the acquisition is expected to grow the Group's financial planning business.

Details of the purchase consideration, fair value of previously held equity interest, net assets acquired, management rights and goodwill recognised in the preliminary accounting for the business combination are as follows:

	$'000
Purchase consideration and fair value of previously held equity interest	
Carrying amount of previously held equity interest	20,118
Gain on re-measurement of previously held equity interest recognised in the profit or loss	2,962
Fair value of previously held equity interest	23,080
Cash payment for the acquisition of the remaining ownership interest	11,007
Total	**34,087**
The assets recognised as a result of the acquisition	
Cash and cash equivalents	1,035
Trade and other receivables	604
Property, plant and equipment	59
Management rights	30,351
Goodwill	3,881
Deferred tax asset	98
Trade and other payables	(1,519)
Leave liabilities	(388)
Provision for income tax	(34)
Total	**34,087**

The acquisition accounting will be finalised within 12 months of the purchase.

During the 2015 financial year, Certainty Financial has contributed revenue of $8,794,000 and net profit of $4,491,000 to the Group. If the acquisition had occurred on 1 July 2014, the contributed revenue and net profit for the 2015 financial year would have been $10,354,000 and $5,429,000 respectively.

Vianova Unit Trust

In September 2014, Australian Unity Funds Management Ltd acquired the remaining 50 percent of units in Vianova Unit Trust for $64,361. This acquisition has increased the Group's ownership interest in Vianova Unit Trust to 100 percent.

KNS Essential Care

In October 2014, Australian Unity Retirement Living Management Pty Ltd acquired the remaining 50 percent of issued shares in KNS Essential Care Pty Ltd (KNS) for $513,854. This acquisition has increased the Group's ownership interest in KNS to 100 percent.

(f) Acquisition related costs

Total costs related to the above business combinations totalling $999,000 are included in expenses in the profit or loss.

(g) Goodwill

Total goodwill recognised in the preliminary accounting for the business combinations amounting to $11,743,000 is related to the value of expected synergy benefits from the acquisitions, customer relationships, workforce and other items that do not qualify to be separately recognised.

(h) Cash flow information

	$'000
Outflow of cash to acquire the businesses, net of cash acquired	
Cash payments	26,071
Less: cash acquired	(3,653)
Direct costs related to the acquisitions	999
Cash outflow - investing activities	23,417

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 Personal Financial Services Limited	Australian Unity Care Services Pty Ltd
Australian Unity Property Limited	Australian Unity Carlton Aged Care Trust
Australian Unity Retirement Living Investments Limited	Australian Unity Carlton Retirement Trust #1
Australian Unity Retirement Living Services Limited	Australian Unity Investments Trust
Australian Unity Strategic Holdings Pty Limited	Australian Unity Lilydale Development Trust
Australian Unity Strategic Investments Pty Ltd	Australian Unity Retirement Living Management Pty Ltd
Big Sky Building Society Limited	Australian Unity Retirement Village Trust #1
Big Sky Financial Planning Pty Ltd	Australian Unity Retirement Village Trust #2
Grand United Corporate Health Limited	Australian Unity Retirement Village Trust #5
Lifeplan Australia Friendly Society Limited	Better Home Care Pty Ltd
Remedy Healthcare Group Pty Ltd	Certainty Financial 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:

	2015 $'000	2014 $'000
Balance sheet		
Cash and cash equivalents	24,161	12,640
Other current assets	5,292	17,267
Current assets	29,453	29,907
Non-current assets	643,758	588,987
Total assets	**673,211**	**618,894**
Current liabilities	159,559	24,877
Non-current liabilities	10,892	129,760
Total liabilities	**170,451**	**154,637**
Members' balances	255,625	255,625
Reserves	(1,047)	(1,597)
Retained earnings	248,182	210,229
Total equity	**502,760**	**464,257**
Profit for the year	**37,953**	**55,111**
Total comprehensive income for the year	**37,953**	**55,111**

(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 2015 and 2014.

(d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2015 and 2014.

Notes to the consolidated financial statements

For the year ended 30 June 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

	2015 $'000	2014 $'000
Premium revenue	**799,403**	754,442
Claims expense	**(685,665)**	(655,118)
Net Risk Equalisation Trust Fund recoveries	**29,226**	27,745
State levies	**(5,308)**	(4,910)
Net claims incurred	**(661,747)**	(632,283)
Acquisition costs	**(39,144)**	(41,923)
Other underwriting expenses	**(3,438)**	(3,300)
	(42,582)	(45,223)
Underwriting result	**95,074**	76,936
Net investment income	**16,654**	14,084
Employee benefits expense	**(28,967)**	(24,449)
Other expenses from ordinary activities	**(23,610)**	(22,794)
Finance costs	**(3,221)**	(2,985)
	(39,144)	(36,144)
Profit before income tax	**55,930**	40,792
Income tax expense	**(15,433)**	(11,858)
Profit after income tax	**40,497**	28,934

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

	2015 $'000	2014 $'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	**7,130**	5,614
Net RETF raised during the year	**29,226**	27,745
Net RETF received during the year	**(28,765)**	(26,229)
Balance at the end of the financial year	**7,591**	7,130

(c) Outstanding claims provision

	2015 $'000	2014 $'000
Outstanding claims - central estimate of the expected present value of future payments for claims incurred	**52,410**	51,578
Risk margin	**4,685**	4,485
Claims handling costs	**1,461**	1,211
Gross outstanding claims liability	**58,556**	57,274
Movement in the gross outstanding claims provision		
Balance at the beginning of the financial year	**57,274**	51,012
Claims incurred during the year	**688,247**	651,855
Claims paid during the year	**(684,383)**	(648,856)
Movement in other components	**(2,582)**	3,263
Balance at the end of the financial year	**58,556**	57,274
Current	**58,556**	57,274

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 8.7 percent (2014: 8.5 percent) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95 percent (2014: 95 percent). 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 1.82 months (2014: 1.84 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.

	2015 Movement in variable	2015 Profit/(loss) after tax $'000	2015 Net assets $'000	2014 Movement in variable	2014 Profit/(loss) after tax $'000	2014 Net assets $'000
Central estimate	**+5%**	**(1,834)**	**(1,834)**	+5%	(1,805)	(1,805)
Central estimate	**-5%**	**1,834**	**1,834**	-5%	1,805	1,805
Claims handling	**+10%**	**(102)**	**(102)**	+10%	(85)	(85)
Claims handling	**-10%**	**102**	**102**	-10%	85	85

(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 2015 (2014: $nil) at a 75 percent (2014: 75 percent) 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

	2015 $'000	2014 $'000
Interest income	**32,330**	31,342
Interest expense	**(16,225)**	(15,901)
Net interest income	**16,105**	15,441
Non-interest income	**2,710**	2,410
Total income	**18,815**	17,851
Impairment reversal/(losses) on loans and advances	**–**	(146)
Other operating expenses	**(15,510)**	(16,074)
Total expenses	**(15,510)**	(16,220)
Profit before income tax	**3,305**	1,631
Income tax expense	**(1,000)**	(499)
Profit after income tax	**2,305**	1,132

(b) Financial position summary

	2015 $'000	2014 $'000
Cash and cash equivalents	**15,223**	13,719
Financial assets at fair value through profit or loss	**28,424**	37,087
Held-to-maturity investments	**68,669**	70,045
Loans and advances	**638,433**	576,580
Other assets	**3,507**	4,009
Total assets	**754,256**	701,440
Interest bearing liabilities	**698,471**	646,000
Other liabilities	**4,575**	6,302
Total liabilities	**703,046**	652,302
Net assets	**51,210**	49,138

Notes to the consolidated financial statements

For the year ended 30 June 2015

25 Building society financial information (continued)

(c) Capital adequacy

	2015 $'000	2014 $'000
Reserves and retained earnings	**51,210**	49,138
Less regulatory prescribed adjustments	**(1,019)**	(1,443)
Regulatory capital base	**50,191**	47,695
Risk weighted exposures	**341,657**	323,406
Capital adequacy ratio	**14.69%**	14.75%

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 2015			
Revenue and other income	**1,103,754**	**–**	**1,103,754**
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**
Other	**–**	**–**	**–**
Total revenue and other income	**1,103,754**	**178,643**	**1,282,397**
Life insurance claims expense	**–**	**2,524**	**2,524**
Benefits and withdrawals paid - investment contracts with DPF*	**–**	**154,164**	**154,164**
Expenses, excluding finance costs	**1,041,734**	**1,219**	**1,042,953**
Total expenses, excluding finance costs	**1,041,734**	**157,907**	**1,199,641**
Finance costs	**(20,613)**	**–**	**(20,613)**
Share of net profits 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**
For the year ended 30 June 2014			
Revenue and other income	1,016,183	–	1,016,183
Direct life insurance premium revenue	–	591	591
Outwards reinsurance expense	–	(358)	(358)
Deposits received - investment contracts with DPF*	–	55,090	55,090
Investment income	–	125,597	125,597
Other	–	329	329
Total revenue and other income	1,016,183	181,249	1,197,432
Life insurance claims expense	–	2,015	2,015
Benefits and withdrawals paid - investment contracts with DPF*	–	124,864	124,864
Expenses, excluding finance costs	967,700	30,144	997,844
Total expenses, excluding finance costs	967,700	157,023	1,124,723
Finance costs	(18,140)	–	(18,140)
Share of net profits of associates and joint ventures	4,734	–	4,734
Profit before income tax	35,077	24,226	59,303
Income tax expense	(5,432)	(24,226)	(29,658)
Profit after income tax	29,645	–	29,645

*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:

	2015 $'000	2014 $'000
Payable within one year:		
Investment property	**21,783**	31,789
Total capital commitments	**21,783**	31,789

(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:

	2015 $'000	2014 $'000
Within one year	**4,349**	4,331
Later than one year but not later than five years	**13,124**	8,809
Later than five years	**561**	25
	18,034	13,165

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 2.6 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.

	2015 $'000	2014 $'000
Irrevocable approved but undrawn loans	**17,214**	9,753
Revocable loans with balances available for redraw	**42,263**	41,709
Revocable undrawn lines of credit, credit cards and overdrafts	**29,652**	33,110
	89,129	84,572

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 2015, 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 (2014: $621,000 for 6,210,000 shares at 10.0 cents each);
- Seres Asset Management Limited amounted to $167,683 for 2,750,000 shares at 6.10 cents each (2014: $549,120 for 12,500,000 shares at 4.39 cents each);
- Altius Asset Management Pty Ltd amounted to $339,575 for 425,000 shares at 79.9 cents each (2014: $339,575 for 425,000 shares at 79.9 cents each); and
- Fedinvest Pty Ltd amounted to $282,960 for 314,400 shares at 90.0 cents each (2014: $245,000 for 560,000 shares at 43.8 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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

28 Contingencies (continued)

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 2015, there was $653,000 (2014: $1,292,000) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantee

The Group has entered into bank guarantee arrangements totalling $6,124,000 (2014: $6,076,000) as part of its normal operations 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). 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 percent (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 percent 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 2015, no funding was required by and paid to CUFSS (2014: $nil).

The Group had no other contingent assets or liabilities at 30 June 2015.

29 Events occurring after the reporting period

On 1 July 2015, Australian Unity Advice Pty Ltd acquired 100 percent of the issued shares in Flinders Australia Limited ("Flinders"). The purchase price is $14 million comprising $13 million cash contribution and $1 million deferred payment that is payable after completion of the audited financial statements of Flinders for the year ended 30 June 2016. Flinders provides administration and estate services in Australia. The acquisition is in line with the Group's strategy to expand its service offerings in order to grow the financial planning business. At the date of this report, the financial statements of Flinders are not yet completed. The accounting for business combination will be finalised within 12 months of the acquisition.

The board is not aware of any other matter or circumstance arising since 30 June 2015 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 2015 and 2014 were as follows:

- Dividends received from associates and joint ventures, $4,328,571 (2014: $6,335,841);
- Investment management fees charged by associates and joint ventures, $4,443,696 (2014: $4,957,568);
- Commission, director fees and other costs charged to associates and joint ventures, $1,830,310 (2014: $1,923,643);
- Donations to a related charity organisation, $433,663 (2014: $350,995);
- Rental income from related entity, $519,996 (2014: $446,420);
- Loans provided to related entities, $664,615 (2014: $1,059,676); and
- Investment income from related entities, $15,147,206 (2014: $8,128,792).

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 2015, $186,229 (2014: $283,980);
- Trade and other payables to related entities as at 30 June 2015, $670,193 (2014: $642,054);
- Loans receivable from related entities as at 30 June 2015, $31,317,253 (2014: $30,652,637);
- Loan payable to related entity as at 30 June 2015, $5,100,000 (2014: $5,100,000); and
- 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

	2015 $	2014 $
Short-term employee benefits	6,012,124	5,554,566
Post employment benefits	282,849	323,422
Long-term benefits	446,971	671,354
	6,741,944	6,549,342

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

	2015 $	2014 $
Ernst & Young Australian firm		
Audit and review of financial statements	1,157,960	1,287,853
Audit of regulatory returns	327,040	247,376
Total remuneration for audit and other assurance services	1,485,000	1,535,229

(b) Taxation and other services

	2015 $	2014 $
Ernst & Young Australian firm		
Tax compliance services	314,080	282,172
Tax consulting services	543,893	1,120,647
Other services	9,500	9,500
Total remuneration for taxation and other services	867,473	1,412,319
Total auditors' remuneration	2,352,473	2,947,548

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 is 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

	2015 $'000	2014 $'000
Life investment contract liabilities	796,482	719,881
Life insurance contract liabilities - guaranteed element	1,039,137	1,102,065
Life insurance contract liabilities - other	440	712
Unvested policyholder liabilities	61,573	62,270
Total policy liabilities	1,897,632	1,884,928
Expected to be realised within 12 months	230,430	185,822
Expected to be realised in more than 12 months	1,667,202	1,699,106
	1,897,632	1,884,928

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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

33 Benefit fund policy liabilities (continued)

(b) Reconciliation of changes in policy liabilities

	2015 $'000	2014 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**719,881**	633,905
Increase recognised in the profit or loss	**35,633**	42,610
Premiums recognised as a change in contract liabilities	**114,710**	102,065
Claims recognised as a change in contract liabilities	**(73,742)**	(58,699)
Life investment contract liabilities at the end of the financial year	**796,482**	719,881
Life insurance contract liabilities		
Balance at the beginning of the financial year	**1,102,777**	1,153,179
Decrease recognised in the profit or loss	**(63,200)**	(50,402)
Life insurance contract liabilities at the end of the financial year	**1,039,577**	1,102,777
Unvested policyholder liabilities		
Balance at the beginning of the financial year	**62,270**	46,147
Increase recognised in the profit or loss	**(697)**	16,123
Unvested policyholder benefits liability at the end of the financial year	**61,573**	62,270
Net policy liabilities at the end of the financial year	**1,897,632**	1,884,928

(c) Analysis of policy liability revenue and expenses

	2015 $'000	2014 $'000
Revenue and other income		
Total life insurance and participating contract premium revenue	**63,870**	55,681
Reinsurance premium	**(248)**	(358)
Life insurance contract premium revenue	**63,622**	55,323
Interest income	**5,529**	1,749
Distribution income	**87,848**	67,266
Realised gains/(losses)	**25,816**	(7,952)
Unrealised gains/(losses)	**(4,192)**	64,534
Other income	**20**	329
Total revenue and other income	**178,643**	181,249
Expenses		
Total life insurance and participating contract claims expense	**156,688**	126,879
Life insurance contract claims expense	**156,688**	126,879
Policy maintenance expenses - life insurance contracts		
Commissions	**–**	5
Management fees	**22,661**	21,439
Other expenses	**6,822**	369
Movement in life insurance contract liabilities	**(63,200)**	(50,402)
Movement in unvested policyholder liabilities	**(697)**	16,123
Movement in life investment contract liabilities	**35,633**	42,610
Total expenses	**157,907**	157,023

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2015. 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*.

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 (ie. premium, 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 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)[2]
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%**

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2014 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 ALT2009–11)[2]
Assurance Benefit Fund	12.5	3.92%	1.80%	30%	1.49%	100%
Funeral Fund	16.5	4.19%	0.70%	0%	3.49%	50%
Life Assurance Benefit Fund	11.0	3.79%	2.25%	30%	1.08%	75%
Central Sick and Funeral Fund	10.0	3.70%	2.00%	0%	1.70%	50%
Funeral and Ancillary Benefit Fund	13.5	4.01%	2.00%	0%	2.01%	100%
Travel Protection Fund	13.5	1.51%	1.50%	0%	0.01%	85%
Whole of Life Funeral Fund	11.5	3.83%	1.50%	0%	2.33%	100%

Notes:

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

2 ALT2011-13 refers to Australian Life Tables (male and female) 2011-2013. ALT2009-11 refers to Australian Life Tables (male and female) 2009-2011.

Notes to the consolidated financial statements

For the year ended 30 June 2015

33 Benefit fund policy liabilities (continued)

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

The following additional assumptions apply:

- For the Funeral and Ancillary Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2014: 2.5 percent) per annum; and
- For the Travel Protection Fund, the proportion of claims (arising from each death) is 4.0 percent (2014: 4.0 percent) and the average claim amount is $1,000 (2014: $1,200) inflating at 2.5 percent (2014: 2.5 percent) per annum.

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

For the remaining defined benefit funds, policy liabilities are valued using the accumulation method. For the Personal Risk Insurance Fund the policy liability is equal to 100 percent of the annual premium. For the Accidental Death Benefits Fund the policy liability is equal to 50 percent 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.

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 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)[2]
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 Secure 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%**

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2014 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 ALT2009–11)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	8.0	3.75%	2.70%	0.00%	1.05%	110%
Capital Guaranteed Funeral Fund (Taxable)	10.0	3.96%	2.70%	30.00%	0.88%	120%
Capital Secure Funeral Fund	5.5	3.39%	1.53%	0.00%	1.86%	100%
Funeral Bond Fund	7.0	3.61%	1.50%	0.00%	2.11%	100%
Prepaid Funeral Fund	7.0	3.61%	1.50%	0.00%	2.11%	110%
Funeral Fund No 2 - Non Taxable	8.5	3.80%	2.00%	0.00%	1.80%	110%
Funeral Fund No 2 - Taxable	8.5	3.80%	2.00%	30.00%	1.26%	110%
Tax Minimiser Funeral Fund	8.5	3.80%	1.50%	30.00%	1.61%	160%

Notes

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

2 ALT2011-13 refers to Australian Life Tables (male and female) 2011-2013. ALT2009-11 refers to Australian Life Tables (male and female) 2009-2011.

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 the reporting period. Discontinuance rates are based on the fund's experience.

Profit carriers

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

Restrictions on assets

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

Assets backing policy liabilities

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

Future participating benefits

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

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

Sensitivity analysis

The Group has no material sensitivity analysis to disclose. If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except for 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 2015. 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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

33 Benefit fund policy liabilities (continued)

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

Concentrations

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

Interest rate risk

The management of the risks associated with investments undertaken by benefit funds, including interest rate risk, is subject to the 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

Under the *Life Insurance Act 1995*, 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 2015 and 2014.

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	Claims	Other	Before Tax	After Tax
30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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**	**–**
30 June 2014						
Non-investment linked benefit funds - Life insurance contracts	233	5,320	2,015	2,958	580	–
Investment linked benefit funds - Life investment contracts with DPF*	55,090	57,497	124,864	(22,419)	10,142	–
Investment contracts without DPF*	–	63,109	–	49,605	13,504	–
Total	**55,323**	**125,926**	**126,879**	**30,144**	**24,226**	**–**

	Assets		Liabilities		Equity
	Investments	Other	Life Insurance	Other	Equity
30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
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**	**–**
30 June 2014					
Non-investment linked benefit funds - Life insurance contracts	55,745	2,622	57,743	624	–
Investment linked benefit funds - Life investment contracts with DPF*	908,656	210,580	1,107,304	11,932	–
Investment contracts without DPF*	714,873	30,452	719,881	25,444	–
Total	1,679,274	243,654	1,884,928	38,000	–

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

Notes to the consolidated financial statements

For the year ended 30 June 2015

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	Claims	Other	Before tax	After tax
30 June 2015	$'000	$'000	$'000	$'000	$'000	$'000
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	–
30 June 2014						
Assurance benefit fund	–	1,297	461	641	195	–
Central sick and funeral fund	–	492	205	288	(1)	–
Funeral and ancillary benefits fund	9	1,241	607	642	1	–
Funeral fund	–	1,141	512	629	–	–
Life assurance benefit fund	–	972	170	489	313	–
Other	224	177	60	269	72	–
Total	233	5,320	2,015	2,958	580	–

	Assets		Liabilities		Equity
	Investments	Other	Life insurance	Other	Coverage of Solvency Reserve
30 June 2015	$'000	$'000	$'000	$'000	%
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	
30 June 2014					
Assurance benefit fund	11,193	(68)	11,101	24	76
Central sick and funeral fund	6,592	6	6,590	8	88
Funeral and ancillary benefits fund	12,068	1,414	13,412	70	100
Funeral fund	11,472	137	11,608	1	97
Life assurance benefit fund	12,988	10	12,710	288	97
Other	1,432	1,123	2,322	233	
Total	55,745	2,622	57,743	624	

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

	Revenue		Expenses		Profit/(loss) for the year	
	Deposits	Investment	Claims	Other	Before Tax	After Tax
30 June 2015	$'000	$'000	$'000	$'000	$'000	$'000
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	–
30 June 2014						
Bonus accumulation fund	257	3,481	40,444	(37,889)	1,183	–
Capital guaranteed bond	271	3,751	17,498	(14,153)	677	–
Funeral fund no 2	1,196	18,958	18,988	(1,296)	2,462	–
NextGen investments capital guaranteed fund	15,556	2,404	(1,327)	18,789	498	–
Tax minimiser funeral fund	32,753	12,996	16,204	26,203	3,342	–
Other	5,057	15,907	33,057	(14,073)	1,980	–
Total	55,090	57,497	124,864	(22,419)	10,142	–

	Assets		Liabilities		Equity
	Investments	Other	Life insurance	Other	Coverage of Solvency Reserve
30 June 2015	$'000	$'000	$'000	$'000	%
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	
30 June 2014					
Bonus accumulation fund	128,586	188	127,445	1,329	100
Capital guaranteed bond	110,086	1,678	110,892	872	100
Funeral fund no 2	203,645	32,328	233,600	2,373	92
NextGen investments capital guaranteed fund	101,097	215	100,809	503	100
Tax minimiser funeral fund	171,239	39,607	206,951	3,895	90
Other	194,003	136,564	327,607	2,960	
Total	908,656	210,580	1,107,304	11,932	

Notes to the consolidated financial statements

For the year ended 30 June 2015

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	Other	Before Tax	After Tax
30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**
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**	**–**
30 June 2014				
Education savings plan	9,921	8,309	1,612	–
Growth investment	3,256	2,499	757	–
Managed investment	7,334	5,753	1,581	–
NextGen investments	19,372	15,189	4,183	–
Select strategies	16,188	12,314	3,874	–
Other	7,038	5,541	1,497	–
Total	63,109	49,605	13,504	–

	Assets		Liabilities	
	Investments	Other	Life insurance	Other
30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**
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**
30 June 2014				
Education savings plan	99,379	6,088	103,199	2,268
Growth investment	26,412	311	25,400	1,323
Managed investment	75,824	1,201	72,972	4,053
NextGen investments	256,649	1,232	249,732	8,149
Select strategies	150,354	911	144,882	6,383
Other	106,255	20,709	123,696	3,268
Total	714,873	30,452	719,881	25,444

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 2014:

- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities* [AASB 132]
- AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*
- AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities*
- AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*
- Revised AASB 1031 *Materiality*
- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Conceptual Framework and Materiality)*
- AASB 2014-1 *Amendments to Australian Accounting Standards* Parts A-C

The AASB 2013-7 amendments removed specific requirements in relation to consolidation from AASB 1038 which has left AASB 10 *Consolidation* as the sole source for consolidation requirements applicable to life insurer entities. The consolidation of the benefit funds into the Group's financial statements is in accordance with AASB 10. The Group did not experience a material impact from the application of AASB 10 to the consolidation of its life insurer subsidiary.

The adoption of other 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 percent and 50 percent 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.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

35 Summary of significant accounting policies (continued)

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.

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 policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment linked policy owner 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 contract liabilities, 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 (ie. 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.

(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 acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

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.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

35 Summary of significant accounting policies (continued)

(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.

(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 an external defined benefit superannuation fund that provides defined benefit amounts for employees on retirement. This fund is closed to new members from the Group. The net obligation in respect of this defined benefit fund 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 this defined benefit fund 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.

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.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

35 Summary of significant accounting policies (continued)

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

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

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

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 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 licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of software and licences over their estimated useful lives, which vary from four to seven 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.

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.

The fair values of quoted investments are based on closing bid prices. If the market prices are not available (eg. 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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

35 Summary of significant accounting policies (continued)

(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 asset's 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.

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.

(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.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2015

35 Summary of significant accounting policies (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.

(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 2015 reporting periods. The table below sets out the standards that are relevant to the Group.

AASB	Title	Operative Date *
AASB 9	Financial Instruments	1 January 2018
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	
AASB 2014-8	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)	
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Part C - 1 January 2015
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	Revenue from contracts with customers	1 January 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	
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
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 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 July 2015
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12 & AASB 128] with customers	1 January 2016

* 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 2015. 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. The Group intends to apply this standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2019. Based on the existing recognition of financial assets and liabilities, the Group does not expect a material impact from the application of this standard.

(ii) AASB 15 Revenue with 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. 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 has started to consider the impact this standard will have on the Group's operations and its financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2015

(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.

Directors' declaration

30 June 2015

In the directors' opinion:

(a) the financial statements and notes set out on pages 62 to 122 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 2015 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.

Glenn Barnes
Chairman
South Melbourne, 26 August 2015

Rohan Mead
Group Managing Director & CEO

Independent auditor's report to the members

30 June 2014

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

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 balance sheet as at 30 June 2015, 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.

Building a better working world

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 2015 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 16 to 30 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
26 August 2015

13 29 39
Australian Unity Limited
ABN 23 087 648 888

114 Albert Road
South Melbourne VIC 3205
australianunity.com.au

MIX
Paper from responsible sources
FSC® C110099
www.fsc.org