Annual Report

Australian Unity

Australian Unity is a 178 year-old mutual organisation.

Our long history has seen us involved in providing a wide range of services to the community.

Today we govern our operations informed by our purpose and ambition, our commercial strategy, our areas of operation and the significant challenges affecting individuals and the community.

Our purpose

We are here to help people thrive

Strategy

To build a commercial, sustainable portfolio of businesses that foster individual and community wellbeing

Areas of operation

Health, Wealth and Living

Challenge

We face the rapidly multiplying health, care & support, and financial needs of a national population, which is not only growing, but also ageing and suffering increasing levels of chronic disease. The economic and societal consequences are upon us and will only be met by the development of the requisite social infrastructure to address these needs. This is the challenge.

Some social infrastructure can be described as 'hard'—built form projects such as hospitals, residential aged care or community precincts. It can also be 'soft'—including workforce requirements, new business systems and new models of care.

Australian Unity acknowledges the enormity of the national challenge to meet the growing demand for social infrastructure in all its forms and seeks to make a selective, but valuable, contribution through its business operations.

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Chair's report

"It is our mutual structure that has afforded us the opportunity to transform our Group and focus our efforts on addressing the social infrastructure gap."

Dear Members

For many years now, Australian Unity has sought to deliver products and services that meet the wellbeing needs of our members. We have also set ourselves a strategic agenda, and shaped our Group, to meet the growing social infrastructure needs of our members, customers and broader community—which have arisen in large part because of our nation's changing demographic profile, particularly the increasing incidence of chronic disease and an ageing population.

The practical outworking of the Group's strategies and development agenda can be assessed through the products and services we offer to members and customers to meet their health, financial and care needs during the various stages of their life. From our private health insurance products, which provide access to quality healthcare for more than 190,000 policyholders; to our retirement villages, aged care facilities and home care operations, which enable people to age or manage disability with support in an appropriate setting; and our financial advisory and trustee services, which support the management of financial wellbeing as life's circumstances change. These activities are supported and complemented by the provision of insurance, education and funeral bonds, and banking services. They are also supported by our larger hard infrastructure projects, including our partnership with the Queensland Government to deliver the Herston Quarter health precinct, providing much needed access to health and aged care infrastructure.

In addition to developing and conducting our Group operations around social infrastructure, we also continue to advocate publicly for greater and more effective investment in our healthcare, ageing and disability system. During the year, we commissioned a report on Australia's social infrastructure gap. This report identified that by 2025, Australia would need investment of up to an additional $24 billion in capital costs and $13 billion per annum in operating costs, just to meet projected gaps in residential aged care, community aged care, and hospital beds. This is a mere seven years away, and the gap is at risk of widening further as our population continues to age.

In large part, it is our mutual structure that has afforded us the opportunity to transform our Group and focus our efforts on addressing the social infrastructure gap. Without the short-term demands of external shareholders, we have been able to make considered decisions about the long-term health, financial and care needs of our members, customers and the community, and to shape the Group accordingly and build sensibly the required capabilities. Our divestment of Grand United Corporate Health Limited (**GUCH**), a health insurer that serves corporate clients, during the year in review is also an example of the management of the Group's affairs against its stated priorities. This sale released capital that supports the pursuit of our strategic goals.

More detail on our operations throughout the year—including the restructure of our internal arrangements to better serve the needs of our members and customers—is contained in this report, and I urge you to take the time to read about the range of activities conducted across the many elements of our organisation.

Financial results

For the past two years, my report has described the transformational growth path on which the Group is travelling. As part of this path, during the year under review, the Group undertook an extensive range of structural initiatives—along with continuing the operational improvement of the home care business that was purchased from the NSW Government. These structural and improvement initiatives incurred some significant implementation costs. These costs were borne in order to put the Group in a position to continue to pursue its development path and to yield material increases in effectiveness and efficiency in coming years.

These restructuring initiatives were balanced in cost terms by the sale of GUCH. Consequently, profit after income tax for the period was $51.5 million and revenues were $1.76 billion.

Governance and risk

Australian Unity operates in an increasingly complex regulatory environment with a loss of community trust in a number of providers in many of the sectors in which we work. This environment is volatile and we are highly mindful of the ongoing need for effective governance. We will continue to test and challenge ourselves and our culture in these areas—seeking always to live up to the expectations of our members, customers and the broader community.

The uncertainty of the current regulatory environment—particularly in private health insurance and financial services—combined with the execution of our transformational agenda, means that we are currently taking on greater levels of risk than in recent years. The board is engaged in appropriately robust discussions with management on the complexities of our portfolio operations and our operating environment in order that our shared understandings are strengthened and that risks are better identified and managed.

Finally, I would like to thank Group Managing Director Rohan Mead, his executive team and every Australian Unity employee for their hard work during the year as well as their commitment to our purpose, our values and the difference we seek to make in our community.

Peter Promnitz
Chair

Group Managing Director's report

"While a year of many moving parts operationally, the Group faces the new financial year on the basis of strengthening operations, developing capabilities in important areas and an improved financial position."

During the year, the strategic development of the Group was significantly advanced. We have been seeking to fashion an organisation that provides valued services to members and customers in the areas of health, wealth and living. In providing these services, we have also sought to address key aspects of Australia's social infrastructure challenge, providing services that generate community value in addition to the benefits derived by individuals.

The year under review saw a number of material initiatives and continued work on our strategic ambitions and operations, including adjustments to our portfolio of businesses; further substantial investment in human services operations; progress in the realisation of important real-property social infrastructure assets; and transformation and restructuring of the Group's operations.

When these initiatives are aggregated together with the sound operating performance of most of the Group's business units, the Group delivered a positive financial performance, with profit after income tax of $51.5 million, which is a 10.0 percent increase on the prior year.

It is necessary, however, to examine this aggregate position in more granular detail to better understand the manner in which the year's material initiatives combined together to produce the end-of-year financial position and the marked development in the capacity and shape of the Group. Overall financial performance included a significant profit of $66.9 million from discontinued operations arising principally from the sale of a business, and a loss arising from continuing operations of $15.3 million. Set out below in summary and detailed further in other sections of this Annual Report are key aspects of the year's activities.

Continued investment in human services

The Home & Disability Services business, including the former Home Care Services of NSW operations which transferred to Australian Unity in February 2016, provides important domestic services to the aged and those living with disability. This business received multi-million dollar investments during the year supporting new models of branch operation across dozens of sites, new technology and systems for business intelligence. These investments have begun yielding tangible benefits with improvements in administrative automation, logistical efficiency and billing system management. The financial performance of this business, while still a loss over the whole period, improved markedly from the first half to the second half, and that trajectory is supported by plans for ongoing improvement in financial performance for the year ahead.

Group transformation program

In light of the growth in the scale and scope of the Group's activities, we restructured our operations to achieve multi-million dollar ongoing efficiencies. We reorganised our operating platforms from four into three (grouping relevantly-connected businesses within each platform) and invested in strengthening and adding capabilities in the areas of customer service, digital, business intelligence systems, strategy, data analytics, cloud technology platforms and risk management. This transformation program incurred some $14.7 million in costs during the year under review. There will be some future costs incurred in the year ahead, which together with costs already incurred

are designed to yield multi-year efficiency savings that are a multiple of those implementation costs. These savings are also designed to support increased investments in capability in the areas summarised above.

Sale of GUCH

Consistent with our strategy of developing the Group's operations in areas that foster personal wellbeing and community value, we divested the Grand United Corporate Health Limited (**GUCH**) health insurance fund, which serves corporate clients. The sale of this business also reduces the proportion of our activities exposed to the particular volatility and demographic challenges of the private health insurance sector. The sale price achieved was $155.7 million, giving rise to a gain on sale of $61.6 million. These proceeds allowed us to support the ongoing investments in our human services operations and tackle the substantial transformation program without impinging on the ongoing development and customer service activities of our other operations. The sale proceeds also provided additional balance sheet strength for the Group and have increased the options the Group has in terms of future investments in the health, wealth and living sectors.

Strategic and financial performance of the three operating platforms

Independent and Assisted Living (**IAL**) successfully commenced the operation of the new Campbell Place retirement community, with both its aged care places and independent living units substantially occupied by 30 June 2018. The platform also determined that now was the right time to decommission, demolish and rebuild the aged care and community facilities at our Walmsley community in Kilsyth, Victoria. These facilities are almost 40 years old and, despite the committed care service of our staff, are falling below the standards we have come to expect. This was a difficult decision because of its impact on current residents and staff. We are working with families and the community to seek appropriate alternative arrangements for all those affected. This decision and the investments in human services noted above together significantly affected the financial performance of the IAL platform for the year, with adjusted EBITDA at negative $3.3 million.

Retail, which houses our private health insurance operations and banking activities, had a solid year amid complex trading, policy and environmental circumstances for healthcare, health insurance and banking. Notwithstanding this context, our health insurer managed a lower premium increase than the industry average, seeking to limit the effects of the continuing high inflation in healthcare costs in Australia. Retail's banking activities performed soundly with total assets of $777.4 million at year end. In terms of financial performance, the platform recorded $64.6 million in adjusted EBITDA.

Wealth & Capital Markets had a broadly successful year, with its leading investment products achieving above benchmark returns, with the Platypus Australian Equities Trust (Wholesale) fund recording an investment return of 25.9 percent for the year. The Lifeplan insurance bonds business achieved gross inflows into its products of over $200 million. The advisory and trustee services businesses progressed their operational development. However, progress for trustee services has been much slower than originally planned and we took an impairment charge on this asset of $6.0 million. The Herston Quarter project to redevelop and operate a significant health and care precinct adjacent to the Royal Brisbane and Women's Hospital successfully met key milestones in the realisation of the $1.1 billion program. The Healthcare Property Trust, one of Australia's leading healthcare investment vehicles, recorded an investment return of 12.8 percent, completed $240 million in capital raisings and negotiated some $740 million in financing facilities. The mortgage trust business re-established itself with some $132.9 million in new lending. The platform recorded an adjusted EBITDA of $36.9 million.

While a year of many moving parts operationally, the Group faces the new financial year on the basis of strengthening operations, developing capabilities in important areas and an improved financial position with which to address the growing social infrastructure challenge facing our community.

I thank all of my colleagues at Australian Unity for their committed work over the year on the continuing development of the Group.

Rohan Mead
Group Managing Director & CEO

Board and Executives

Australian Unity Limited Board of Directors

Peter Promnitz
Chair
BSc (Hons), AIAA, FAICD

Rohan Mead
Group Managing Director & Chief Executive Officer

Greg Willcock
BCom, FCPA, FAICD, MAIM, F Fin

Melinda Cilento
BA, BEcon (Hons), MEcon

Su McCluskey
BCom, FCPA, MAICD

Paul Kirk
BEcon, ACA, RITA, MAICD

Lisa Chung
LLB, FAIM, FAICD

Australian Unity Group Executives

Revenue Units

Matt Walsh
BAppSc, MBA
Chief Executive Officer, Retail

David Bryant
FAICD, F Fin, FAIM
Chief Executive Officer, Wealth & Capital Markets & Chief Investment Officer

Kevin McCoy
BCom, HDip Acc, CA, PMP, GAICD
Chief Executive Officer, Independent & Assisted Living

Support Units

Amanda Hagan
BSc (BIT), SIA, GAICD
Chief Customer Officer & Group Executive, Digital

Karyn Munsie
GradDipFinMkt, MBA, MAICD
Group Executive, Brand, Marketing & Communications

Esther Kerr-Smith
BEcon, BAsianStudies, GAICD
Group Executive, Finance & Strategy

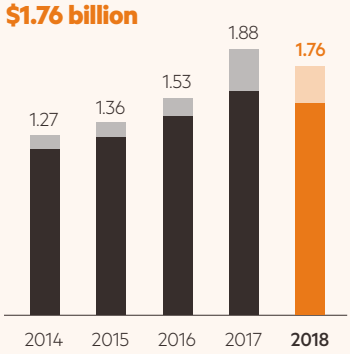
Melinda Honig
BEcon, LLB, GAICD
General Counsel, Company Secretary, Chief Risk Officer, & Group Executive, Governance

Tahir Tanveer
M InfoTech, BA (Econ), GAICD, AMP (Harvard)
Group Executive, Business Technology

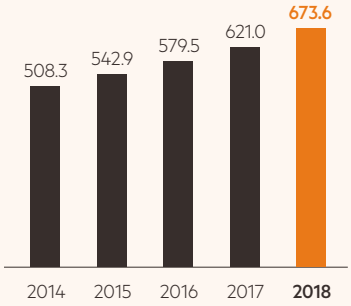
Jane Betts
PGDip (Bus)
Group Executive, Human Resources

2018 at a glance

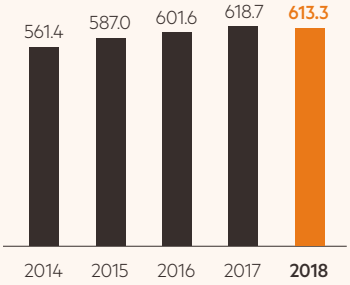
Revenues[†Σ]
$1.76 billion



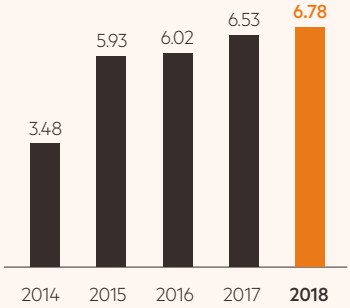
Members' funds[‡]
$673.6 million



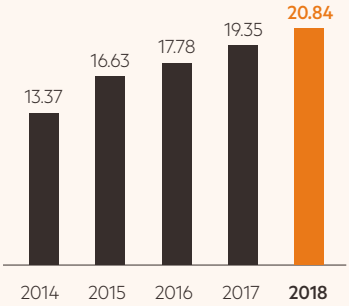
Retail health insurance gross claims paid **$613.3 million**



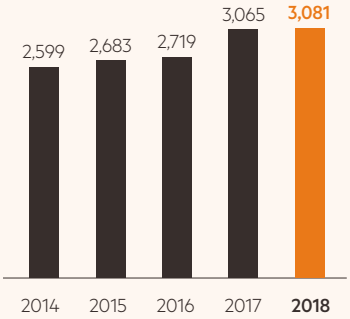
Funds under advice and trusteeship[#] **$6.78 billion**



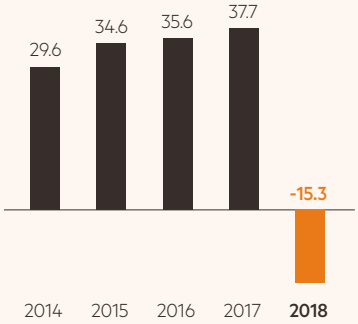
Assets under management and funds under advice[*] **$20.84 billion**



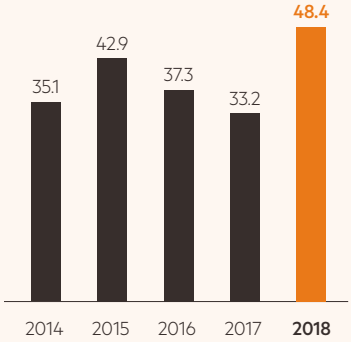
Retirement units and aged care beds **3,081**



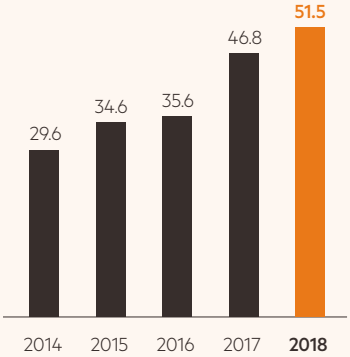
Operating earnings/(loss) from continuing operations[Σ]
-$15.3 million



Profit before income tax[^]
$48.4 million



Profit after income tax
$51.5 million



Σ The 2018 year includes the sale of the Group's corporate health insurance business, Grand United Corporate Health Limited (GUCH), affecting the comparative results for 2017.

† Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the statement of comprehensive income in the Annual Report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

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

Funds under advice and trusteeship: the total value of client funds invested through Australian Unity financial planners and client funds within the Trustee Services business.

* Assets under management and funds under advice: includes development pipeline, debt facilities and funds managed by investment joint ventures.

^ Profit before income tax: attributable to members of Australian Unity Limited. Includes the before tax profit from discontinued operations.

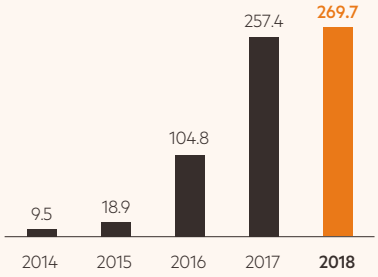
Business performance

$422.7m
in total segment revenue
(2017: $439.1m)

-$3.3m
in adjusted EBITDA^
(2017: $9.7m)

Independent & Assisted Living

Home & Disability Services adjusted revenue^ **$269.7 million**

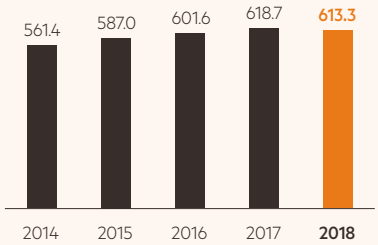


$726.1m
in total segment revenue
(2017: $728.1m)

$64.6m
in adjusted EBITDA^
(2017: $60.6m)

Retail

Retail health insurance gross claims paid **$613.3 million**

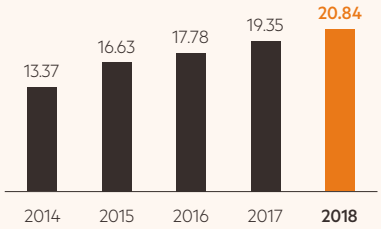


$170.4m
in total segment revenue
(2017: $167.7m)

$36.9m
in adjusted EBITDA^
(2017: $29.4m)

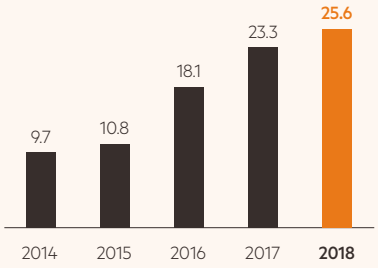
Wealth & Capital Markets

Assets under management and funds under advice*
$20.84 billion

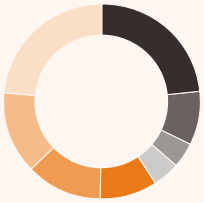


Business performance

Remedy Healthcare revenue
$25.6 million

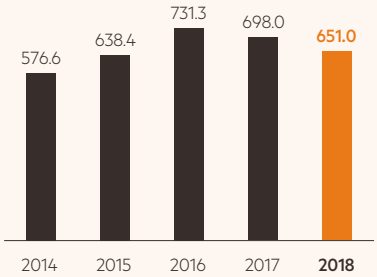


Independent & Assisted Living development pipeline
Total $673.3 million

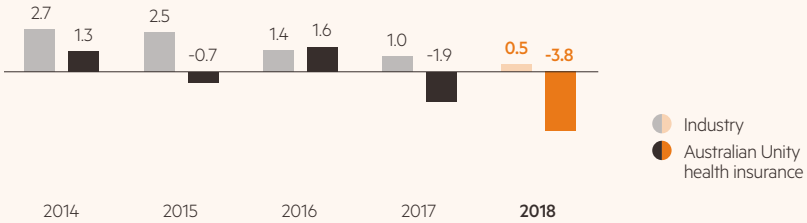


Peninsula Grange	**$217.4m**
Retirement Village	$157.4m
Aged Care II	$60.0m
Sienna Grange	**$58.2m**
Retirement Village	$29.3m
Aged Care	$28.9m
Drummond Place	**$148.8m**
Retirement Village stage 1	$63.0m
Retirement Village stage 2	$85.8m
Albert Road	**$91.7m**
Retirement Village	$91.7m
Lane Cove	**$157.2m**
Lane Cove development	$157.2m

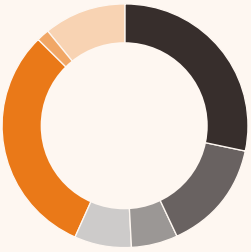
Big Sky loan book
$651.0 million



Private health insurance policyholder growth (%)



Assets under management, advice and developments (and associated debt facilities) **Total $20.84 billion**



Investments under management	$5.91b	Funds under Advice (incl Trustees)	$6.42b
Property under management	$3.10b	Funds under Trusteeship	$0.36b
Property under development	$1.25b	Life & Super FUM	$2.23b
Debt facilities under management	$1.57b		

^ Includes significant growth in the 2016 financial year from the transition of the NSW State Government's home care operations, Home Care NSW, to Australian Unity.

* Assets under management and funds under advice: includes development pipeline, debt facilities and funds managed by investment joint ventures.

Community

109
Aboriginal and Torres Strait Islander employees advanced through Cert IV qualifications

$140,000
given in Australian Unity Foundation community grants

50%
increase in spending with Aboriginal and Torres Strait Islander suppliers to just under $500,000

Australian Unity participated in a Business Council of Australia program to support Smith Family 'alumni' studying at universities to gain work skills

Since its foundations in the 1840s, Australian Unity has sought to provide services in areas of significant community need. This remains the case today with the Group's activities focused on health, wealth and living services.

Arising from these services are a range of important engagements, which, together with business policies and approaches, characterise Australian Unity's community involvement beyond its purely operational activities.

Diversity and equal opportunity

Diversity and equal opportunity are important parts of the Australian Unity workplace. We believe that an inclusive culture—where difference is welcomed and diversity harnessed—supports improved performance, particularly in relation to innovation and the management of risk, where different perspectives are vital.

The latest Workplace Gender Equality Agency (**WGEA**) report showed a gender balance of non-executive directors at board level. There was a decrease in the overall number of female management representatives, from 72 percent to 50 percent. This measure remained within our target range. The WGEA category of 'Other executives/General managers' saw female representation increase by 13 percentage points to 42 percent, also within our target range. The 'Executive' category also saw an increase in female representation. All remaining cohorts have achieved female representation above target. This overall position has been supported by an express effort to recruit women into key management roles.

During the year under review, Australian Unity launched its Pride Network in support of employees and customers who identify as Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, and Intersex (LGBTQI). We also completed the voluntary Australian Workplace Equality Index **(AWEI)**, a national benchmark on LGBTQI workplace inclusion. It comprises the largest and only national employee survey designed to gauge the overall impact of inclusion initiatives on organisational culture. The survey results showed some positive foundations with significant appetite and interest in further development of the Group's approach in this area.

Aboriginal Home Care Service

Australian Unity provides support, care and allied health services to Aboriginal and Torres Strait Islander peoples and communities through its Independent & Assisted Living platform. This area of the group currently serves more than 3,000 Aboriginal clients and employs over 250 carers who identify as being of Aboriginal and/or Torres Strait Islander descent. During the financial year, we commenced a project to establish a dedicated business unit of the group to focus on the social, health, wealth, and wellbeing needs of Aboriginal communities. This business unit commenced its formal operation on 1 July 2018.

Disability

In addition to its direct support services, Australian Unity supported Jigsaw (by Fighting Chance Australia), a social enterprise that offers a commercial digitisation service, employs people with disability and provides on-the-job experience, learning opportunities and employment pathways. To highlight the International Day of People with Disability, held in December 2017, Australian Unity hosted a panel discussion with high-profile people living with a disability, a representative from Jigsaw, and a young client of our Home and Disability Services.

Australian Unity is working with business leaders, employees, customers and community partners to develop a Disability Action Plan. This plan will accord with the National Disability Strategy, which aims to improve the quality of life for people with a disability and their carers by increasing their economic and social participation through improved care and support services.

Reconciliation Action Plan

Australian Unity continues to take practical steps to promote reconciliation across its business by implementing its Reconciliation Action Plan. In the 2018 financial year, Australian Unity's supplier and procurement practices have significantly increased its engagement with Aboriginal and Torres Strait Islander suppliers, increasing spending with these suppliers by 50 percent from previous year targets to just under $500,000. Additionally, to promote capability building across Aboriginal and Torres Strait Islander businesses and suppliers, Australian Unity hosted two 'Capability Uplift' events, connecting over 30 Indigenous businesses with leaders across finance, digital, marketing and strategy.

Australian Unity Foundation

In line with Australian Unity's Community Strategy, the Australian Unity Foundation supported charitable organisations in four focus areas: reconciliation, disability, mental health and financial wellbeing. In the year under review, the Australian Unity Foundation disbursed $140,000 in community grants to organisations to support their programs and community impact. In addition to community grants, the establishment of an Australian Unity Fellowship in the year ahead will connect organisational leaders in a mentoring and capability building program with senior Australian Unity leaders.

Australian Unity will continue to advocate for equal and active participation of all people with a disability and looks forward to launching its Disability Action Plan during the 2019 financial year.

Advocacy

On behalf of its members and customers, Australian Unity continued to advocate in both public and private forums for improved public policy particularly in the areas of healthcare, disability, aged care and financial services. This included submissions to the Productivity Commission on NDIS costs, the federal Department of Health on In-Home Care, and the federal Treasury on banking reforms. The senior executive team also deepened relationships with elected representatives and senior public servants responsible for critical business areas at both the state and federal levels of government.

As noted in the Chair's report, Australian Unity commissioned and supported an important piece of research to examine critical social infrastructure gaps in health and ageing over coming decades, and provide practical ideas for governments and business to bridge that gap. The report—*Practical innovation: Closing the social infrastructure gap in health and ageing*—found, for example, that by the year 2025 workforce shortages in the nation's hospital, aged care and community care sectors are projected to reach more than 200,000. The report's findings underpin aspects of the advocacy program of Australian Unity's business leaders.

Together with the Business Council of Cooperatives and Mutuals, one of the most important policy changes Australian Unity has been advocating for is a change to the Corporations Act to allow mutual organisations to access permanent capital. The federal government has announced that legislation addressing this important enabler of the mutual sector is to be put before parliament by the end of 2018.

Governance statement

Australian Unity Limited is a mutual, public company with a number of wholly-owned subsidiaries carrying out the major operational activities of the Australian Unity Group.

Good corporate governance and sound risk management practices are a fundamental part of the culture and business of the Australian Unity Group (the "**Group**"), of which Australian Unity Limited (the "**Company**") is the parent. The key aspects of the Group's corporate governance framework and risk management practices are set out below.

REGULATORY FRAMEWORK

ASX listing rules

The Company is committed to maintaining high standards of corporate governance, and actively applies a governance framework that reflects the majority of the ASX Corporate Governance Principles and Recommendations and meets the Australian Securities Exchange ("**ASX**") requirements relevant to the Series B – Australian Unity Bonds (Tranche 1) (the "**Bonds**") (as applicable). The Company continues to be listed on the ASX as a Debt Listing, following the issue and quotation of the Bonds on 15 December 2015.

Regulators

The Group's business operations are extensively regulated including by the Australian Prudential Regulation Authority ("**APRA**"), the Australian Securities and Investments Commission ("**ASIC**"), the Australian Competition and Consumer Commission ("**ACCC**") and the ASX. The Company is 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. The Group is also subject to oversight by various State and Commonwealth regulators across its operations and workforce including the Department of Health, the Australian Taxation Office, the Fair Work Ombudsman, the Workplace Gender Equality Agency, the Australian Transaction Reports and Analysis Centre ("**AUSTRAC**"), the Office of the Australian Information Commissioner ("**OAIC**") and other work-health and safety regulators.

BOARD OF DIRECTORS

The board of directors of the Company is responsible for the governance of the Group and ensuring that the Group establishes and implements risk management frameworks and processes with the ultimate objective of creating a sound risk culture within the Group.

Board composition and expertise

As at 30 June 2018, there were seven directors on the 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 average tenure of non-executive directors at the end of the year in review is 3.7 years.

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 approaches
- a commitment to both the values of the Group and the highest standards of corporate governance and risk management

As well as these qualities, 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 board, led by the Chair, regularly considers the skills represented by the directors to ensure that the mix of skills remains appropriate to achieve the Group's objectives. The board consists of directors with a broad range of experience, expertise and diversity in background and gender. The board is in the second year of the newly implemented board performance review framework and ensures that it continuously identifies opportunities to improve its own performance.

The board's current "skills matrix" includes:

- **Specific skills** – healthcare, retirement communities, assisted living services, financial services, investment management, insurance and property development
- **General skills** – management, human resources, finances and accounting, law, governance, risk and compliance, and regulatory and public policy

Board role and responsibilities

The role of the board is to promote and protect the interests of the Company and its members. It does so by taking informed risks, soundly governing 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, operating plans (including budgets) and financial expenditures and allocations, and changes to the Group's capital structure above delegated limits
- approval of new subsidiaries and subsidiary board members
- setting and monitoring the Group risk management framework, control and accountability policies and systems

Role of Chair

The Chair, 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 board met on 11 occasions during the year under review, including a meeting to approve the strategic plan and its application to the year ahead. Each meeting usually took place over two days.

Avoidance of conflicts of interest

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 on matters specific to the committee's terms of reference. Each committee comprises individual directors determined by the board to be best suited to fulfil the committee's terms of reference. Membership of all committees and the number of meetings held by each committee in this reporting period are detailed in the Directors' report.

The Chair of the Company is a 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 ongoing committees established by the board to assist it in the performance of its duties are as follows.

Audit & Compliance Committee

The Audit & 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 Group's compliance with regulatory requirements and compliance policies. The A&C Committee assists the board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group.

Risk Committee

The Risk Committee oversees the risk management framework for identifying, assessing, mitigating and monitoring material risks arising from the activities of the Group, and promotes a greater awareness of risk management practices and risk culture 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 the Group's 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 and mandates.

HR Committee

The Human Resources, Remuneration and Nominations Committee ("**HR Committee**") is responsible for assisting the board and Chair in relation to key appointments, remuneration, nomination and related matters.

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 and financial control and reporting personnel as defined by the APRA standards.

The HR Committee oversees the frameworks that enable the appropriate culture, workforce engagement, workplace diversity and representation of values, talent management and succession across the Group, and reviews the outputs of these frameworks at the appropriate time throughout the year.

The HR Committee works to ensure that the Group has remuneration policies and practices that promote sound risk management and fairly, responsibly and appropriately reward executives and staff. Further detail, including engagement of independent remuneration consultants, is contained in the Remuneration report (contained in the Directors report).

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 the Group.

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 and variable remuneration components, in addition to details about non-executive directors' remuneration and other information specifically required under the *Corporations Act 2001* (Cth) (the "**Corporations Act**").

AUDIT

External auditor

PwC Australia ("**PwC**") 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 for the year under review. Its audit report is provided at the end of the financial report.

A representative from PwC attended the November 2017 Annual General Meeting to answer any 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 PwC's independence in relation to the conduct of the audit of the Group's financial statements. A representative from PwC will attend the October 2018 Annual General Meeting of the Company to fulfil a similar role.

Internal audit

The Group's audit department provides independent, objective assurance and consulting services to the Group's operations. The Group's audit department assesses whether the Group's network of risk management, control and governance processes are 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

The Company is committed to the identification, management and, where relevant, quantification of risk throughout its business units and controlled entities. Risk culture, and the implementation and adherence to sound risk management frameworks and practices, is a core area of focus for the Company's board and management.

The board, informed by the work of its Risk Committee, has established a comprehensive enterprise risk management policy and framework covering significant business risks and strategic considerations, and adopted a risk appetite statement. 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 and maintain risk registers, which are regularly reviewed and updated. Higher-rated risks are regularly reviewed by the Risk Committee in addition to annual risk reviews, which address 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 programs in place to manage risk in specific areas, such as capital management, business continuity, information security 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.

TAX TRANSPARENCY

The Company (as the head company of the "Australian Unity tax consolidated group") is a signatory to the Board of Taxation's Registry in respect of the Voluntary Tax Transparency Code (the "**Tax Transparency Code**"). The Tax Transparency Code supports greater tax disclosure in Australia and reflects the Company's commitment to compliance and governance. Each financial year end, the Company publishes details of the taxes paid or payable by the Australian Unity tax consolidated group, and the Australian Unity Tax Transparency Report is released annually through the Company's website.

COMPLIANCE

The Company 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 facts and statistics (FY18)

270,000+
Members

25,000
Banking customers

7,500
Employees

96%
Retirement village occupancy rate

$140,000
Given in Australian Unity Foundation community grants

540,000
Remedy Healthcare episodes of care across 18 treatment programs

15.3%
Increase in funds under management for education solutions

11 years
Australian Unity's average premium rise has been below the industry average for 11 of the past 15 years

194,000
Private health insurance policyholders

2,370
Independent Living retirement units

172
Financial advisers

7,500
Disability customers transitioned to NDIS funding

50/50
Gender balance of non-executive directors

2018
Established Indigenous business unit – Aboriginal Home Care

$1.25b
Property multi-year development pipeline

58,000
Dental visits

52,000
Home care customers

19
Retirement communities

711
Aged care beds

$1.1b
Herston Quarter project under construction

4.2m
Hours of home and disability care

20%
Return in Australian Unity Office Fund

100%+
Growth in estate planning revenues

3,800
Home care workers

Financial overview

"Across the three business platforms, we made notable progress on our strategic objectives."

After six years in various senior finance roles at Australian Unity, I was honoured to assume the role of Chief Financial Officer in September 2017. Financial year 2018 has been a complex but productive and successful year. We made significant investments in the Group's operations to prepare ourselves for future opportunities which align with our strategic ambition to address key aspects of Australia's social infrastructure challenge.

The financial statements contained in this report have been prepared in accordance with the *Corporations Act 2001* and relevant accounting standards, and provide numerical insight into how the Group has performed financially over the year. I have written this report to provide members with an overview of some of the key items that have influenced the year's results. I encourage members to read the financial statements in detail to gain further insight into how the Group has performed, and to understand how we are executing our strategy.

The 2018 financial year was defined by four key features: the sale of Grand United Corporate Health Limited (GUCH), our investment in the company's transformation program including our customer oriented insights and digital capabilities, the ongoing improvements and growth in our home care operations and proactive capital management action to strengthen the resilience of the balance sheet. Each of these contributed materially to the end-of-year result and positions the Group for further success in the 2019 financial year and beyond.

For new readers of financial statements, references to discontinuing operations relate to the sold GUCH business, while the remaining items are classified as continuing operations.

Progressive performance in line with our strategy

Across the three business platforms, we made notable progress on our strategic objectives. Pleasingly for our newer businesses, ongoing investments in technology, business insights and our operating model have meant that our home care business has begun to improve its financial position, while the Trustees business completed a review of its strategy and deployed a new core operating system. Significant progress was also made with the Herston Quarter project in Queensland.

The Retail platform and the Wealth & Capital Markets platform continued their strong performance. Of particular note was the performance of our Property, Investments and Lifeplan businesses, along with the health insurance business. Further information is provided in the Operating and financial review and the financial statements.

Financial results

The overall profit after income tax for the year was $51.5 million. This combines the results of all of the Group's operations from across the portfolio of businesses and reflects a year on year growth of $4.7 million or 10.0 percent.

The sale of GUCH led to a gain on sale of $61.6 million, which was largely offset by accelerated depreciation and amortisation charges and a significant investment into our transformation program. The transformation program operating expenses for 2018 were largely one-off costs and have been effectively applied to release multi-million dollar savings from operating efficiencies in the future.

Financial overview

Total revenue and other income from continuing operations decreased to $1.49 billion (2017: $1.58 billion). The Explanatory Notes (note 25) highlight that $1.32 billion of this revenue is attributable to members and $0.17 billion is attributable to benefit fund policyholders—with revenue attributable to members down $16.2 million (1.2 percent) from the prior year. This result was mainly driven by lower development revenue within the Independent & Assisted Living platform (see note 2). The reduction in revenue growth was, in part, offset by a decrease in expenses from continuing operations, which at $1.48 billion was $0.05 billion lower than the prior year. Gross claims paid by our retail health insurance business were $613.3 million, which was $5.4 million lower than last year.

While operating expenses for the continuing business were down from the prior year, overall there was an increase in total expenses excluding finance costs that were attributable to members of Australian Unity—at $48.9 million. This increase of 3.8 percent (see note 25) was primarily due to the transformation program and capital management initiatives.

As detailed in note 3, we reported a $35.1 million increase in depreciation and amortisation expense for the year. This reflected accelerated charges as the Group readies itself to move from its head office in South Melbourne to Spring Street, Melbourne, and a review of the expected economic benefit of some previously capitalised assets. Computer and equipment costs were $9.3 million higher than the prior year, mainly attributable to an expanding workforce from the home care business in NSW.

A strong balance sheet

The Consolidated balance sheet details the Group's assets and liabilities, along with equity. After a year of significant transformation and investment for the future, the Group closed with Members' funds up 8.5 percent to $673.6 million.

At 30 June 2018, the Group gearing ratio was 21.3 percent (see note 9(a)), compared with 39.9 percent at 30 June 2017. This was a positive result for the Group, providing greater balance sheet debt capacity for future strategic initiatives. It also reflects significant headroom from the covenant gearing ratio of 50 percent on our issued debt (Australian Unity Bonds – ASX: AYUHB) of $250.0 million.

Corporate debt at 30 June 2018 totalled $332.3 million compared to $332.5 million in the prior year. Interest cover, or the proportion of earnings before interest, tax, depreciation and amortisation needed to make interest payments, was 7.41 times, compared to 4.24 times the previous year.

Intangible assets (see note 14), reduced in the current year to $329.0 million, from $372.6 million. The main driver for the reduction was the amortisation of a number of capitalised assets referred to above and amortisation of brand. The Group also booked a partial write down of goodwill for our Trustees business, and in addition, due to recent Future of Financial Advice changes within the Advice business, the Group wrote down management rights of $4.2 million before tax.

The Group ended the year with $1.01 billion in cash and cash equivalents, compared to $0.89 billion in the previous year. Overall net cash flows from our operating, investing and financing activities were $140.3 million higher than last year, of which $81.6 million was attributable to proceeds from the sale of GUCH.

I hope this letter has provided you with a greater understanding of the key financial activities the Group undertook for the year. I feel positive about the position of the Group in the context of the opportunities and challenges that lie ahead.

Darren Mann
Deputy Head of Finance
and Chief Financial Officer

Financial report for the year ended 30 June 2018

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:

Level 14, 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 19 to 27 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 29 August 2018.

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

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

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Lisa Chung, Non-executive Director
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Greg Willcock, Non-executive Director
Stephen Maitland, Non-executive Director (retired 1 November 2017)

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2018.

Principal activities

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

The financial year ended 30 June 2018 was one of consolidation during which the successful sale of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited (GUCH), enabled the Group to invest in the initiation of a transformation program to reset its customer facing businesses and establish critical capabilities in customer risk and digital. Some of the profits from the sale of GUCH were also deployed through capital management initiatives that have strengthened the Group's balance sheet, including accelerated depreciation of assets, amortisation of brand, liquidity management initiatives and a continued focus to reduce external debt.

During the year, Australian Unity continued its strategy to develop its commercially sustainable portfolio of businesses that provide personal and community value. The Group delivered a profit after income tax for the year of $51.5 million, compared to $46.8 million in the prior year.

Included in the result was a profit from discontinued operations of $66.9 million, of which $61.6 million was a gain on sale from the divestment of GUCH to nib holdings limited. The sale was completed on 31 October 2017 with cash proceeds of $155.7 million.

Excluding this impact, the Group's result for the year after tax from continuing operations was a loss of $15.3 million. In October 2017, the Group announced an extensive business transformation program to support the Group continuing to deliver trusted goods and services in line with rapidly changing community needs. The loss from continuing operations includes $14.7 million of costs arising from the transformation program. The benefits of this transformation are expected to be realised over the period to 2020 and beyond, but are already evident in the new business platforms' offerings and orientation, enhanced capabilities in key areas and improved operating efficiency. The result was also adversely impacted by capital management initiatives designed to proactively enhance the Group's balance sheet resilience, including accelerated depreciation and amortisation of some capitalised assets ($35.9 million).

Total revenue and other income from continuing operations decreased to $1,486.7 million (2017: $1,582.5 million) which was mainly driven by a reduction in benefit fund revenue of $79.7 million, and lower year on year development revenue within the Independent & Assisted Living platform.

Total expenses, excluding financing costs from continuing operations, decreased to $1,484.1 million (2017: $1,528.0 million) with a reduction in benefit fund expenses partly offset by higher amortisation and other costs relating to the business transformation.

During the year the Group undertook an extensive range of structural initiatives as part of the significant transformation program referred to above. The implementation of this program aims to assist the Group to execute its social infrastructure and customer-centric strategies, and capitalise on the significant growth opportunities that exist in the areas of health, wealth and living.

As part of the transformation, business operations have been streamlined with the creation of three operating platforms, arranged to focus on the related needs of customers. These platforms are Retail, Wealth & Capital Markets and Independent & Assisted Living. Key aspects of the operating, financial and strategic performance of each platform during the 2018 financial 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 before income tax is disclosed at note 1c(ii) to the consolidated financial statements.

Independent & Assisted Living

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

During the year in review, IAL continued to transform the Home and Disability Services (HDS) business (formerly known as Home Care NSW), making substantial investments in new technology and business intelligence capabilities to improve administrative automation, logistical efficiency and billing system management. During the financial year, the business successfully transitioned 7,500 of its Home Care NSW disability customers to NDIS funding, of which 3,377 continue to receive services from Australian Unity with their new funding packages.

To address the specific needs of Australian Unity's Indigenous home care customers, an Indigenous business unit was established – Aboriginal Home Care. This unit builds on the current Aboriginal home care offerings to provide culturally-aligned services with the capacity to expand into other relevant services identified and requested by people within Australian Unity's Aboriginal and Torres Strait Islander communities.

Operating and financial review *continued*

Independent & Assisted Living *continued*

During the year ended 30 June 2018, it was decided to decommission, demolish and rebuild the 38-year-old, 120-bed Walmsley residential aged care facility in Kilsyth, Victoria. It is anticipated that this new facility will be reopened in early 2021.

The residential communities remain at high occupancy rates, with the Campbell Place development now substantially occupied.

With such a large, geographically dispersed and mobile workforce, the business focused on the safety of employees in the year under review, including the continued implementation of reporting and support tools for managers and employees to prevent workplace injuries.

Financial performance

Independent & Assisted Living financial result	Full year to 2018 $million	Full year to 2017 $million	Variance
Total segment revenue	**$422.7**	$439.1	(3.7%)
Operating expenses	**$426.0**	$429.4	(0.8%)
Adjusted EBITDA	**($3.3)**	$9.7	n/a

The IAL platform recorded a small decrease in total segment revenue during the year in review to $422.7 million (30 June 2017: $439.1 million). This reflects the significant number of retirement and aged care properties brought into operation in 2017 ($34.9 million) compared to the current year ($5.7 million).

Home & Disability Services experienced a 4.8 percent increase in revenue to $269.7 million, while Residential Communities increased 3.2 percent to $110.2 million and Health Services increased 6.8 percent to $37.1 million.

IAL's adjusted EBITDA of ($3.3) million represents a decrease of $13.0 million compared to the previous year. This outcome is attributable to the costs associated with the continued integration of Home Care NSW and the NDIS, the closure of the call centre in Parramatta and less activity in property development as noted above.

Home & Disability Services

HDS made significant progress in its transformation journey this year, responding to continued industry disruption in the aged care and disability service segments, while growing customer numbers, lowering operating costs and restructuring all layers of the business.

The HDS business grew revenue by 4.8 percent in the year under review, driven primarily by a 156.6 percent increase in Home Care Packages and a 71.3 percent growth in NDIS customers. Approximately 3,800 care workers served more than 52,000 customers across NSW, Victoria and Queensland in the 12 months to 30 June 2018. In total, the business delivered approximately 4.2 million hours of care across three states, 40 mainstream branches, five Aboriginal branches and 97 office locations.

During the year, the business grew its aged care home care packages from around one percent market share (1,170 packages) to approximately four percent market share (3,002 packages). Australian Unity is now one of the top five providers in what is a highly fragmented market.

Successful growth in market share during the year has seen the HDS business record an adjusted EBITDA loss of $25.4 million, an improvement of 29.6 percent against the prior year (2017: Loss $36.1 million). In the current financial year, the Group has invested considerable funds in analytical projects to greater understand the commercial impact on customers and the group of specific government contractual components related to the HDS business. Going forward, IAL will continue to monitor the impact that pricing set by the National Disability Insurance Agency has on the sustainability of delivering NDIS services.

Combined with new branch operating models, technologies and data analytics capabilities, IAL's focus going forward is on delivering a sustainable service delivery model.

Remedy Healthcare

During the year Remedy Healthcare delivered more than 540,000 episodes of care across 18 treatment programs, diversifying its revenue between the various states, notably in South Australia, Queensland and NSW. Additionally, activity diversification resulted in more equal weighting of health coaching services, aged care and community care in Victoria.

Remedy Healthcare was awarded the contract to run the Get Healthy Service on behalf of the departments of health for South Australia, Queensland and NSW. Each year this health service, available to all residents of these states, supports more than 4,000 people living with chronic disease to overcome lifestyle factors that impact their lives. Remedy Healthcare has introduced an Aboriginal Liaison Officer into the service to support people from Indigenous communities in taking up the service.

Remedy Healthcare's MindStep® program for anxiety and depression undertook its second year of evaluation and continues to demonstrate significant clinical and economic outcomes. Recovery rates exceeded 55 percent, and more than 66 percent of participants achieved a clinically significant improvement as evaluated by Flinders University. Substantial financial savings were demonstrated through a reduction in readmission rates and length of hospital stay.

Remedy Healthcare's joint replacement home rehabilitation program continued to grow nationally, as patients look to receive care in the home rather than hospital. In aggregate, enrolments into the program increased 25 percent on the prior year. In particular, enrolments from Transport Accident Commission patients increased 111 percent on prior year as Remedy Healthcare continued support for people injured in motor vehicle accidents. Remedy Healthcare also commenced providing therapeutic support for customers funded through the NDIS.

Dental

In the year under review, Australian Unity continued to operate six dental clinics located in the Melbourne CBD, South Melbourne, Box Hill, Rowville, Moonee Ponds and Hughesdale in Victoria. The number of patient visits to Australian Unity dental clinics during the year was 58,455 (2017: 58,113).

Residential Communities

IAL owns and operates 19 retirement communities in Victoria and NSW. Its portfolio consists of 2,370 independent living units (2017: 2,354). Retirement community occupancy was greater than 95 percent in the 12 month period to 30 June 2018. Fewer than 50 independent living units remained uncontracted across the entire portfolio as at 30 June 2018, excluding the development properties.

The provision of aged care living continues to be an important area of growth and is a key component of the business strategy to provide services that offer continuum of care. The business had 711 operational aged care beds at the end of the financial year, with no change from 30 June 2017. An additional 195 new aged care beds are planned to be delivered during the 2019 financial year, at Sienna Grange in Port Macquarie and Peninsula Grange on the Mornington Peninsula.

Occupancy levels at Australian Unity's aged care facilities remained high at 96 percent across the portfolio, excluding Campbell Place in Glen Waverley which continued to fill throughout the year since opening in May 2017. Overall occupancy was 89 percent including Campbell Place.

Average price growth in retirement village units was 3.9 percent, largely due to strong property price growth at a number of Australian Unity's retirement villages led by Victoria Grange in Vermont South. Expertise in property management combined with the value delivered through its day-to-day operations and the careful selection of the location of communities are significant factors in the achievement of consistently strong price growth.

All of the new developments are supported by the award-winning Better Together® model of care which promises to partner with residents and their loved ones and strives to make what they want possible.

Developments

To better align Australian Unity's operating model with its customers, a significant part of the property development business was moved to the Property arm of Australian Unity's Wealth & Capital Markets platform. This has significantly improved Australian Unity's delivery capability.

During the year ended, construction was either completed, substantially progressed or commenced in the following communities:

Drummond Place, Carlton, Victoria
As at 30 June 2018, 42 independent living apartments are occupied, with 48 remaining.

Peninsula Grange, Mornington, Victoria
The final stage at Peninsula Grange is under construction comprising 22 apartments.

Peninsula Grange Aged Care 2, Mornington, Victoria
Construction for a 127 aged care bed development is underway and is due to be completed in 2019.

The Grace Albert Park Lake, South Melbourne, Victoria
Construction for 79 independent living apartments is underway and is due to be completed in 2019.

Sienna Grange Aged Care, Port Macquarie, NSW
Construction for a 68 aged care bed development is underway and is due to be completed in 2019.

Campbell Place, Glen Waverley, Victoria
Of the 102 aged care beds, 11 are unoccupied and all 54 independent living apartments are settled or contracted.

Lane Cove, NSW
The Agreement for Lease was signed with Lane Cove Council in August 2017 for a 99-year leasehold. As at 30 June 2018, the development application for the development comprising 70 Aged Care beds, 74 retirement apartments, affordable units and a retail premises was still under consideration.

Walmsley, Kilsyth, Victoria
The project to decommission, demolish and rebuild the 38-year-old residential aged care facility has commenced. It is anticipated that this new facility will be reopened in early 2021.

Outlook

As the core sectors that IAL operate in continue to grow, a key challenge will be accessing the workforce required to deliver services safely and at the high quality required. Developing a comprehensive workforce strategy, supported by an effective learning and development framework, will be a key priority for the year ahead.

Another priority will be to develop an integrated care model for domiciliary settings that combines the capabilities and services in HDS and Remedy Healthcare, as well as pursue further growth through geographic and service expansion.

In aged care, the home care sector is preparing for the Commonwealth Home Support Package (CHSP) funding transition, currently scheduled for 2020. The CHSP will move from government control to a consumer directed care model, creating an open and competitive market, similar to the Home Care Packages services delivery.

In addition, with the ongoing support of investor partners, IAL will continue to build its development pipeline of new and integrated communities.

Retail

During the year ended 30 June 2018, Australian Unity brought together its health insurance, banking, general insurance and mortgage broking businesses into the Retail platform. With dual focus on the needs of members and broader community value, the Retail business seeks to provide new packages and solutions that contribute to solving affordability challenges and meet the contemporary needs of members and customers.

During the year in review, the retail health insurance business managed a lower premium increase than the industry average, seeking to limit the effects of continuing high inflation in health costs in Australia, and the banking business continued to offer highly competitive mortgage rates. A combination of service improvements and expense management has been undertaken to support these and other member outcomes. For example, during the year a health insurance call centre transformation achieved service level improvements at a lower ongoing cost. This coupled with the broader Group transformation program that continues to support cost efficiencies, enabled the Retail business to better contain costs while still investing in activities that improved the resilience of the enterprise, such as data analytics, cloud computing services, agile ways of working and risk management processes and systems.

Financial performance

Retail financial result	Full year to 2018 $million	Full year to 2017 $million	Variance
Total segment revenue	**$726.1**	$728.1	(0.3%)
Operating expenses	**$661.5**	$667.5	(0.9%)
Adjusted EBITDA	**$64.6**	$60.6	6.6%

The Retail platform had a successful year despite a range of economic, structural and regulatory challenges. While total segment revenue was slightly down, adjusted EBITDA for the Retail platform was $64.6 million, up $4.0 million or 6.6 percent compared to the prior year. This solid result was principally driven by an improved underwriting experience for the retail health insurance business and an improvement in net interest margin for the Banking business. Retail's adjusted EBITDA margin for the year was 8.9 percent (30 June 2017: 8.3 percent).

Total operating expenses were $661.5 million, which was $6.0 million or 0.9 percent lower than the previous year. This decrease reflects a $3.6 million or 0.6 percent decrease in health insurance operating expenses, principally due to decreased hospital claims net of risk equalisation; and a $2.4 million decrease in Banking operating expenses.

Operating and financial review *continued*

Retail *continued*

Australian Unity Health Limited (retail health insurance)

Health insurance offers Australians a vital level of comfort in managing their health over time. Australian Unity's policyholders are, depending on the product they hold, insured against the costs of hospital accommodation, theatre fees, prostheses and more. Australian Unity's health policies also offer extras treatments including dental, optical, physiotherapy, chiropractic, remedial massage and osteopathy.

Retail health fund policyholders (including overseas visitor cover policyholders) decreased by 3.8 percent to 193,771 at 30 June 2018 (2017: 201,516). Policyholder numbers declined across the industry and, in the case of Australian Unity, were also impacted by a considered strategy to review and curtail uncommercial means of distribution.

In February 2018, the federal government, which regulates private health insurance premiums, approved Australian Unity's average 3.89 percent premium rise, which was below the weighted industry average of 3.95 percent. Australian Unity's average premium rise has been below the industry average for 11 of the past 15 years.

The latest private health insurance industry reforms remain a key focus for the business, particularly the Gold, Silver and Bronze classification system. The organisation continues to support reforms that address the wider healthcare economic sustainability challenges and support consumers to understand and make best use of their products and services. The business is well progressed in its operational and policy responses to these reforms. A positive outcome from prostheses pricing reforms, which were announced in May 2017, has been a reduction in growth of hospital claims.

Organisational transformation was a key focus for the year. In consideration of the upcoming industry reforms, ongoing affordability challenges and changing consumer expectations, the business embarked on a number of transformation activities. A new operating model was implemented to merge all health insurance customer service operations in order to better respond to members, align distribution channels and further integrate product and health management capabilities.

Improving the affordability of private health insurance remains a critical challenge. Australian Unity continues to place greater emphasis on preventative health programs to reduce expensive hospitalisations, and shifting care to more appropriate and lower cost settings outside of the hospital. More than 3,500 Australian Unity health insurance members were enrolled in a health support program through wholly-owned subsidiary Remedy Healthcare during the year, while Australian Unity's dental clinics received approximately 50,000 member visits.

Consistent with Australian Unity's strategy of developing the Group's operations in areas that foster personal wellbeing and community value, it was decided to divest the GUCH health insurance fund, which was focused on servicing corporate clients. The sale of this business also reduces the proportion of activities and resources required to respond to the particular volatility and demographic challenges of the private health insurance sector. The sale price achieved was $155.7 million, giving rise to a profit of $66.9 million. This transaction and the transition of that business to the purchaser was a major undertaking for the health insurance business this past year.

Banking

The Retail platform also offers a wide range of personal banking services through Big Sky Building Society Ltd (Big Sky), such as owner occupied and investor home loans, personal loans, credit cards, everyday transaction accounts and high interest savings accounts.

At 30 June 2018, the total number of customers within the banking business was approximately 25,000.

Australian Unity's banking business continues to focus on delivering quality products and services to its customers, with a growing emphasis on digital delivery of services to better meet their needs. During the year, the banking business continued to offer highly competitive rates and also won a series of awards recognising the quality of product designs.

Australian Unity's mobile and internet banking capability were again upgraded during the year with customers now able to access real time payments through the New Payments Platform. In anticipation of strong member demand for this service, this new platform was live on day one, an achievement only matched by two of the four major banks. The NextGen system, to support the third party distribution channel, was also successfully implemented as the business positions itself for future growth.

During the year ended 30 June 2018, very competitive market conditions again prevailed and continued to add pressure to interest rate margins. Big Sky responded to these conditions proactively by targeting lower levels of lending and a strategically managed balance sheet size.

Big Sky maintained its BBB/Stable rating from Standard & Poor's, a very pleasing result considering the many downgrades within the sector announced throughout the year. Big Sky's total assets at $777.4 million were actively managed in light of market conditions (2017: $827.4 million).

Outlook

Affordability pressures and changing demography will remain a key factor for the private health insurance industry. The political environment and the desire from major political parties to lower premiums will require significant consideration and response. Australian Unity would welcome any Productivity Commission review on the private health insurance sector, including all health sector inputs that are driving healthcare inflation.

Reforms could have a positive effect by reducing complexity and encouraging younger participants to take out private health insurance, but at the same time, consideration needs to be given to the potential destabilisation of the sector through downgrades, churn and opt outs.

One of Retail's strategic responses is to develop a comprehensive health management strategy for the benefit of members by proactively working with the broader healthcare sector to create value-based and evidence-based healthcare solutions.

In addition to responding to sector challenges, Retail's strategic growth agenda will encompass a range of opportunities: packages of banking and insurance services; innovative solutions to tackling health and housing affordability, and customer-centric digital platforms that assist with the co-ordination of essential financial services, health insurance and related services.

In support of the Retail growth agenda and overall customer experience, Big Sky will be rebranded to Australian Unity Bank.

Wealth & Capital Markets

The fundamental strategic purpose of the Wealth & Capital Markets platform is to link Australian Unity's valuable efforts in helping Australians secure their financial wellbeing with the social, capital and infrastructure needs of communities. The Wealth & Capital Markets platform comprises business units encompassing advice, investments, life & superannuation, property and trustee services.

Wealth & Capital Markets' expertise in property, particularly social infrastructure assets such as healthcare, retirement villages and aged care, combined with long experience in sourcing funds in equity and debt capital markets, means it is well placed to play a meaningful role in addressing Australia's social infrastructure challenge. The platform has expertise in cash, fixed interest and Australian shares, market-leading investment bonds, funeral bonds, and education savings plans. In addition the platform works with advisers and industry partners to provide professional advice and trustee services that support clients' financial wellbeing.

Financial performance

Wealth & Capital Markets financial result	Full year to 2018 $million	Full year to 2017 $million	Variance
Total segment revenue	**$170.4**	$167.7	1.6%
Operating expenses	**$133.5**	$138.3	(3.5%)
Adjusted EBITDA	**$36.9**	$29.4	25.5%

The Wealth & Capital Markets business manages investments, property assets and developments (and associated debt facilities), and provides advice and trustee services, with an aggregate value of $20.84 billion (2017: $19.35 billion).

For the year ended 30 June 2018, the Wealth & Capital Markets business recorded a 1.6 percent increase in total segment revenue to $170.4 million (2017: $167.7 million). This result reflects a very pleasing performance in a competitive and challenging environment across all businesses in the platform.

Adjusted EBITDA increased by 25.5 percent to $36.9 million for the year ended 30 June 2018 (2017: $29.4 million). This strong result in adjusted EBITDA was positively impacted by both the ongoing work undertaken within the business designed to streamline operations and reduce capital usage, as well as strong growth in the property and investment bonds segments.

The Wealth & Capital Markets investments team manages the investment portfolios of the Group, achieving a weighted aggregate return of 2.8 percent (2017: 3.2 percent) on the Group's investment assets, including its capital stable and highly liquid insurance reserves. This result was well above its strategic benchmark of 2.0 percent and compares favourably to the return available on risk-free cash (measured by the Bloomberg AusBond Bank Bill Index) of 1.8 percent for the year ended 30 June 2018.

Investments

The Investments business continued to refine its focus on its core areas of cash, fixed interest, Australian equities and property securities. Investment returns for the year ended 30 June 2018 were strong, with the standout performer being the Platypus Asset Management business. Its flagship portfolio returned 25.9 percent for the year to 30 June 2018 compared to the benchmark return of 13.2 percent for the S&P ASX 300 Accumulation Index.

Strong returns were generated across a number of asset classes, including:

Asset Class	Asset Manager	Fund	Performance for the year ended 30 June 2018 %
Australian equities	Platypus	Platypus Australian Equities Trust (Wholesale)	**25.9**
		Platypus Systematic Growth Fund	**20.3**
Fixed Interest	Altius	Altius Bond Fund	**2.3**
		Altius Sustainable Bond Fund	**2.2**
Cash	Australian Unity	Australian Unity Wholesale Cash Fund	**1.9**

Property

The Property business continued to extend its capabilities during the year, with assets under management increasing to $3.10 billion as at 30 June 2018 (2017: $2.42 billion), its multi-year development pipeline reaching $1.25 billion (2017: $1.13 billion), and lending and debt facilities on behalf of investors (through property funds and its commercial property lending activities) of $1.57 billion (2017: $1.02 billion).

Key examples of the Group's involvement in social infrastructure are the Herston Quarter development and Healthcare Property Trust. In December 2017, the Queensland Government released the final Development Scheme for the landmark $1.1 billion Herston Quarter health precinct in Brisbane, and construction of the $340 million specialist public health facility by the Healthcare Property Trust commenced in May 2018. Further stages of the Herston Quarter development will commence over the next financial year.

Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased assets under management to $1.51 billion (2017: $1.25 billion) and posted a return of 12.8 percent for the year to 30 June 2018. During the year the Trust made a number of property acquisitions and disposals, refinanced its debt facility to an aggregate of $740 million and successfully raised $240 million of new capital. The value of the developments as at 30 June 2018 is $369.7 million.

The ASX-listed Australian Unity Office Fund (ASX: AOF) achieved a return of 20.0 percent, outperforming the S&P/ASX 300 A-REIT Accumulation Index by 6.8 percentage points. In October 2017, AOF acquired an office asset at 150 Charlotte Street, Brisbane for $105.8 million, partially funded by a successful capital raising of approximately $50 million, expanding the presence of Australian Unity through raising funds from the listed market.

The other funds in the property business ruled off a successful year of investment performance, with Australian Unity's Diversified Property Fund achieving a return of 15.0 percent return and its Retail Property Fund achieving a 14.5 percent return.

Support for the Australian Unity Select Mortgage Income Fund from financial planning groups continued to grow with strong recurring monthly net inflows. The lending portfolio grew solidly over the period to $132.9 million at 30 June 2018 (2017: $117.0 million). In April 2018 a mandate of up to $500 million was announced with Merricks Capital for this business, further expanding access to capital sources.

Life & Superannuation

Australian Unity's Life & Superannuation business continues to be Australia's market leader in investment and funeral bonds, and a leading provider of education investment funds, with $2.23 billion in assets under management and administration as at 30 June 2018 (30 June 2017: $2.17 billion).

During the year, sales totalled $216.2 million (2017: $328.6 million) and, while a decrease compared to the previous period, it reflected a one-off significant investment in the prior year. Lifeplan remains number one in the investment bond sector in terms of both inflows and assets under management and is well positioned to capitalise on the government's caps on superannuation contributions that are expected to drive increasing demand for investment bonds.

Funds under management for education solutions increased by 15.3 percent and surpassed $201.3 million compared to $174.6 million at 30 June 2017. With more than $639 million in funeral funds under management and 90,000 clients, Australian Unity also occupies a leading position in the pre-paid funeral market via its specialised business Funeral Plan Management.

Operating and financial review *continued*

Wealth & Capital Markets *continued*

Trustees

Trustees had a productive but challenging year with significant progress on establishing key operational structures and strategy, but experienced delayed financial outcomes.

Significant work continues to further extend the range of trustees services and solutions nationally with funds under management as at 30 June 2018 of $360.7 million.

Starting from a relatively small base, and now supported by a team of skilled legal resources in most capital cities, estate planning revenues grew by more than 100 percent during the period under review compared to the same period last year. The demand for these services, through the business' network of advisers, accountants and other centres of influence continues to increase.

The business secured a number of new tribunal and court appointments outside Victoria, in particular Queensland, South Australia and Western Australia, reflecting the increasing awareness of the Australian Unity brand and the high quality client service delivered nationally.

Trustee Services also partners with clients to establish and manage structures in line with their long term philanthropic objectives. The Australian Unity Trustees Foundation, established during 2017, received donations from a number of new clients during the period.

In the year under review, Australian Unity was appointed as trustee of the Manus Island Settlement Trust. This appointment relied on the business' capability to manage complex settlement trusts, with beneficiaries located across a number of regions internationally.

Since acquiring its trustees licence in February 2017, the Trustee Services business has expanded its operations, invested in building capability, reviewed its growth strategy and portfolio, and is in the process of implementing a new operating system. These changes have increased the capability and capacity of the business in its pursuit of its objectives. Nevertheless, the business performance delivered to 30 June 2018 was lower than targeted and, consequently, an impairment loss of $6.0 million has been recognised.

Advice

The Advice business is focused on providing advice to help clients improve their financial position and ultimately achieve their long-term lifestyle goals. The backdrop of continual change in the regulatory regime and increased complexity, strongly reinforces the growing need in the community for valued providers of quality advice and services. The Advice business seeks growth in this context as a differentiated provider, within a mutual organisation, with a clear focus on helping clients and members to thrive.

In March 2018, the Bridgeport Financial Services business was acquired from Netwealth Group Limited, adding approximately $550 million of funds under advice, and reflecting Australian Unity's commitment to this important area of supporting Australians in achieving their financial objectives. Over the year to 30 June 2018 the number of advisers decreased to 172 (30 June 2017: 182), and included the advisers who joined Australian Unity as a result of the acquisition of Bridgeport.

Financial advice revenue decreased by 1.7 percent during the year to $54.8 million, largely due to a reduction in self-employed adviser numbers but this was partially offset by the addition of Bridgeport. For the year in review, funds under advice increased by 3.9 percent to $6.42 billion (2017: $6.18 billion).

Outlook

The Wealth & Capital Markets platform continues to seek to deliver differentiated, higher value products and services, designed to improve the financial wellbeing of customers.

With improving economic growth, a broad yet focused range of businesses, and a material and growing presence in the funding, development and management of Australia's social infrastructure, the period ahead should continue to provide opportunities for the platform to offer customers valuable investment and financial opportunities, and to deliver important benefits to many areas of the community.

The Herston Quarter project continues to be a key focus of the platform as it transforms Australian Unity's response to Australia's social infrastructure challenge and Australian Unity's profile in Queensland. The business' ability to access debt and equity from a more diverse range of sources is key as it looks to originate further initiatives in social infrastructure and impact investing.

The Wealth & Capital Markets platform is well positioned to benefit from the collective impact of rising and better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the constraints and constant changes in superannuation.

Wealth & Capital Markets' strategy for 2019 and beyond is to continue:

- the steady progression of its social infrastructure development program;
- to explore new capital markets and investment opportunities in built social infrastructure;
- further expanding the innovative range of investment bonds, funeral bonds and education funds provided;
- increasing focus on products, marketing and front-end digital tools to assist clients;
- expanding the employed advice channel and further developing products and services to assist clients in this area; and
- increasing the reach of trustee services through its expanded resourcing and geographic footprint in Australia.

Significant changes in the state of affairs

Total members' funds increased to $673,557,000 at 30 June 2018 (2017: $620,975,000), an increase of $52,582,000. This movement reflects profit for the year and movements in reserves.

Matters subsequent to the end of the financial year

On 11 July 2018, the $30,000,000 subordinated capital notes issued by the Group were repaid in accordance with the terms of the notes.

The board is not aware of any other matter or circumstance arising since 30 June 2018 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Likely developments and expected results of operations

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

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

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

Environmental regulation

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

Information on directors

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

Rohan Mead, Group Managing Director & CEO
Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is also deputy chairman of Platypus Asset Management. He is chairman of the Business Council of Australia's Healthy Australia task force and a member of its Indigenous Engagement task force. He is also a director of the Business Council of Co-Operatives and Mutuals Limited (BCCM), 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.

Lisa Chung – LLB, FAIM, FAICD
Ms Chung was appointed to the board of Australian Unity Limited on 30 June 2017. She is a director of a number of Australian Unity Limited subsidiaries, a member of the Audit and Compliance Committee, Investment Committee and Risk Committee. Ms Chung is currently Chair of Urbis Pty Limited and The Benevolent Society, a director of APN Outdoor Group Limited and Artspace/Visual Arts Centre Limited and Deputy President of Trustees of the Museum of Applied Arts and Sciences (Powerhouse Museum). Prior to this, Ms Chung was a partner specialising in commercial property and infrastructure at Maddocks Lawyers and at Blake Dawson (now Ashurst) where she also held various senior management roles and was an elected member of the firm's board. Ms Chung completed the Advanced Management Program at INSEAD in France in 2004. Ms Chung has not held any directorships of listed entities in addition to those set out above during the last three years.

Melinda Cilento – BA, BEc (Hons), MEc
Ms Cilento was appointed to the board of Australian Unity Limited on 1 May 2014. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Investment Committee and a member of the Human Resources, Remuneration and Nominations Committee and the Risk Committee. She is also a director of Woodside Petroleum and Co-Chair of Reconciliation Australia. In addition to her directorships, Ms Cilento is the Chief Executive Officer of the Committee for Economic Development of Australia and a member of Chief Executive Women. Ms Cilento has previously been a Commissioner with the Productivity Commission, and 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. Ms Cilento has also worked with the Federal Treasury and International Monetary Fund in Washington D.C. Ms Cilento was a director of Wesfarmers General Insurance until June 2014. Ms Cilento has not held any directorships of listed entities in addition to those set out above during the last three years.

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

Su McCluskey – BCom, FCPA, MAICD
Ms McCluskey was appointed to the board of Australian Unity Limited on 1 September 2015. She is a director of a number of Australian Unity Limited subsidiaries, Chair of the Human Resources, Remuneration and Nominations Committee and a member of the Audit and Compliance Committee and the Investment Committee. Ms McCluskey is also a director of The Foundation for Young Australians, a Commissioner for International Agricultural Research, and a member of the Ministerial Advisory Council on Skilled Migration. She was a member of the Charities Review, the Harper Review of Competition Policy and the Regional Telecommunications Review. Ms McCluskey was previously the CEO of the Regional Australia Institute and the Executive Director of the Office of Best

Information on directors *continued*

Practice Regulation. Ms McCluskey has held senior positions with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is also a beef cattle farmer. Ms McCluskey has not held any directorships of listed entities in addition to those set out above during the last three years.

Greg Willcock – BCom, FCPA, FAICD, MAIM, FFin
Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is a director of a number of Australian Unity Limited subsidiaries, chair of the Risk Committee and a member of the Audit and Compliance Committee. Mr Willcock is also a director of Australian Unity Investments Real Estate Limited which is the responsible entity for the listed Australian Unity Office Fund. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Bank of Australia in the areas of risk management, strategy and change management. Mr Willcock was previously a director of the Customer Owned Banking Association (COBA). Mr Willcock 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, GCURP, FCPA, FAICD, FGIA, FCIS, SFFin
Mr Maitland retired as a director of the board of Australian Unity Limited on 1 November 2017. Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. During his tenure Mr Maitland served as a director of a number of Australian Unity Limited subsidiaries, a member of the Audit and Compliance Committee, Investment Committee and Risk Committee. He is a director of QInsure Ltd and of several private companies. He is also an independent member of several audit and compliance committees and past President of the Queensland Division of CPA Australia. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 45 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 Centrepoint Alliance Limited and the Royal Automobile Club of Queensland Limited. Mr Maitland has not held any directorships of listed entities in addition to those set out above during the last three years.

Company secretaries

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

Catherine Visentin – G/A(Cert), Assistant Company Secretary
Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group companies in 2004. She has over 20 years of involvement with the Australian Unity Limited Company Secretarial function.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2018, and the number 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
Peter Promnitz	11	11	6	6	4	4	5	5	4	4
Rohan Mead	11	11	5	6	4	4	5	5	4	4
Lisa Chung	11	11	4	6	4	4	5	5	–	–
Melinda Cilento	11	11	–	–	4	4	5	5	4	4
Paul Kirk	11	11	6	6	–	–	–	–	4	4
Su McCluskey	11	11	6	6	–	–	5	5	4	4
Greg Willcock	11	11	5	6	3	4	–	–	–	–
Stephen Maitland	5	5	3	3	2	2	2	2	–	–

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

Remuneration report

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 29 to 36. 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 32.

Insurance and indemnification of directors and officers

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

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

Parent entity

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

Provision of non-audit services by the auditor

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

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services provided during the year are set out below.

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

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

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

	2018 $	2017 $
PricewaterhouseCoopers Australia		
Audit of regulatory returns	**288,130**	281,847
Tax compliance services	**212,651**	212,049
Tax consulting services	**130,184**	160,000
Other services	**221,457**	1,220,832
Total remuneration for non-audit services	**852,422**	1,874,728

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 28.

Rounding of amounts

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

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne
29 August 2018

Auditor's independence declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Peter van Dongen
Partner
PricewaterhouseCoopers

Melbourne
29 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Remuneration report

This Remuneration report relates to the Company's performance for the year ending 30 June 2018 including all incentives payable in respect of that performance. The report is structured as follows:

- Key Management Personnel (KMP)
- Remuneration policy
- Senior Executive remuneration
- The remuneration framework & link to performance
- Non-executive director remuneration
- Remuneration tables
- Use of remuneration consultants

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 2018. 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.

Dear Member

On behalf of the board, I am pleased to present Australian Unity's Remuneration report for the year ended 30 June 2018.

Australian Unity is a substantial and diverse company with several different business streams that span a number of sectors, including health care, aged care, disability, wealth and independent and assisted living. Each of these business areas is heavily regulated and involves complex market dynamics. High quality executives, senior managers and specialists are required to operate these businesses effectively, efficiently and productively.

Australian Unity's remuneration framework plays an important part in attracting this talent and in driving the successful performance of the Group, thereby ensuring the sustainable provision of valued services to members and customers.

Last year we informed members of adjustments to executive remuneration arrangements to more effectively evaluate business contribution. There have been a number of internal and external events that have impacted these arrangements, and during the period, this resulted in the board adjusting two key aspects of the Company's remuneration approach for the period.

The first adjustment was to assess financial performance for 2018 against aggregate Group outcomes instead of individual divisional or business unit outcomes. This decision was made to reflect the substantial transformation exercise that restructured the Company's operations during 2018, along with significant corporate actions (consistent with our strategic plans and risk management agenda) that resulted in the divestment of existing assets and acquisition of new assets to develop Australian Unity's business portfolio.

The second adjustment was the introduction of additional deferral and payment capping arrangements for senior executives. These adjustments were made consistent with an accelerating shift in the expectations of the community, government and regulators in relation to the conduct of business and the need to shape performance management and remuneration frameworks to support longer-term corporate sustainability.

Over the next 12 months, the board will continue to assess the effectiveness of its remuneration arrangements to ensure they are consistent with the long-term interests of the Company, its members and the community. Of particular focus will be refining participation in our variable remuneration schemes (True North and Compass); reviewing metrics against which performance is measured; and responding to regulatory requirements surrounding senior executive remuneration, including preparing for the implementation of the Banking Executive Accountability Regime.

Yours faithfully

Su McCluskey
Chair – Human Resources, Remuneration
and Nominations Committee

Key Management Personnel (KMP)

This Remuneration report outlines the remuneration arrangements in place and outcomes achieved for Australian Unity's KMP during 2018.

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

The names and positions of the individuals who were KMP during 2018 are set out in Table 1.

Table 1 – Key management personnel

Name	Position
Non-executive director	
Peter Promnitz	Chair
Lisa Chung	Non-executive Director
Melinda Cilento	Non-executive Director
Paul Kirk	Non-executive Director
Stephen Maitland	Non-executive Director – until 1 November 2017
Su McCluskey	Non-executive Director
Greg Willcock	Non-executive Director
Key Management Personnel	
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Wealth & Capital Markets
Amanda Hagan	CEO Healthcare – until 27 November 2017 Group Executive, Customer & Digital – appointed 27 November 2017
Kevin McCoy	CFO – until 24 September 2017 CEO Independent & Assisted Living – appointed 1 July 2017
Esther Kerr-Smith	Group Executive, Finance & Strategy – appointed 25 September 2017
Matt Walsh	CEO Retail – appointed 27 November 2017

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

Remuneration policy

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

- provide competitive rewards to attract, motivate and retain highly skilled employees
- establish goals and apply measures of performance that align with the Company's strategic direction
- 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, and
- effectively manage risk and compliance.

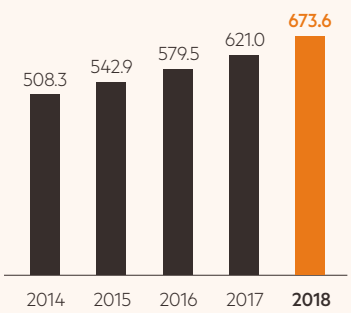
The remuneration framework applies to all directors, officers and employees within Australian Unity.

It includes a remuneration policy which outlines how employees are rewarded for their contribution to, and achievement in, the organisation.

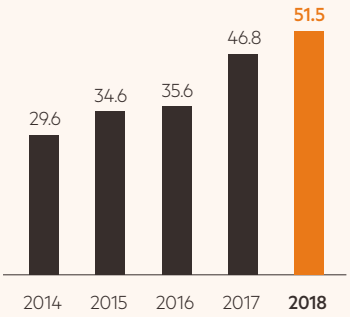
The Company's remuneration framework is approved by the board (and reviewed annually), following recommendations from the Human Resources, Remuneration and Nominations Committee (HR Committee). The role of the HR Committee is set out in its charter, which can be viewed online under the Membership and Governance section of the Australian Unity website, www.australianunity.com.au.

Table 2 – Five year Performance
The table below outlines Australian Unity's performance over the last five years against key metrics.

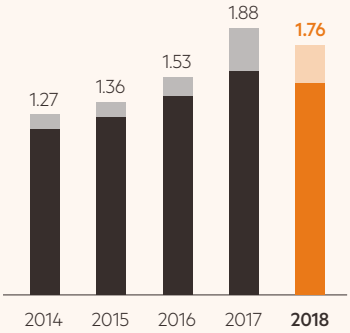
Members' funds ($million)*
$673.6 million



Profit after income tax ($million) **$51.5 million**



Revenues ($billion)†
$1.76 billion



* Members' funds: net assets of the Group attributable to members.
† Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the statement of comprehensive income in the Annual Report, excluding discontinued operations, plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income. The 2018 year includes the sale of the Group's corporate health insurance business, Grand United Corporate Health Limited, affecting the comparative results for 2017.

Senior executive remuneration

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

- The fixed component of a senior executive's remuneration comprises base salary and benefits, such as the superannuation guarantee.
- The variable component is structured to align and reward performance against longer-term goals, including people leadership, overall value creation, support for Australian Unity's risk management framework and long-term financial soundness reward. The variable remuneration scheme for senior executives (referred to as True North) aligns reward with longer-term sustainability by deferring a significant portion (a minimum of 30 per cent) of each senior executive's variable remuneration over a period of time. From the 2018 financial year forward, the variable component that can be paid in any one year is capped at one times the senior executive's fixed remuneration, including any prior year deferrals. So while a senior executive may be awarded higher variable remuneration in a particular year, the amount actually eligible for payment is capped at the level of their fixed remuneration, with any surplus deferred to future years (these arrangements may vary in the case of retirement or cessation of employment by a senior executive). Deferrals under the remuneration framework are subject to claw back.

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

All remuneration, both fixed and variable, is cash based. As a mutual, Australian Unity has no shares or options on issue, and therefore it is not possible for any director or executive to have shares or options in Australian Unity.

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

The remuneration framework and link to performance

To deliver high quality products and services in a sustainable manner the Group needs to be commercially successful and develop its business operations, while effectively managing risk. Australian Unity generates profits to provide the capital necessary to sustain and extend services over the long term. As a result, Australian Unity's strategic objectives and performance measures for senior executives are set by reference to both financial and non-financial objectives. These performance measures are outlined in Table 3.

In assessing financial performance, the key measures for senior executives are based on sustained improvements for the Group and its divisions as measured by Profit After Funding (PAF). PAF measures the profit made above or below an agreed reasonable rate of return on capital employed (year on year), and the PAF outcome determines the pool of variable remuneration available to be paid as a result of the overall Group's result.

In considering the non-financial performance of each senior executive, the following factors are also considered: strategy & vision; customer & operations; people; and risk management & compliance.

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

Table 3 – Overview of True North Variable Remuneration Scheme

Individual and non-financial performance **x** Financial performance **x** True North opportunity **=** Reward declared **→** Reward payment

Step	Description
Individual and non-financial performance	Each senior executive is assessed against individual target performance and given a rating of either not delivering, delivering, exceeding or inspiring. Individual assessment includes a range of non-financial considerations including: • Customer & operations • Strategy & vision • People • Risk management & compliance
Financial performance	For our revenue units, financial performance is ordinarily tied to platform and/or business unit PAF result. Group employees are assessed against the Group's PAF result. For reasons set out in this report, for 2018, all senior executives were assessed against the Group's PAF result.
True North Opportunity	True North Opportunity (TNO) is a percentage from 35-75% of the senior executive's fixed remuneration.
Reward declared	Individual performance outcomes are determined by the Group Managing Director, the Australian Unity Limited board and/or HR Committee in the case of the Group Managing Director and other relevant staff. The final award declared may also be affected by material adjustments, such as clawback from previous assessments.
Reward payment	Variable remuneration awards are uncapped, but the reward paid in any one year cannot exceed 1x a senior executive's fixed remuneration in any one year. Any excess amount is deferred and can be paid in future years, subject to the overall cap. All senior executives are subject to a minimum of 30% mandatory deferral. A higher amount may be deferred in situations where performance targets have been exceeded. Deferrals are generally paid over two years—twelve months and twenty four months from the original award. Deferred amounts are subject to ongoing performance conditions.

These arrangements may vary in the case of retirement or cessation of employment by a Senior Executive.

Non-executive director remuneration

Australian Unity's constitution and board charter require that directors meet a variety of standards in order to be eligible to remain directors of the board. These include meeting stringent 'fit and proper' standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees (remuneration) for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting.

Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 1 November 2017. At that meeting members approved the sum of up to $1.485 million in aggregate fees per financial year. This increase in the sum approved took effect from 1 January 2018 and the total spend on directors' fees during the year was $1.202 million.

Non-executive director fees are 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 variable remuneration or options are payable to non-executive directors.

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

Remuneration tables

Remuneration for the year ended 30 June 2018

Table 4 – 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] $	Super-annuation contributions[2] $	Cash payable (Current year variable remuneration)[1] $	Cash payable (Deferred variable remuneration)[3] $	Total remuneration $	Variable proportion of the current year's total remuneration	Increase in long service leave provision[3] $
NON-EXECUTIVE DIRECTORS									
Peter Promnitz, Chair	**2018**	**304,759**	**871**	**20,049**	**–**	**–**	**325,679**	**–**	**–**
	2017	300,692	534	19,604	–	–	320,830	–	–
Lisa Chung (appointed 30 June 2017)	**2018**	**146,066**	**–**	**13,876**	**–**	**–**	**159,942**	**–**	**–**
	2017	–	–	–	–	–	–	–	–
Melinda Cilento	**2018**	**148,314**	**–**	**14,090**	**–**	**–**	**162,404**	**–**	**–**
	2017	146,119	–	13,881	–	–	160,000	–	–
Paul Kirk	**2018**	**148,314**	**–**	**14,090**	**–**	**–**	**162,404**	**–**	**–**
	2017	146,119	–	13,881	–	–	160,000	–	–
Su McCluskey	**2018**	**140,524**	**–**	**21,880**	**–**	**–**	**162,404**	**–**	**–**
	2017	125,410	–	34,590	–	–	160,000	–	–
Stephen Maitland (retired 1 November 2017)	**2018**	**60,133**	**356**	**5,713**	**–**	**–**	**66,202**	**–**	**–**
	2017	146,119	213	13,881	–	–	160,213	–	–
Greg Willcock	**2018**	**148,314**	**608**	**14,090**	**–**	**–**	**163,012**	**–**	**–**
	2017	146,119	142	13,739	–	–	160,000	–	–
Sub-total Non-executive directors	**2018**	**1,096,424**	**1,835**	**103,788**	**–**	**–**	**1,202,047**		**–**
	2017	1,010,578	889	109,576	–	–	1,121,043		–
EXECUTIVES									
Rohan Mead, Group Managing Director[5]	**2018**	**1,119,994**	**942**	**25,000**	**343,249**	**–**	**1,489,185**	**23%**	**18,427**
	2017	1,086,895	1,510	35,000	379,533	400,000	1,902,938	41%	30,253
David Bryant	**2018**	**785,107**	**942**	**20,049**	**259,444**	**367,088**	**1,432,630**	**44%**	**12,936**
	2017	771,519	4,380	19,616	764,520	–	1,560,035	49%	15,873
Amanda Hagan	**2018**	**718,762**	**942**	**20,049**	**288,016**	**–**	**1,027,769**	**28%**	**8,944**
	2017	710,664	1,552	45,115	172,557	–	929,888	19%	17,501
Esther Kerr-Smith (appointed Group Executive – Finance & Strategy 25 September 2017)	**2018**	**352,151**	**516**	**15,422**	**58,800**	**–**	**426,889**	**14%**	**1,442**
Kevin McCoy	**2018**	**637,666**	**942**	**20,049**	**174,507**	**27,895**	**861,059**	**24%**	**14,972**
	2017	516,894	925	19,616	279,614	–	817,049	34%	15,922
Matt Walsh (appointed CEO Retail 27 November 2017)	**2018**	**301,614**	**2,395**	**13,298**	**99,784**	**93,030**	**510,121**	**38%**	**28,727**
Derek McMillan (ceased as CEO Independent & Assisted Living 30 June 2017)	2017	685,032	4,380	26,840	–	–	716,252	0%	35,386
Total	**2018**	**5,011,718**	**8,514**	**217,655**	**1,223,800**	**488,013**	**6,949,700**		**85,448**
	2017	4,781,582	13,636	255,763	1,596,224	400,000	7,047,205		114,935

1 Short-term benefits
2 Post-employment benefits
3 Long-term benefits
4 Non-monetary benefits refers to salary one off benefits such as motor vehicles, and some health insurance and car parking deductions.
5 On 15 September 2016, an additional one off payment of $400,000 was made to the Group Managing Director to compensate for the negative impact of transitioning from previous reward schemes in prior periods and to ensure no material disadvantage was suffered as a result of that transition.

Remuneration tables *continued*

Remuneration for the year ended 30 June 2018 *continued*

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

		Fixed		
Name	Year	Cash salary and fees[1] $	Superannuation contributions[2] $	Total remuneration $
NON-EXECUTIVE DIRECTORS				
Greg Willcock	**2018**	**83,523**	**5,952**	**89,475**
	2017	82,192	5,978	88,170
Total Non-executive directors	**2018**	**83,523**	**5,952**	**89,475**
	2017	82,192	5,978	88,170

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

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

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

	True North Opportunity amount	True North amount awarded based on performance		True North variable amount payable	Maximum 2018 True North and ex gratia deferred variable amount (payable subject to ongoing performance)
Name	$	%	$	$	$
Rohan Mead	863,303	57%	490,356	343,249	147,107
David Bryant	579,115	64%	370,634	259,444	111,190
Amanda Hagan[1]	493,663	56%	276,451	288,016	123,435
Esther Kerr-Smith	150,000	56%	84,000	58,800	25,200
Kevin McCoy	438,900	57%	249,295	174,507	74,789
Matt Walsh[2]	365,750	61%	222,376	99,784	66,713

1 In addition to the True North amount awarded based on performance, Ms Hagan was awarded an ex gratia amount of $135,000, payable and deferred in proportion to the True North award.
2 The True North variable amount payable for Mr Walsh is the portion that relates to Mr Walsh's activities since being appointed a KMP.

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

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

	Deferred Variable Remuneration				
Name	**Date when deferred incentive was awarded**	**Financial year for which the deferred variable remuneration will be fully payable**	**Maximum total value of deferred variable remuneration $**	**Proportion of deferred variable remuneration payable %**	**Proportion of deferred variable remuneration not earned %**
Rohan Mead	29 August 2018	2019	73,554	–	–
		2020	73,553	–	–
David Bryant	29 August 2018	2019	55,595	–	–
		2020	55,595	–	–
	30 August 2017	2018	367,088	100%	–
		2019	367,088	–	–
Amanda Hagan	29 August 2018	2019	61,718	–	–
		2020	61,717	–	–
Esther Kerr-Smith	29 August 2018	2019	12,600	–	–
		2020	12,600	–	–
Kevin McCoy	29 August 2018	2019	37,395	–	–
		2020	37,394	–	–
	30 August 2017	2018	27,895	100%	–
		2019	27,894	–	–
Matt Walsh[1]	29 August 2018	2019	33,357	–	–
		2020	33,356	–	–
	30 August 2017	2018	93,030	100%	–
		2019	161,252	–	–

1 The maximum total value of Mr Walsh's deferred variable remuneration awarded in August 2017 but payable in 2018 is that proportion that relates to Mr Walsh's time as a KMP.

Remuneration tables *continued*

Contract terms for relevant executives

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

Name	Employee initiated notice period[1]	Employer initiated notice period[2]	Termination benefit[3]
Rohan Mead, Group Managing Director	6 months	12 months	none
David Bryant	6 months	6 months	none
Amanda Hagan	6 months	6 months	none
Esther Kerr-Smith	6 months	6 months	none
Kevin McCoy	6 months	6 months	none
Matt Walsh	6 months	6 months	none

1 All relevant executives have contract durations with no set term.
2 Payment in lieu of notice may be made and the Group's redundancy policies may also apply.
3 Entitlement to variable remuneration is set out in the Senior Executive Remuneration section above.

Use of Remuneration Consultants

With the exception of a review supporting the letter attached to this report from KPMG, confirming that remuneration paid to KMP is appropriate, the board did not use remuneration consultants during 2018.

Independent remuneration adviser's report

KPMG

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Ms Su McCluskey
Chairman of the Human Resources, Remuneration and Nominations Committee
Australian Unity Limited
114 Albert Road
South Melbourne VIC 3205

Contact Ben Travers 03 9288 5279
Andrew Holland 03 9288 6612

24 August 2018

Dear Ms McCluskey

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

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

Our view is that the FY18 remuneration for Australian Unity's KMP is reasonable and appropriate in comparison with Australian market practice.

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

We confirm that all advice was:

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

Please contact me if you would like to discuss.

Yours sincerely

Ben Travers
Partner

Financial statements

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 $'000	2017* $'000
Continuing operations			
Revenue and other income	2	**1,486,662**	1,582,514
Expenses, excluding finance costs	3	**(1,484,142)**	(1,527,993)
Finance costs	3	**(20,543)**	(20,042)
Share of net loss of joint ventures		**(121)**	(2,189)
Profit/(loss) before income tax		**(18,144)**	32,290
Income tax benefit	4	**2,826**	5,383
Profit/(loss) from continuing operations		**(15,318)**	37,673
Profit from discontinued operation	26	**66,860**	9,175
Profit after income tax		**51,542**	46,848
Other comprehensive income			
Items that may be reclassified to profit or loss		**–**	–
Cash flow hedges	17(a)	**841**	25
Income tax relating to this item	17(a)	**(252)**	(7)
Items that will not be reclassified to profit or loss		**–**	–
Remeasurements of post-employment benefit obligations	17(a)	**451**	3,011
Other comprehensive income for the year, net of tax		**1,040**	3,029
Total comprehensive income for the year		**52,582**	49,877
Profit for the year is attributable to:			
Members of Australian Unity Limited		**51,542**	46,848
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**52,582**	49,877
Total comprehensive income for the year attributable to members of Australian Unity Limited arises from:			
Continuing operations		**(14,278)**	40,702
Discontinued operation		**66,860**	9,175
Total		**52,582**	49,877

*The 2017 Consolidated statement of comprehensive income has been re-presented to separate the comparative amount of profit relating to the discontinued operation.

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 25.

Consolidated balance sheet

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**1,011,024**	893,725
Trade and other receivables		**136,489**	172,944
Current tax assets		**–**	1,222
Loans and advances	6	**11,929**	31,772
Financial assets at fair value through profit or loss	7	**1,784,580**	1,676,290
Other financial assets at amortised cost	8	**61,744**	88,735
Other current assets		**23,898**	34,374
Total current assets		**3,029,664**	2,899,062
Non-current assets			
Loans and advances	6	**643,535**	689,396
Financial assets at fair value through profit or loss	7	**30,521**	30,307
Investments in associates and joint ventures		**27,431**	21,986
Investment properties	12	**1,169,437**	976,799
Property, plant and equipment	13	**217,280**	184,555
Intangible assets	14	**329,004**	372,618
Other non-current assets		**9,912**	11,014
Total non-current assets		**2,427,120**	2,286,675
Total assets		**5,456,784**	5,185,737
LIABILITIES			
Current liabilities			
Trade and other payables		**123,683**	140,153
Borrowings	9	**738,843**	774,605
Current tax liabilities		**31,786**	–
Provisions	16	**129,139**	142,413
Other current liabilities	10	**1,204,001**	1,007,056
Benefit fund policy liabilities	34	**320,395**	353,014
Total current liabilities		**2,547,847**	2,417,241
Non-current liabilities			
Borrowings	9	**300,021**	314,266
Deferred tax liabilities	15	**66,702**	59,382
Provisions		**4,524**	7,191
Other non-current liabilities		**2,164**	3,232
Benefit fund policy liabilities	34	**1,861,969**	1,763,450
Total non-current liabilities		**2,235,380**	2,147,521
Total liabilities		**4,783,227**	4,564,762
Net assets		**673,557**	620,975
EQUITY			
Members' balances		**255,919**	255,919
Reserves	17(a)	**5,409**	4,369
Retained earnings	17(b)	**412,229**	360,687
Equity attributable to members of Australian Unity Limited		**673,557**	620,975
Total equity		**673,557**	620,975

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

Consolidated statement of changes in equity

For the year ended 30 June 2018

	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2016		255,919	3,382	320,222	579,523
Adjustments on adoption of AASB 9, net of tax	36(a)	–	(2,043)	(6,382)	(8,425)
Profit for the year		–	–	46,848	46,848
Other comprehensive income					
– Cash flow hedges	17(a)	–	18	–	18
– Post-employment benefits	17(a)	–	3,011	–	3,011
Total comprehensive income		–	986	40,466	41,452
Transactions with owners in their capacity as owners:					
Transfers within equity	17	–	1	(1)	–
		–	1	(1)	–
Balance at 30 June 2017		255,919	4,369	360,687	620,975
Balance at 1 July 2017		**255,919**	**4,369**	**360,687**	**620,975**
Profit for the year		**–**	**–**	**51,542**	**51,542**
Other comprehensive income					
– Cash flow hedges	17(a)	**–**	**589**	**–**	**589**
– Post-employment benefits	17(a)	**–**	**451**	**–**	**451**
Total comprehensive income		**–**	**1,040**	**51,542**	**52,582**
Balance at 30 June 2018		**255,919**	**5,409**	**412,229**	**673,557**

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 2018

	Notes	2018 $'000	2017* $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,372,336**	1,438,462
Payments to suppliers and employees (inclusive of goods and services tax)		**(727,431)**	(711,314)
Health insurance claims and benefits paid		**(599,742)**	(679,464)
Life investment contracts – Contributions received		**324,725**	481,131
Life investment contracts – Withdrawals		**(314,606)**	(351,356)
Life insurance – Premiums received		**270**	387
Life insurance – Policy claims paid		**(8,878)**	(1,659)
Net receipts of loans asset		**43,368**	23,727
Net payments of deposits liability		**(49,832)**	(32,036)
Interest received		**37,545**	40,327
Dividends and distributions received		**8,285**	6,710
Interest and finance charges paid		**(30,996)**	(34,555)
Income tax refunds/(payments)		**21,683**	(15,766)
Net cash inflow from operating activities	18	**76,727**	164,594
Cash flows from investing activities			
Payments for business combination, net of cash receipt		**(4,858)**	(2,459)
Payments for investments		**(855,796)**	(788,639)
Payments for investment properties		**(90,371)**	(157,098)
Payments for property, plant and equipment		**(43,185)**	(16,675)
Payments for intangible assets		**(10,272)**	(29,514)
Payments for investments in associates and joint ventures		**(3,749)**	(9,698)
Receipts from investments		**850,163**	637,867
Proceeds from sale of a subsidiary, net of cash held by the subsidiary	26	**81,609**	–
Dividends received from joint ventures		**530**	154
Receipts from loans to related entities		**–**	14,400
Receipts from transfers of investment property development rights		**–**	17,380
Net cash outflow from investing activities		**(75,929)**	(334,282)
Cash flows from financing activities			
Receipts from borrowings		**7,405**	–
Payments of borrowings		**(15,425)**	(12,692)
Receipts from refundable lease deposits and resident liabilities		**124,521**	159,377
Net cash inflow from financing activities		**116,501**	146,685
Net increase/(decrease) in cash and cash equivalents		**117,299**	(23,003)
Cash and cash equivalents at the beginning of the year		**893,725**	916,728
Cash and cash equivalents at the end of the year	5	**1,011,024**	893,725
Cash flows from discontinued operation	26	**82,938**	11,978

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

Notes to the Consolidated financial statements

How numbers are calculated

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

1 Segment information

(a) Description of segments

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

During the 2018 financial year, the Group implemented a number of organisational changes as part of a transformation program which aims to capitalise on the significant growth opportunities that exist in the area of operations in health, wealth and living. From January 2018 the Group operates three customer-facing platforms which are Retail, Wealth & Capital Markets and Independent & Assisted Living. For management reporting purposes, the Group is organised into these three business platforms and the Group's corporate functions. The table below summarises these reportable operating segments. The previous year's segment information has been re-presented to show the comparative figures for the new segment structure.

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

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 30 June 2018 is as follows:

	Retail $'000	Independent & Assisted Living $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2018					
Continuing operations					
Total segment revenue	726,080	422,728	170,361	(22,120)	1,297,049
Inter–segment revenue	(1)	(11,904)	–	11,905	–
Revenue from external customers	726,079	410,824	170,361	(10,215)	1,297,049
Adjusted EBITDA from continuing operations	64,555	(3,326)	36,914	(58,653)	39,490
Depreciation and amortisation					(73,351)
Interest expense					(20,581)
Investment income					11,226
Income tax expense					27,898
Profit/(loss) from continuing operations					(15,318)
Share of loss after tax from joint ventures (included in adjusted EBITDA)					(121)
Total segment assets include:					
Income producing assets	1,105,450	51,814	62,279	206,906	1,426,449
Working capital assets	53,911	28,710	32,413	10,375	125,409
Non–interest bearing assets	11,737	532,729	132,470	80,620	757,556
Total segment assets	1,171,098	613,253	227,162	297,901	2,309,414
Total segment liabilities include:					
Borrowings and net inter–segment lending	738,592	155,979	6,854	140,816	1,042,241
Working capital liabilities	208,474	87,410	47,191	88,068	431,143
Non–interest bearing liabilities	13,770	102,420	24,066	22,217	162,473
Total segment liabilities	960,836	345,809	78,111	251,101	1,635,857

The segment information for the year ended 30 June 2017 has been re-presented to show the comparative amounts for the new operating segments as follows:

	Retail $'000	Independent & Assisted Living $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
2017					
Continuing operations					
Total segment revenue	728,079	439,067	167,664	(19,511)	1,315,299
Inter–segment revenue	–	(9,750)	–	9,750	–
Revenue from external customers	728,079	429,317	167,664	(9,761)	1,315,299
Adjusted EBITDA from continuing operations	60,638	9,734	29,423	(38,323)	61,472
Depreciation and amortisation					(27,878)
Interest expense					(25,355)
Investment income					12,017
Income tax expense					17,417
Profit/(loss) from continuing operations					37,673
Share of loss after tax from joint ventures (included in adjusted EBITDA)					(2,189)
Total segment assets include:					
Income producing assets	1,142,871	16,203	65,429	21,760	1,246,263
Working capital assets	54,138	47,665	30,596	28,457	160,856
Non–interest bearing assets	12,229	548,507	130,560	101,022	792,318
Discontinued operation	120,732	–	–	(2,419)	118,313
Total segment assets	1,329,970	612,375	226,585	148,820	2,317,750
Total segment liabilities include:					
Borrowings and net inter–segment lending	781,470	191,775	1,327	119,007	1,093,579
Working capital liabilities	216,152	66,606	53,698	45,767	382,223
Non–interest bearing liabilities	14,164	98,614	24,807	22,641	160,226
Discontinued operation	60,747	–	–	–	60,747
Total segment liabilities	1,072,533	356,995	79,832	187,415	1,696,775

(c) Other segment information

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

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

How numbers are calculated *continued*

1 Segment information *continued*

(c) Other segment information *continued*

(i) Segment revenue

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

Segment revenue reconciles to total revenue as follows:

	2018 $'000	2017 $'000
Total segment revenue from continuing operations	**1,297,049**	1,315,299
Dividends and distributions (note 2)	**8,468**	5,004
Investment income (note 2)	**9,092**	13,704
Accommodation bond interest reclassification	**–**	(5,266)
Fund manager and administration fees reclassification	**5,541**	7,002
Other	**(1,496)**	(901)
Revenue attributable to members of Australian Unity Limited (note 25)	**1,318,654**	1,334,842
Revenue from benefit funds (note 25)	**168,008**	247,672
Total revenue and other income from continuing operations	**1,486,662**	1,582,514

(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 and shared services costs.

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

	2018 $'000	2017 $'000
Adjusted EBITDA from continuing operations	**39,490**	61,472
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	**(60,979)**	(25,912)
Loss on disposal of assets	**(12,015)**	(1,601)
Merger and acquisition expenses	**(191)**	(134)
Other	**(166)**	(231)
	(73,351)	(27,878)
Interest expense		
Finance costs (note 3)	**(20,543)**	(20,042)
Accommodation bond interest reclassification	**–**	(5,266)
Other	**(38)**	(47)
	(20,581)	(25,355)
Investment income:		
Dividends and distributions (note 2)	**8,468**	5,004
Investment income (note 2)	**9,092**	13,704
Impairment of joint venture investments (note 3)	**(6,364)**	(6,690)
Other	**30**	(1)
	11,226	12,017
Profit before income tax attributable to members of Australian Unity Limited (note 25)	**(43,216)**	20,256
Profit before income tax of benefit funds (note 25)	**25,072**	12,034
Profit before income tax from continuing operations	**(18,144)**	32,290

(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:

	2018 $'000	2017 $'000
Segment assets	**2,309,414**	2,317,750
Resident liabilities and refundable lease deposits	**996,196**	793,313
Retirement Village Property Fund consolidation	**59,682**	55,798
Netting of eligible deferred tax balances	**(90,912)**	(95,185)
Other reclassifications between assets and liabilities	**(7,994)**	(16,331)
Total assets attributable to members of Australian Unity Limited	**3,266,386**	3,055,345
Benefit fund assets (note 35)	**2,203,921**	2,140,832
Netting of eligible deferred tax balances	**(13,523)**	(10,440)
Total assets	**5,456,784**	5,185,737

(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:

	2018 $'000	2017 $'000
Segment assets	**1,635,857**	1,696,775
Resident liabilities and refundable lease deposits	**996,196**	793,313
Retirement Village Property Fund consolidation	**59,682**	55,798
Netting of eligible deferred tax balances	**(90,912)**	(95,185)
Other reclassifications between assets and liabilities	**(7,994)**	(16,331)
Total assets attributable to members of Australian Unity Limited	**2,592,829**	2,434,370
Benefit fund policy liabilities (note 34)	**2,182,364**	2,116,464
Benefit fund other liabilities (note 35)	**21,557**	24,368
Netting of eligible deferred tax balances	**(13,523)**	(10,440)
Total liabilities	**4,783,227**	4,564,762

How numbers are calculated *continued*

2 Revenue and other income

The following are revenue and other income from continuing operations:

	2018 $'000	2017 $'000
Commission income	**61,898**	64,726
Healthcare services revenue	**28,405**	25,555
Dividends and distributions	**8,468**	5,004
Fair value gains on investment property	**14,315**	16,930
Health insurance net premium revenue (note 23)	**686,544**	686,612
Interest income of building society	**31,453**	33,686
Investment income	**9,092**	13,704
Management fees revenue	**93,810**	92,613
Rental income	**1,961**	2,640
Independent & assisted living fees, subsidies and development activities income	**359,576**	374,450
Revenue of benefit funds (note 34)	**168,008**	247,672
Other income	**23,132**	18,922
Total	**1,486,662**	1,582,514

3 Expenses

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

	2018 $'000	2017 $'000
Bank charges	**3,581**	3,414
Commission expense	**57,835**	59,878
Communication costs	**9,091**	8,344
Computer and equipment costs	**27,036**	17,752
Depreciation and amortisation expense	**60,979**	25,912
Employee benefits expense	**454,390**	456,279
Expenses in relation to benefit funds (note 34)	**142,936**	235,638
Financial and insurance costs	**13,420**	6,560
Fund manager and administration fees	**22,455**	21,982
Health insurance claims expense	**606,538**	611,550
Health insurance claims recoveries – Net Risk Equalisation Special Account	**(59,433)**	(59,842)
Impairment of assets	**6,364**	6,690
Interest expense of building society	**11,630**	15,272
Legal and professional fees	**29,836**	29,814
Marketing expenses	**16,907**	17,009
Occupancy costs	**27,098**	25,912
Other direct expenses	**7,416**	7,256
Other expenses	**46,063**	38,573
Total	**1,484,142**	1,527,993
Depreciation and amortisation		
Depreciation of property, plant and equipment	**12,667**	9,485
Amortisation of intangible assets	**48,312**	16,427
Total	**60,979**	25,912
Finance costs		
Interest and finance charges	**20,593**	20,229
Amount capitalised	**(50)**	(187)
Finance costs expensed	**20,543**	20,042

4 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	2018 $'000	2017 $'000
Current tax	**13,859**	(9,072)
Current tax – benefit funds	**21,926**	21,593
Deferred tax	**799**	11,310
Deferred tax – benefit funds	**4,404**	(9,106)
Adjustments for current tax of prior periods	**(17,794)**	(15,854)
Adjustments for current tax of prior periods – benefit funds	**(1,258)**	(453)
	21,936	(1,582)
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**825**	(12,082)
Increase in deferred tax liabilities	**4,378**	14,286
	5,203	2,204
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**(2,826)**	(5,383)
Profit from discontinued operation	**24,762**	3,801
	21,936	(1,582)

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

	2018 $'000	2017 $'000
Profit/(loss) from continuing operations before income tax	**(18,144)**	31,348
Less: profit in benefit funds	**(25,072)**	(12,034)
	(43,216)	19,314
Profit from discontinued operation before income tax	**91,622**	12,976
Profit before income tax for the year	**48,406**	32,290
Tax at the Australian tax rate of 30% (2017: 30%)	**14,522**	9,970
Non-assessable income	**(11,695)**	(12,315)
Non-deductible expenditure	**3,362**	3,953
Other deductible expenditure	**(1,133)**	(3,549)
Over provision in prior years	**(7,944)**	(11,669)
Tax credits	**(248)**	(6)
Tax in benefit funds	**25,072**	12,034
Income tax expense/(benefit)	**21,936**	(1,582)

The income tax results for the financial year to 30 June 2018 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which are non-assessable for tax purposes.

Tax Transparency Code

In 2016 the Australian Taxation Office issued the Tax Transparency Code (TTC) which is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. Adoption of the TTC is voluntary and intended to complement Australia's existing tax transparency measures. The Group has implemented TTC and supports greater tax disclosure in Australia, reflecting the Group's commitment to compliance from a regulatory and financial perspective, and transparency with respect to the Group's strategy and corporate governance. The Group publishes its Tax Transparency Reports in its website: https://www.australianunity.com.au/media-centre/news-and-media/tax-transparency-report.

Financial assets and liabilities

5 Financial assets – Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and on hand	**80**	77
Bank balances	**39,000**	47,515
Deposits at call	**971,944**	846,133
	1,011,024	893,725

(a) Fair value and risk exposures

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

6 Financial assets – Loans and advances

	2018 $'000	2017 $'000
Current		
Mortgage loans	**16,198**	16,177
Personal loans	**5,979**	6,288
Loans to related entities	**–**	16,452
Provision for impairment	**(10,248)**	(7,145)
Total current	**11,929**	31,772
Non-current		
Mortgage loans	**641,097**	683,668
Personal loans	**2,949**	3,851
Provision for impairment	**(4,659)**	(4,470)
Advances	**4,148**	6,347
Total non-current	**643,535**	689,396
Total loans and advances	**655,464**	721,168

Further information relating to loans to related parties is set out in note 31.

(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 5 June 2048 and earn interest at annual interest rates between 3.64% and 6.70% (2017: between 3.73% and 6.51%).

(b) Personal loans

The personal loans mature at various dates up to 22 April 2025 and earn interest at annual rates between 4.57% and 14.18% (2017: between 6.00% and 14.18%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans provided by the Group's authorised deposit-taking institution.

(d) Past due but not impaired

At 30 June 2018, the current portion of loans and advances that were past due but not impaired amounted to $15,718,000 (2017: $10,603,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value and risk exposures

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

7 Financial assets at fair value through profit or loss

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

	2018 $'000	2017 $'000
Securities held by benefit funds	**1,667,374**	1,546,964
Securities held in funds managed by subsidiaries and related entities	**147,727**	159,633
Total	**1,815,101**	1,706,597

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:

	2018 $'000	2017 $'000
Equity trusts	**1,134,143**	1,060,816
Fixed interest and other debt security trusts	**468,847**	410,559
Mortgage trusts	**3,249**	12,522
Property syndicates and trusts	**61,135**	63,067
Total	**1,667,374**	1,546,964

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

	2018 $'000	2017 $'000
Equity trusts	**27,647**	40,271
Fixed interest and other debt security trusts	**95,746**	84,383
Mortgage trusts	**2,169**	5,512
Property syndicates and trusts	**22,165**	29,467
Total	**147,727**	159,633

(c) Current and non-current split

The redemption terms for investments in certain managed trusts can be varied by their responsible entities in response to market conditions. For those investments which cannot be redeemed entirely within one year from reporting date, the amounts have been allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at the end of the reporting period.

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

	2018 $'000	2017 $'000
Current	**1,784,580**	1,676,290
Non-current	**30,521**	30,307
Total	**1,815,101**	1,706,597

(d) Fair value and risk exposures

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

Financial assets and liabilities *continued*

8 Financial assets – Other financial assets at amortised cost

	2018 $'000	2017 $'000
Other financial assets at amortised cost – Bank bills and term deposits	**61,744**	88,735

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.

9 Financial liabilities – Borrowings

	2018 $'000	2017 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**82,769**	83,565
Retirement Village Investment Notes	**18,342**	27,830
	101,111	111,395
Unsecured interest bearing liabilities		
Call deposits	**389,497**	356,734
Term deposits	**213,088**	301,364
Development finance loans	**47**	12
Loan payable to related entity	**5,100**	5,100
Subordinated capital notes	**30,000**	–
	637,732	663,210
Total current borrowings	**738,843**	774,605
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**25,384**	23,766
Unsecured interest bearing liabilities		
Australian Unity Bonds – face value	**250,000**	250,000
Valuation at amortised cost	**(3,378)**	(4,711)
Australian Unity Bonds – at amortised cost	**246,622**	245,289
Subordinated capital notes	**–**	30,000
Term deposits	**21,161**	14,684
Development finance loans	**6,854**	527
	274,637	290,500
Total non-current borrowings	**300,021**	314,266
Total borrowings	**1,038,864**	1,088,871

(a) Australian Unity Bonds

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

As specified in the prospectus, the proceeds from the issue were used to refinance the $120,000,000 Australian Unity Notes, partly finance the acquisition of Home Care NSW and for general corporate purposes.

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

Under the terms of the bonds, Australian Unity Limited is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by cash and cash equivalents of the Company. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Australian Unity Bonds. As at 30 June 2018, the Australian Unity Bonds Covenant Gearing Ratio was 21.3% (30 June 2017: 39.9%).

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

(b) Development finance loans

The 2018 balance of development finance loans represented bank loan facilities for the development of retirement village in Mornington, Victoria (Peninsula Grange) and loan facilities for the development of the Herston Quarter health precinct in Brisbane, Queensland.

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

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

During the financial year, the Group issued a prospectus to facilitate the replacement of RVIN – Series 1 totalling $15,988,000 with new issues that have a three-year term and a lower interest rate. The Group also extended the term of maturing RVIN – Series 2 amounting to $3,973,000 for a three-year period with a lower interest rate. These RVIN give an option for the Group to repurchase the notes and make an early repayment in full before the maturity date.

The balance of RVIN as at 30 June 2018 amounted to $43,726,000 (2017: $51,596,000).

Financial assets and liabilities *continued*

9 Financial liabilities – Borrowings *continued*

(c) Retirement Village Investment Notes (RVIN) *continued*

The following table summarises the details of RVIN:

Name	Prospectus	Maturity date	Interest rate	30 June 2018 $'000	30 June 2017 $'000
RVIN – Series 1	4	30 November 2018	5.15%	**1,288**	–
	5	30 November 2017	7.50%	–	620
	6	30 November 2017	6.50%	–	8,581
	7	30 November 2017	5.60%	–	6,770
RVIN – Series 2	3	31 December 2018	5.15%	**734**	–
	5	31 December 2017	6.50%	–	4,118
	6	31 March 2018	6.10%	–	2,912
RVIN – Series 3	8	31 December 2017	7.50%	–	315
	10	31 March 2018	6.10%	–	4,514
	11	30 June 2019	5.00%	**6,320**	–
RVIN – Series 4	2	30 June 2019	5.00%	**10,000**	–
Interest bearing RVIN – current				**18,342**	27,830
RVIN – Series 1	4	30 November 2018	5.15%	–	1,288
	5	30 November 2019	7.50%	**5,408**	5,408
	8	30 November 2020	5.60%	**15,988**	–
RVIN – Series 2	3	31 December 2018	5.15%	–	734
	5	31 December 2020	5.60%	**3,973**	–
RVIN – Series 3	8	31 December 2019	7.50%	**15**	15
	11	30 June 2019	5.00%	–	6,321
RVIN – Series 4	2	30 June 2019	5.00%	–	10,000
Interest bearing RVIN – non-current				**25,384**	23,766
Total interest bearing RVIN				**43,726**	51,596
Total RVIN				**43,726**	51,596

(d) Subordinated capital notes

On 11 July 2013, the Group issued $30,000,000 of subordinated capital notes. The notes had a maturity of 10 years with a non-call 5 year period and bore a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00% per annum. After the non-call period, there would be a step-up interest of 1.50% per annum. The interest rate was set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2018, the applicable interest rate was 5.05% per annum (2017: 4.77% per annum). Since the issue date up to 11 July 2018 (non-call period), the variable component of the interest rate was swapped at 3.71% per annum resulting in a fixed interest rate of 6.71% per annum.

In May 2018, the Group exercised the option to redeem the subordinated capital notes after the non-call period. The notes were subsequently repaid in full on 11 July 2018.

(e) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2018, this rate amounted to between 0.01% and 2.05% (2017: between 0.01% and 2.05%).

(f) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2018 ranging between 1.50% and 4.10% (2017: between 1.45% and 4.90%).

(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 from related entity is repayable on demand and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 2%. At 30 June 2018 this rate amounted to 4.11% (2017: 3.72%).

(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

	2018 $'000	2017 $'000
Financial liabilities		
Refundable accommodation deposits	**227,149**	188,500
Resident loan liabilities	**828,768**	660,652
	1,055,917	849,152
Non-financial liabilities		
Unearned income	**135,940**	152,201
Others	**12,144**	5,703
	148,084	157,904
Total other current liabilities	**1,204,001**	1,007,056

(a) Unearned income

Unearned income represents mainly 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 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 12. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value 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
- 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 2018.

(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).

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

(i) Fair value hierarchy *continued*

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2018 and 2017 on a recurring basis.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	**2,511**	**1,159,279**	**–**	**1,161,790**
Fixed interest and other debt security trusts	**–**	**564,593**	**–**	**564,593**
Mortgage trusts	**–**	**5,418**	**–**	**5,418**
Property syndicates and trusts	**14,846**	**68,454**	**–**	**83,300**
Other financial assets	**–**	**–**	**7,065**	**7,065**
Total financial assets	**17,357**	**1,797,744**	**7,065**	**1,822,166**
Non-financial assets				
Investment properties	**–**	**–**	**1,169,437**	**1,169,437**
Total non-financial assets	**–**	**–**	**1,169,437**	**1,169,437**
Financial liabilities				
Interest rate swaps	**–**	**736**	**–**	**736**
Life investment contract policy liabilities	**–**	**1,179,421**	**–**	**1,179,421**
Total financial liabilities	**–**	**1,180,157**	**–**	**1,180,157**
30 June 2017				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,712	1,098,375	–	1,101,087
Fixed interest and other debt security trusts	–	494,942	–	494,942
Mortgage trusts	–	18,034	–	18,034
Property syndicates and trusts	12,911	79,623	–	92,534
Other financial assets	–	–	7,048	7,048
Total financial assets	15,623	1,690,974	7,048	1,713,645
Non-financial assets				
Investment properties	–	–	976,799	976,799
Total non-financial assets	–	–	976,799	976,799
Financial liabilities				
Interest rate swaps	–	1,577	–	1,577
Life investment contract policy liabilities	–	1,071,464	–	1,071,464
Total financial liabilities	–	1,073,041	–	1,073,041

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. Development sites are recognised at cost.

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

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

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

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

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

The following table presents the changes in level 3 instruments for the financial year ended 30 June 2018:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2016	332	820,885	821,217
Additions	6,750	157,098	163,848
Transfers	–	(13,500)	(13,500)
Transfers of development rights	–	(4,614)	(4,614)
Gains/(losses) recognised in other income*	(34)	16,930	16,896
Closing balance 30 June 2017	7,048	976,799	983,847
Opening balance 1 July 2017	**7,048**	**976,799**	**983,847**
Additions	**–**	**189,140**	**189,140**
Disposals	**–**	**(506)**	**(506)**
Transfers	**–**	**(10,311)**	**(10,311)**
Gains/(losses) recognised in other income*	**17**	**14,315**	**14,332**
Closing balance 30 June 2018	**7,065**	**1,169,437**	**1,176,502**
2018	**17**	**14,315**	**14,332**
2017	(34)	12,316	12,282

*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

Financial assets and liabilities *continued*

11 Fair value measurements *continued*

(a) Recognised fair value measurements *continued*

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

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2018 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	1,169,437	Discount rate	10.0% – 14.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -$11.7 million/+$14.4 million (2017: -$10.3 million/+$12.6 million).
		Property growth rate	0.0% – 4.0%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +$21.7 million/ -$19.5 million (2017: +$19.0 million/ -$17.2 million).
		Average length of residents' stay	4-8 years for serviced apartments, 9-13 years for other independent living units	The higher the average length of stay, the lower the fair value.

Valuation processes

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

(b) Disclosed fair values

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

	2018		2017	
	Amortised cost $'000	Fair value $'000	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**642,388**	**657,705**	688,230	700,279
Advances	**4,148**	**3,814**	6,347	5,880
	646,536	**661,519**	694,577	706,159
Current and non-current liabilities				
Australian Unity Bonds	**246,622**	**258,750**	245,289	261,750
Development finance loans	**6,901**	**6,839**	539	549
Retirement Village Investment Notes	**43,726**	**43,633**	51,596	52,019
Subordinated capital notes	**30,000**	**30,000**	30,000	29,462
Term deposits	**234,249**	**233,847**	316,048	315,801
	561,498	**573,069**	643,472	659,581

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

Non-financial assets and liabilities

12 Non-financial assets – Investment properties

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

	2018 $'000	2017 $'000
Retirement village independent living units	**792,552**	637,372
Retirement village property funds	**82,542**	79,498
Development sites	**294,343**	259,929
Total	**1,169,437**	976,799

(a) Movements of investment properties

	2018 $'000	2017 $'000
At fair value		
Balance at the beginning of the financial year	**976,799**	820,885
Additions	**185,929**	157,098
Transfer of development rights	**–**	(4,614)
Transfers to property, plant and equipment	**(7,100)**	(13,500)
Disposals	**(506)**	–
Net fair value movements	**14,315**	16,930
Balance at the end of the financial year	**1,169,437**	976,799

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

	2018 $'000	2017 $'000
Revenue	**64,517**	99,989
Expenses	**(39,578)**	(44,127)
Changes in fair value recognised in profit or loss	**14,315**	12,316
	39,254	68,178

Non-financial assets and liabilities *continued*

13 Non-financial assets – Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2016					
Cost	14,784	156,566	38,033	27,066	236,449
Accumulated depreciation	–	(15,760)	(23,227)	(20,110)	(59,097)
Net book amount	14,784	140,806	14,806	6,956	177,352
Year ended 30 June 2017					
Opening net book amount	14,784	140,806	14,806	6,956	177,352
Additions	22	6,135	5,085	5,433	16,675
Transfers from investment properties	13,500	–	–	–	13,500
Transfers of development rights	(8,380)	–	–	–	(8,380)
Transfers from intangibles	–	–	(1,800)	–	(1,800)
Other transfers	6,000	(6,000)	–	–	–
Disposals	–	(64)	(932)	(2,311)	(3,307)
Depreciation charge	–	(4,536)	(3,068)	(1,881)	(9,485)
Closing net book amount	25,926	136,341	14,091	8,197	184,555
At 30 June 2017					
Cost	25,926	156,613	34,595	28,938	246,072
Accumulated depreciation	–	(20,272)	(20,504)	(20,741)	(61,517)
Net book amount	25,926	136,341	14,091	8,197	184,555
Year ended 30 June 2018					
Opening net book amount	**25,926**	**136,341**	**14,091**	**8,197**	**184,555**
Additions	**–**	**41,170**	**830**	**1,120**	**43,120**
Transfers from investment properties	**7,100**	**–**	**–**	**–**	**7,100**
Transfers from intangibles	**–**	**–**	**3,714**	**–**	**3,714**
Disposals	**–**	**(4,243)**	**(3,114)**	**(1,185)**	**(8,542)**
Depreciation charge	**–**	**(4,268)**	**(6,216)**	**(2,183)**	**(12,667)**
Closing net book amount	**33,026**	**169,000**	**9,305**	**5,949**	**217,280**
At 30 June 2018					
Cost	**33,026**	**190,433**	**27,473**	**28,145**	**279,077**
Accumulated depreciation	**–**	**(21,433)**	**(18,168)**	**(22,196)**	**(61,797)**
Net book amount	**33,026**	**169,000**	**9,305**	**5,949**	**217,280**

14 Non-financial assets – Intangible assets

	Goodwill $'000	Computer software $'000	Bed and other licences $'000	Management rights and other intangible assets $'000	Total $'000
At 1 July 2016					
Cost	176,072	103,110	12,655	108,375	400,212
Accumulation amortisation	–	(38,593)	(160)	(10,946)	(49,699)
Net book amount	176,072	64,517	12,495	97,429	350,513
Year ended 30 June 2017					
Opening net book amount	176,072	64,517	12,495	97,429	350,513
Acquisition of subsidiaries/businesses	2,937	–	–	–	2,937
Additions	6,414	19,530	–	9,289	35,233
Transfers from property, plant and equipment	1,800	–	–	–	1,800
Disposals	–	(1,309)	–	–	(1,309)
Adjustments	(129)	–	–	–	(129)
Amortisation charge	–	(12,110)	(1,542)	(2,775)	(16,427)
Closing net book amount	187,094	70,628	10,953	103,943	372,618
At 30 June 2017					
Cost	187,094	117,086	12,655	120,514	437,349
Accumulation amortisation	–	(46,458)	(1,702)	(16,571)	(64,731)
Net book amount	187,094	70,628	10,953	103,943	372,618
Year ended 30 June 2018					
Opening net book amount	**187,094**	**70,628**	**10,953**	**103,943**	**372,618**
Acquisition of subsidiaries/businesses	**427**	**–**	**–**	**12,503**	**12,930**
Additions	**–**	**9,392**	**–**	**598**	**9,990**
Impairment of assets	**(6,000)**	**–**	**–**	**–**	**(6,000)**
Adjustments	**(541)**	**–**	**–**	**–**	**(541)**
Transfers to property, plant and equipment	**–**	**(3,714)**	**–**	**–**	**(3,714)**
Disposals	**(1,354)**	**(6,613)**	**–**	**–**	**(7,967)**
Amortisation charge	**–**	**(29,142)**	**(213)**	**(18,957)**	**(48,312)**
Closing net book amount	**179,626**	**40,551**	**10,740**	**98,087**	**329,004**
At 30 June 2018					
Cost	**185,626**	**92,434**	**12,655**	**125,288**	**416,003**
Accumulated amortisation and impairment	**(6,000)**	**(51,883)**	**(1,915)**	**(27,201)**	**(86,999)**
Net book amount	**179,626**	**40,551**	**10,740**	**98,087**	**329,004**

The management rights and other intangible assets include those with an indefinite life of $24,757,000 as at 30 June 2018 (2017: $35,910,000). The management rights amounting to $24,757,000 as at 30 June 2018 (2017: $24,757,000) 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. The balance of $11,153,000 as at 30 June 2017 was the value of Home Care Service of NSW brand name (registered trade mark) that was recognised in the business acquisition. Given the ability of the Group to leverage this brand name to maintain its presence or expand in the home care sector, it was determined that the brand name had an indefinite useful life. In the 2018 financial year, the asset's useful life was reassessed and consequently the brand name was reclassified as having a finite life of two years, resulting in an amortisation of $5,577,000 for the year.

During the year, a review of finite life intangible assets identified a number where the economic benefits had been fully realised earlier than originally expected. Consequently, the amortisation of $18,063,000 of computer software and $6,201,000 of management rights and other intangibles was accelerated to fully amortise those assets by 30 June 2018.

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 2018, the Group held 231 purchased licences and 758 granted licences (2017: 225 purchased licences and 660 granted licences).

Non-financial assets and liabilities *continued*

14 Non-financial assets – Intangible assets *continued*

(a) Impairment tests for goodwill and management rights

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication of impairment. The impairment test is conducted by comparing the asset's carrying amount with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount should be reduced to the recoverable amount. This reduction is recognised as an impairment loss in the income statement.

For the purpose of impairment test, the carrying amount of goodwill and intangible assets with an indefinite useful life is allocated to the Group's cash generating units (CGUs) identified within the relevant business platforms. A summary of the goodwill and intangible assets with an indefinite useful life allocation to each CGU is as follows:

	2018 $'000	2017 $'000
CGU		
Home & Disability Services	**141,116**	152,810
Wealth Assets Management	**34,108**	34,108
Trustee Services	**8,399**	14,399
Wealth Advice Services	**6,742**	6,742
Residential Communities	**20,017**	19,590
Health Services	**4,741**	4,741
Health Insurance	**–**	1,354
	215,123	233,744

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections sourced from financial forecasts included in the Group's strategic plan. This plan, which includes expectations of future events that are believed to be reasonable under the current circumstances, is developed annually with a four year outlook and is approved by the directors. Cash flows beyond the four year strategic plan period are extrapolated using growth rates based on estimates of expected long-term operating conditions appropriate for each CGU. An indefinite terminal cash flow calculation has been applied for cash flows beyond year five (except for the Home & Disability Services CGU disclosed in the section below).

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

Discount rates used in the value in use calculation represent the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. Pre-tax discount rates of 9.7% to 12.7% were applied to cash flow projections of the relevant CGU (2017: 9.3% to 13.6%). The terminal value is determined based on an assumption of terminal growth rate of 2.5% – 3.0% which is within the target long term inflation rate of the Reserve Bank of Australia (2017: 2.1% to 4.1%).

(c) Impact of possible changes in key assumptions

The value in use calculations are sensitive to changes in discount rates, terminal growth rates, earnings and working capital adjustments varying from the assumptions and forecast data used in impairment testing. Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and inherent risks of the underlying assets. As such, sensitivity analyses were undertaken to examine the effect of a change in a variable on each CGU. Based on this analysis it is concluded that, assuming the growth rate is at the level of the long term inflation rate, any possible change in the pre-tax discount rate of up to 10.94% (2017: 13.5%) per annum would not cause the recoverable amount of goodwill to fall below its carrying amount; except for the Home & Disability Services and Trustee Services CGUs noted in the following sections.

(d) Home & Disability Services CGU

The value in use calculation for Home & Disability Services is most sensitive to the following assumptions:

(i) The growth in the number of customer contracts – the CGU is predominately a newly acquired business, with the acquisition of the NSW State Government's home care operations in February 2016. Integration of this business was completed in February 2017 and since then it has been undergoing significant transformation of its operating environment and business processes. Projected growth of customer numbers and business efficiencies are based on experience to date, business plans and changing demographic opportunity.

In determining the growth in customer contracts, consideration has been given to the environmental context in which the business operates, including the current political climate and government policy relating to the National Disability Insurance Scheme (NDIS), Home Care Packages (HCP) and the Commonwealth Home Support Programme (CHSP). Revenue growth assumptions for the CGU have been determined at 30% in FY19 and between 8-9% over the four year plan period. The projected growth in FY19 is largely underpinned by the full year benefit of new HCP and NDIS clients obtained during FY18, together with government announced growth in HCP and NDIS packages expected in FY19. The key assumptions that underpin the recoverable amount are: revenue growth across HCP and NDIS including continuity of CHSP; and achievement of forecast operating margins across the business. There are a number of initiatives underway to improve operating margins and leverage high performing parts of the operation across the HDS business. Any development that impacts these assumptions over a sustained period has the potential to result in an impairment of the CGU.

(ii) Discount rates for the purpose of impairment testing – the pre-tax discount rate applied to Home & Disability Services' cash flow projections is 9.7%. A one percentage point change in the discount rate would not alter the impact of the impairment assessment.

(iii) Terminal growth rate – the terminal value has been calculated for this CGU on the extrapolated 10 year cash flows, with a terminal growth rate of 3%. A one percentage point change in the terminal growth rate would not alter the impact of the impairment assessment.

In the impairment test, the value-in-use calculation shows the estimated recoverable amount of the CGU to be $147 million higher than its carrying amount.

(e) Trustee Services CGU

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

(i) The Group acquired Flinders Australia Limited, its trustee services business, in July 2015. In February 2017 the business received its trustees' licence. Since this time, the company has expanded its operations, invested in building capability, reviewed its growth strategy and portfolio, and is in the process of implementing a new operating system. Each of these changes will support the growth of the business going forward. The forecasts reflect the significant commercial opportunity faced by the Trustees Services CGU, however, the Group acknowledges that there remains significant uncertainty around the pace and nature of growth and when this can be realised.

(ii) Discount rates for the purpose of impairment testing – the pre-tax discount rate applied to Trustee Services' cash flow projections is 11.0%.

(iii) Terminal growth rate – the terminal value has been calculated for this CGU on the extrapolated 5 year cash flows, with a terminal growth rate of 3%.

As a result of the impairment test, an impairment loss of $6.0 million has been recognised in the Consolidated statement of comprehensive income and reported as "Impairment of assets" (refer notes 3 and 14).

15 Non-financial liabilities – Deferred tax balances

The balance comprises temporary differences attributable to:

	2018 $'000	2017 $'000
Deferred tax assets		
Accrued expenses	**11,735**	13,357
Fixed assets	**12,673**	10,782
Capitalised expenditure	**3,687**	3,166
Derived consortium management fee	**–**	3,030
Policy bonus credits	**32,197**	26,728
Provisions	**31,378**	25,398
Risk Equalisation Special Account	**390**	3,828
Tax losses	**1,964**	8,704
Trust distribution	**6,494**	6,117
Unrealised losses	**286**	531
Other assessable items	**2,534**	3,725
Total deferred tax assets	**103,338**	105,366
Deferred tax liabilities		
Allocable cost adjustment on consolidation	**1,013**	1,013
Fixed assets and investment properties	**87,766**	83,422
Intangible assets	**26,139**	29,187
Risk Equalisation Special Account	**10,199**	11,249
Tax deferred	**4,451**	3,015
Unrealised gains	**34,637**	24,816
Other deductible items	**5,835**	12,046
Total deferred tax liabilities	**170,040**	164,748
Net deferred tax liabilities	**66,702**	59,382

Non-financial assets and liabilities *continued*

16 Non-financial liabilities – Provisions

	2018 $'000	2017 $'000
Current provisions		
Employee benefits provision	**62,943**	65,102
Outstanding claims	**56,021**	69,839
Other provisions	**10,175**	7,472
	129,139	142,413

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 payables. 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 23 for the movements in outstanding claims provision.

17 Equity

(a) Reserves

	2018 $'000	2017 $'000
Asset revaluation reserve	**2,462**	2,462
Post-employment benefit reserve	**3,462**	3,011
Cash flow hedges reserve	**(515)**	(1,104)
Total	**5,409**	4,369
Movements:		
Asset revaluation reserve		
Balance at the beginning of the year	**2,462**	2,462
Balance at the end of the year	**2,462**	2,462
Post-employment benefit reserve (i)		
Balance at the beginning of the year	**3,011**	–
Remeasurement of net defined benefit obligations	**451**	3,011
Balance at the end of the year	**3,462**	3,011
Reserve for credit losses		
Balance at the beginning of the year	**–**	2,042
Adjustment on adoption of AASB 9, net of tax	**–**	(2,043)
Transfer from retained earnings	**–**	1
Balance at the end of the year	**–**	–
Cash flow hedges reserve (ii)		
Balance at the beginning of the year	**(1,104)**	(1,122)
Movements in hedging value during the year	**841**	25
Deferred tax	**(252)**	(7)
Balance at the end of the year	**(515)**	(1,104)

(i) Post-employment benefit reserve
Post-employment benefit reserve represents the defined benefit reserve that is used to record actuarial gains or losses on defined benefit liabilities and actual returns on fund assets (excluding interest income) which are recognised in Other comprehensive income.

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

(b) Retained earnings

Movements in retained earnings were as follows:

	2018 $'000	2017 $'000
Balance at the beginning of the financial year	**360,687**	320,222
Adjustment on adoption of AASB 9, net of tax	**–**	(6,382)
Transfer to reserve for credit losses	**–**	(1)
Profit for the year	**51,542**	46,848
Balance at the end of the financial year	**412,229**	360,687

18 Cash flow information

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

	2018 $'000	2017 $'000
Profit after income tax for the year	**51,542**	46,848
Profit from discontinued operations	**(66,860)**	–
Net operating cash flows after tax related to discontinued operations	**(22,973)**	–
Depreciation and amortisation expense	**60,979**	25,912
Impairment of assets	**6,364**	6,690
Investment income	**(4,677)**	(9,045)
Fair value gains on investment property	**(14,315)**	(16,930)
Loss/(gain) on disposal of assets	**14,571**	(5,079)
Share of net profit or loss of joint ventures	**121**	2,189
Changes in operating assets and liabilities (net of the effects of discontinued operations):		
Decrease/(increase) in trade and other receivables	**21,805**	(70,508)
Decrease in loans and advances	**49,252**	25,841
Decrease/(increase) in current tax assets	**1,222**	(1,222)
Decrease/(increase) in other operating assets	**11,595**	(10,888)
Increase in trade and other payables	**12,884**	20,087
Decrease in deposits liability	**(49,832)**	(32,036)
Increase/(decrease) in current tax liabilities	**31,786**	(15,879)
Increase/(decrease) in deferred tax liabilities	**3,150**	(5,406)
Increase/(decrease) in provisions	**(468)**	18,698
Increase/(decrease) in benefit fund policy liabilities	**(34,699)**	162,227
Increase in other operating liabilities	**5,280**	23,095
Net cash inflow from operating activities	**76,727**	164,594

Non-financial assets and liabilities *continued*

18 Cash flow information *continued*

(b) Reconciliation of liabilities arising from financing activities

	Interest bearing liabilities $'000	Other liabilities $'000	Total $'000
Opening balance as at 1 July 2017	337,235	855,664	1,192,899
Cash flows			
Proceeds from refinancing of RVIN	1,043	–	1,043
Repayments of RVIN	(8,913)	(6,512)	(15,425)
Receipts from development finance loans	6,362	–	6,362
Receipts from resident loan liabilities	–	85,872	85,872
Receipts from refundable lease deposits	–	38,649	38,649
	1,508	(118,009)	(116,501)
Takeover of joint venture investment properties and resident loan liabilities	–	82,244	82,244
Closing balance as at 30 June 2018	335,727	1,055,917	1,391,644

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 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 of loan assets upon initial recognition of the assets and whether there has been a significant increase in credit risk as at the reporting date compared with the risk as at the date of initial recognition. A provision for expected credit loss is estimated based on the cash shortfalls over the expected life of the assets. 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 (CGUs) to which the goodwill and intangibles with indefinite useful lives are allocated. The recoverable amounts of CGUs 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 23 and 34.

(vi) Income taxes

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

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

(i) Classification of life insurance liabilities

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

(ii) Interest in subsidiaries, associates and joint ventures

The Group has investments in other entities and managed investment schemes where Group entities act as the responsible entity for the schemes. In applying the accounting policy the Group exercises significant judgements to determine which entities and investment schemes are controlled and, therefore, are required to be consolidated. The Group has consolidated those entities determined as being controlled, with principal subsidiaries listed in note 21. 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 that investments in associates are those relationships where significant influence over another entity exists. The Group has concluded that the joint arrangement investments in Acorn Capital Limited and Platypus Asset Management Pty Ltd are joint ventures. The Group does not have power to control these entities.

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.

Risk management *continued*

20 Financial risk management *continued*

(a) Market risk *continued*

(i) Foreign exchange risk

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

As at the end of the reporting period, if foreign exchange rates had increased or decreased by 10% (2017: 10%), 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	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Exchange rates +10% (2017: +10%)	**(1,031)**	(1,718)	**(1,031)**	(1,718)
Exchange rates -10% (2017: -10%)	**1,031**	1,718	**1,031**	1,718

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

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

The table below summarises the impact of changes in securities prices assuming the prices had increased or decreased by 10% (2017: 10%) 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	
Judgements of reasonably possible movements	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Securities prices +10% (2017: +10%)	**2,238**	5,489	**2,238**	5,489
Securities prices -10% (2017: -10%)	**(2,238)**	(5,489)	**(2,238)**	(5,489)

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 2018 and 2017, 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:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	**564,612**	393,793
Financial assets at fair value through profit or loss	**122,596**	103,758
Loans and advances	**485,674**	518,843
Total financial assets	**1,172,882**	1,016,394
Financial liabilities		
Australian Unity Bonds (i)	**250,000**	250,000
Call deposits	**329,035**	356,734
Development finance loans	**47**	539
Loan payable to related entity	**5,100**	5,100
Subordinated capital notes (ii)	**30,000**	30,000
Interest rate swap, at notional principal amounts	**(280,000)**	(280,000)
Total financial liabilities	**334,182**	362,373
Net position	**838,700**	654,021

(i) The Australian Unity Bonds carry a 2.80% fixed margin (2017: 2.80%) resulting in a total interest rate at 30 June 2018 of 4.88% (2017: 4.57%). The variable interest component of the bonds was hedged via an interest rate swap at 2.20% effective from 14 July 2016 and will expire on the maturity of the bonds.

(ii) The subordinated capital notes carried a 3.00% fixed margin (2017: 3.00%) resulting in a total interest rate at 30 June 2018 of 5.05% (2017: 4.77%). Only the variable interest portion is hedged via an interest rate swap.

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

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

As at the end of the reporting period, if interest rates had increased or decreased by 0.50% (2017: 0.50%), 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	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Interest rates +0.50% (2017: +0.50%)	**2,446**	1,847	**2,446**	1,847
Interest rates -0.50% (2017: -0.50%)	**(2,446)**	(1,847)	**(2,446)**	(1,847)

Risk management *continued*

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 to mitigate credit risk.

Under the current credit risk modelling, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Regardless of the analysis, a significant increase in credit risk is presumed if a debtor or borrower is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within the prescribed days of when they fall due as determined by each business segment.

Trade and other receivables

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

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

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

The Group applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss as permitted by the standard. Under the simplified ECL approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Group conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. The additional provision during the current financial year was immaterial.

Loans provided by the building society to customers

The Group's subsidiary, Big Sky Building Society Limited, provides mortgage and personal loans to customers. The mortgage loans consist of residential housing loans and commercial property loans. The Group is exposed to the risk of loss in relation to these loans due to the failure by customers to meet their obligations in accordance with the agreed terms. To mitigate the risk of potential losses that may arise from any default, the building society holds collateral, when required, as security for the loans. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans, net of any provisions for impairment. Loan mortgage insurance is generally taken out for any residential mortgages with an LVR in excess of 80%. Accordingly, the financial effect of these measures is that remaining credit risk on loans is very low. Some lending products will be mostly unsecured (e.g. personal loans). Loans impairment experience supports the assignment of a credit risk rating of satisfactory or better. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group board. The compliance with credit limits by wholesale customers is regularly monitored by management.

The Group makes an assessment whether there is a significant increase in credit risk at each reporting date. In this assessment, the Group considers historical loss experience and adjusts this with the current observable data and reasonable forecast of future economic condition which includes macroeconomic factors to detect any indication of a significant increase in credit risk. An analysis to estimate the expected credit loss is performed on each portfolio of accounts with shared risk characteristics. As disclosed in the accounting policy note, the Group applies a three-stage approach to distinguish the categories of loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. The addition to credit loss provision during the current financial year was immaterial.

Other loans and advances

The Group has loans to related entities and advances to other parties. To assess whether there is a significant increase in credit risk, the Group considers the financial or economic conditions that may cause a significant change to the borrower's ability to meet its obligations, the actual or anticipated significant adverse changes in the performance of the borrowers and significant changes in the value of the collateral supporting the obligation.

The loans to related entities are secured by a second mortgage on the properties of the related entities and by a personal guarantee from the directors of the related entities. There is no significant increase in credit risk and these loans are expected to be repaid within a year.

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade $'000	Other grade $'000	$'000	$'000	$'000
At 30 June 2018					
Cash and cash equivalents	**1,011,024**	**–**	**–**	**–**	**1,011,024**
Trade and other receivables	**470**	**79,390**	**47,600**	**9,029**	**136,489**
Financial assets at fair value through profit or loss	**564,593**	**1,250,508**	**–**	**–**	**1,815,101**
Other financial assets at amortised cost	**61,744**	**–**	**–**	**–**	**61,744**
Loans and advances	**525,313**	**120,972**	**15,718**	**8,368**	**670,371**
Other financial assets	**–**	**30,386**	**–**	**–**	**30,386**
	2,163,144	**1,481,256**	**63,318**	**17,397**	**3,725,115**
At 30 June 2017					
Cash and cash equivalents	893,725	–	–	–	893,725
Trade and other receivables	379	113,352	59,213	2,475	175,419
Financial assets at fair value through profit or loss	494,942	1,211,655	–	–	1,706,597
Other financial assets at amortised cost	88,735	–	–	–	88,735
Loans and advances	590,895	128,043	10,603	3,242	732,783
Other financial assets	–	40,929	–	–	40,929
	2,068,676	1,493,979	69,816	5,717	3,638,188

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 occurs. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved undrawn loans of $15,898,000 (2017: $9,683,000).

The Group provides financial guarantees to certain parties amounting to $36,799,000 (2017: $57,488,000). 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.

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

(c) Liquidity risk

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

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

Maturities of financial liabilities

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

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

For the financial guarantee and building society credit commitments as at 30 June 2018 (refer to notes 28 and 29), as the probability and value of the obligation that may be called on is unpredictable; it is not practical to state the timing of any potential payment. However, there is a contractual obligation for the Group to provide the funds when they are called upon by the counterparties.

Risk management *continued*

20 Financial risk management *continued*

(c) Liquidity risk *continued*

Maturities of financial liabilities *continued*

	Less than 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2018						
Trade and other payables	**123,683**	**–**	**–**	**–**	**–**	**123,683**
Current tax liabilities	**–**	**32,345**	**–**	**–**	**–**	**32,345**
Interest bearing liabilities						
Australian Unity Bonds	**6,247**	**6,247**	**268,220**	**–**	**–**	**280,714**
Subordinated capital notes	**30,503**	**–**	**–**	**–**	**–**	**30,503**
Development finance loan	**214**	**214**	**7,399**	**–**	**–**	**7,827**
Call deposits	**389,840**	**–**	**–**	**–**	**–**	**389,840**
Term deposits	**178,967**	**35,638**	**30,917**	**–**	**–**	**245,522**
Mortgage offset savings accounts	**82,769**	**–**	**–**	**–**	**–**	**82,769**
Retirement Village Investment Notes	**3,239**	**17,490**	**27,156**	**–**	**–**	**47,885**
Loan payable to related entity	**105**	**5,205**	**–**	**–**	**–**	**5,310**
	691,884	**64,794**	**333,692**	**–**	**–**	**1,090,370**
Benefit fund policy liabilities	**176,507**	**143,888**	**–**	**–**	**1,861,969**	**2,182,364**
Other liabilities	**911**	**5,128**	**4,986**	**–**	**1,058,053**	**1,069,078**
Total liabilities	**992,985**	**246,155**	**338,678**	**–**	**2,920,022**	**4,497,840**
At 30 June 2017						
Trade and other payables	140,153	–	–	–	–	140,153
Interest bearing liabilities						
Australian Unity Bonds	6,247	6,247	280,714	–	–	293,208
Subordinated capital notes	1,007	1,007	5,718	31,489	–	39,221
Development finance loan	17	29	598	–	–	644
Call deposits	362,321	–	–	–	–	362,321
Term deposits	255,443	48,185	22,602	–	–	326,230
Mortgage offset savings accounts	83,565	–	–	–	–	83,565
Retirement Village Investment Notes	21,867	3,758	29,771	–	–	55,396
Loan payable to related entity	5,148	–	–	–	–	5,148
	735,615	59,226	339,403	31,489	–	1,165,733
Benefit fund policy liabilities	106,100	246,914	–	–	1,763,450	2,116,464
Other liabilities	281	–	1,621	–	852,953	854,855
Total liabilities	982,149	306,140	341,024	31,489	2,616,403	4,277,205

(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 2018 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, and the economic, operational and capital needs of the business.

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

(e) Insurance risk

The health insurance 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 Australian Prudential Regulation Authority (APRA).

Prudential capital requirements

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

Risk equalisation

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

Concentration of insurance risk

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

Ability to vary premium rates

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

Preventative health programs

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

Risk management *continued*

20 Financial risk management *continued*

(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:

- principal subsidiaries included in the Consolidated financial statements,
- parent entity, health insurance and building society financial information, and
- reconciliation of profit attributable to members of Australian Unity Limited.

21 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	Albert Road Development Manager Pty Ltd
Australian Unity Finance Limited	Australian Unity Aged Care Investments Pty Ltd
Australian Unity Funds Management Limited	Australian Unity Aged Care Trust #1
Australian Unity Group Services Pty Ltd	Australian Unity Aged Care Trust #2
Australian Unity Health Care Pty Ltd	Australian Unity Aged Care Trust #4
Australian Unity Health Limited	Australian Unity Aged Care Trust #5
Australian Unity Investment Real Estate Ltd	Australian Unity Aurora Operations Trust
Australian Unity Personal Financial Services Limited	Australian Unity Bondi Trust
Australian Unity Property Limited	Australian Unity Campbell Place Aged Care Land Trust
Australian Unity Retirement Living Holdings Pty Ltd	Australian Unity Campbell Place Retirement Village Land Trust
Australian Unity Retirement Living Investments Limited	Australian Unity Care Services Pty Ltd
Australian Unity Retirement Living Services Limited	Australian Unity Carlton Aged Care Trust
Australian Unity Strategic Holdings Pty Limited	Australian Unity Carlton Retirement Trust #1
Australian Unity Strategic Investments Pty Ltd	Australian Unity Home Care Pty Ltd
Big Sky Building Society Limited	Australian Unity Home Care #2 Pty Ltd
Grand United Corporate Health Limited (GUCH)*	Australian Unity Home Care Service Pty Ltd
Herston Company Pty Ltd	Australian Unity Investments Trust
Lifeplan Australia Friendly Society Limited	Australian Unity Lilydale Development Trust
Remedy Healthcare Group Pty Ltd	Australian Unity Peninsula Grange RACF Land Trust
	Australian Unity Retirement Development Management Pty Ltd
	Australian Unity Retirement Living Management Pty Ltd
	Australian Unity Retirement Village Trust #1
	Australian Unity Retirement Village Trust #2
	Australian Unity Retirement Village Trust #5
	Australian Unity Trustees Ltd
	Better Home Care Pty Ltd
	Campbell Place Development Manager Pty Ltd
	Certainty Financial Pty Ltd
	Herston Development Company Pty Ltd
	Rathdowne Place Residences Project Manager Pty Ltd
	The Australian Unity Mornington Development Trust
	The Australian Unity Sienna Grange Development Trust
	The Australian Unity Victoria Grange Development Trust
	The Governor's Retirement Resort Pty Ltd
	Victoria Grange Sub Trust

*GUCH was sold in October 2017 (refer note 26)

Group structure *continued*

22 Parent entity financial information

(a) Summary financial information

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

	2018 $'000	2017 $'000
Balance sheet		
Cash and cash equivalents	**206,958**	22,262
Other current assets	**7,106**	48,205
Current assets	**214,064**	70,467
Non–current assets	**834,117**	784,694
Total assets	**1,048,181**	855,161
Current liabilities	**71,264**	19,123
Non–current liabilities	**271,272**	250,932
Total liabilities	**342,536**	270,055
Members' balances	**255,625**	255,625
Reserves	**(395)**	(496)
Retained earnings	**450,415**	329,977
Total equity	**705,645**	585,106
Profit for the year	**120,438**	48,721
Total comprehensive income for the year	**120,438**	48,721

(b) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2018 and 2017.

(c) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2018 and 2017.

23 Health insurance financial information

The disclosures below relate only to the continuing operations of the health insurance business of a controlled entity and do not include those that were disposed of during the 2018 financial year (refer note 26).

(a) Details of income an expenses

	2018 $'000	2017 $'000
Revenue		
Premium revenue	**686,544**	686,612
Expenses		
Claims expense	**(613,304)**	(618,653)
Risk equalisation	**59,433**	59,842
State levies	**(3,783)**	(4,025)
Net claims expense	**(557,654)**	(562,836)
Gross underwriting result	**128,890**	123,776
Management expenses		
Commission	**(16,551)**	(15,009)
Employee benefit expense	**(28,277)**	(27,313)
Marketing	**(6,720)**	(6,986)
Technology	**(8,202)**	(8,273)
Other management expenses	**(16,737)**	(18,272)
Total management expenses	**(76,487)**	(75,853)
Net underwriting result	**52,403**	47,923
Investment income	**12,014**	10,860
Finance costs	**(2,878)**	(3,039)
Profit before income tax	**61,539**	55,744
Income tax expense	**(18,214)**	(16,350)
Profit after income tax	**43,325**	39,394

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

	2018 $'000	2017 $'000
Movement in net RESA receivable		
Balance at the beginning of the financial year	**16,231**	14,258
Net RESA raised during the year	**59,433**	59,842
Net RESA received during the year	**(60,816)**	(57,869)
Balance at the end of the financial year	**14,848**	16,231

Group structure *continued*

23 Health insurance financial information *continued*

(c) Outstanding claims provision

	2018 $'000	2017 $'000
Outstanding claims – central estimate of the expected present value of future payments for claims incurred	**50,332**	48,414
Risk margin	**4,389**	4,425
Claims handling costs	**1,300**	1,300
Gross outstanding claims liability	**56,021**	54,139
Movement in the gross outstanding claims provision (current liabilities)		
Balance at the beginning of the financial year	**54,139**	48,936
Claims incurred during the year	**616,607**	625,123
Claims paid during the year	**(611,422)**	(613,450)
Movement in other components	**(3,303)**	(6,470)
Balance at the end of the financial year	**56,021**	54,139

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 8.5% (2017: 8.9%) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2017: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments that is not explained by the model adopted to determine the central estimate and the results are assumed to be indicative of future volatility.

The outstanding claims estimates are based on the hospital and ancillary valuation classes. Estimated outstanding claims are calculated using two methods. For all ancillary claims and for hospital claims incurred in or prior to the service month of May 2018, a chain ladder method is used; adjustments are then applied to reflect changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes in the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods. For hospital claims incurred in the service month of June 2018, the estimate is based on the business' latest forecast of incurred claims costs, adjusted to reflect actual business volumes and mix. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 1.60 months (2017: 1.87 months).

Impact of changes in key variables

The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. A 10 percent increase/decrease in the central estimate would result in a $3.52 million decrease/increase to profit after tax (2017: $4.36 million) and a $3.52 million decrease/increase to equity (2017: $4.36 million). A 10 percent movement in other key outstanding claims variables, including risk margin and claims handling costs, would result in an insignificant decrease/increase to profit after tax and equity.

(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 2018 (2017: $nil) at a 75% (2017: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

24 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

	2018 $'000	2017 $'000
Interest income	**31,455**	33,687
Interest expense	**(11,694)**	(15,346)
Net interest income	**19,761**	18,341
Non–interest income	**3,689**	2,897
Total income	**23,450**	21,238
Other operating expenses	**(19,518)**	(18,858)
Profit before income tax	**3,932**	2,380
Income tax expense	**(1,182)**	(716)
Profit after income tax	**2,750**	1,664

(b) Financial position summary

	2018 $'000	2017 $'000
Cash and cash equivalents	**10,024**	13,149
Financial assets at fair value through profit or loss	**54,219**	30,590
Other financial assets at amortised cost	**54,923**	79,421
Loans and advances	**650,974**	698,013
Other assets	**7,301**	6,178
Total assets	**777,441**	827,351
Interest bearing liabilities	**708,593**	761,476
Other liabilities	**6,245**	6,096
Total liabilities	**714,838**	767,572
Net assets (Equity)	**62,603**	59,779

(c) Capital adequacy

	2018 $'000	2017 $'000
Reserves and retained earnings	**75,506**	70,281
Less regulatory prescribed adjustments	**(5,282)**	(4,498)
Regulatory capital base	**70,224**	65,783
Risk weighted exposures	**400,190**	402,144
Capital adequacy ratio	**17.55%**	16.36%

Group structure *continued*

25 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 2018			
Continuing operations			
Revenue and other income	**1,318,654**	**–**	**1,318,654**
Direct life insurance premium revenue	**–**	**493**	**493**
Outwards reinsurance expense	**–**	**(223)**	**(223)**
Deposits received – investment contracts with DPF*	**–**	**41,024**	**41,024**
Investment income	**–**	**124,063**	**124,063**
Other	**–**	**2,651**	**2,651**
Total revenue and other income	**1,318,654**	**168,008**	**1,486,662**
Life insurance claims expense	**–**	**8,878**	**8,878**
Benefits and withdrawals paid – investment contracts with DPF*	**–**	**91,748**	**91,748**
Expenses, excluding finance costs	**1,341,206**	**42,310**	**1,383,516**
Total expenses, excluding finance costs	**1,341,206**	**142,936**	**1,484,142**
Finance costs	**(20,543)**	**–**	**(20,543)**
Share of net losses of joint ventures	**(121)**	**–**	**(121)**
Profit/(loss) before income tax	**(43,216)**	**25,072**	**(18,144)**
Income tax benefit/(expense)	**27,898**	**(25,072)**	**2,826**
Loss from continuing operations	**(15,318)**	**–**	**(15,318)**
Profit from discontinued operation	**66,860**	**–**	**66,860**
Profit after income tax	**51,542**	**–**	**51,542**
For the year ended 30 June 2017			
Continuing operations			
Revenue and other income	1,334,842	–	1,334,842
Direct life insurance premium revenue	–	632	632
Outwards reinsurance expense	–	(245)	(245)
Deposits received – investment contracts with DPF*	–	179,118	179,118
Investment income	–	68,005	68,005
Other	–	162	162
Total revenue and other income	1,334,842	247,672	1,582,514
Life insurance claims expense	–	1,659	1,659
Benefits and withdrawals paid – investment contracts with DPF*	–	219,154	219,154
Expenses, excluding finance costs	1,292,355	14,825	1,307,180
Total expenses, excluding finance costs	1,292,355	235,638	1,527,993
Finance costs	(20,042)	–	(20,042)
Share of net losses of joint ventures	(2,189)	–	(2,189)
Profit before income tax	20,256	12,034	32,290
Income tax benefit/(expense)	17,417	(12,034)	5,383
Profit from continuing operations	37,673	–	37,673
Profit from discontinued operation	9,175	–	9,175
Profit after income tax	46,848	–	46,848

*DPF = Discretionary Participating Feature

26 Sale of Grand United Corporate Health Limited

(a) Description

On 31 October 2017, the Group sold all of its shares in Grand United Corporate Health Limited (GUCH), a wholly-owned subsidiary operating a corporate health insurance business, for $155,690,000. The sale is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the four months ended 31 October 2017 and the financial year ended 30 June 2017.

	2018 (four months) $'000	2017 (one year) $'000
Net premium revenue	**54,861**	157,173
Net claims expense	**(43,274)**	(129,797)
Gross underwriting result	**11,587**	27,376
Other revenue	**1,169**	3,159
Management expenses	**(6,235)**	(19,985)
Net underwriting result	**6,521**	10,550
Investment income	**1,066**	3,028
Finance costs	**(249)**	(602)
Profit before income tax	**7,338**	12,976
Income tax expense	**(2,042)**	(3,801)
Profit after income tax of GUCH	**5,296**	9,175
Gain on sale of GUCH after income tax	**61,564**	–
Profit from discontinued operation	**66,860**	9,175
Net cash inflow from operating activities	**7,618**	12,009
Net cash inflow/(outflow) from investing activities	**(1,789)**	3,969
Net cash inflow from the sale of GUCH	**81,609**	–
Net cash outflow from financing activities	**(4,500)**	(4,000)
Net increase in cash generated by GUCH	**82,938**	11,978

(c) Detail of the sale of GUCH

	$'000
Cash consideration	155,690
Carrying amount of net assets sold and incremental costs directly related to the sale	(71,406)
Gain on sale before income tax	84,284
Income tax expense	(22,720)
Gain on sale of GUCH after income tax	61,564

Group structure *continued*

26 Sale of Grand United Corporate Health Limited *continued*

(d) Carrying amount of net assets disposed of

	31 October 2017 $'000
Assets	
Cash and cash equivalents	70,360
Trade and other receivables	14,401
Financial assets at fair value through profit or loss	27,902
Other assets	6,969
Total assets	119,632
Liabilities	
Trade and other payables	21,285
Outstanding claims provision	15,350
Other current liabilities	20,861
Total liabilities	57,496
Net assets	62,136

27 Business combination

Bridgeport acquisition

On 1 March 2018, Australian Unity Personal Financial Services Limited acquired the business of Bridgeport, a financial advice business wholly owned by Netwealth Group Limited, which has retail clients in major capital cities of Australia and total funds under advice of $550 million. The acquisition is in line with the Group's strategic focus for its personal financial services business to increase its economies of scale, profit and market presence in strategic locations. The business assets acquired and liabilities assumed mainly consist of client contracts, business intellectual property, business records and employee entitlement liabilities. Total purchase consideration amounted to $12.3 million, consisting of a cash payment at completion date of $4.9 million and deferred payments estimated to be $5.1 million and $2.3 million due in 12 months and 24 months respectively. The amounts of deferred payments are subject to the recurring revenue obtained within the respective periods. Net assets recognised in the preliminary accounting for the acquisition mainly consisted of $12.7 million of intangible assets (client relationships) with a finite life. The acquisition accounting will be finalised within 12 months of the purchase.

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.

28 Commitments

(a) Capital commitments

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

	2018 $'000	2017 $'000
Payable within one year:		
Investment property	**17,606**	8,219
	17,606	8,219

(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:

	2018 $'000	2017 $'000
Within one year	**13,646**	13,068
Later than one year but not later than five years	**18,481**	23,295
Later than five years	**37**	638
	32,164	37,001

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 2.39 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.

	2018 $'000	2017 $'000
Irrevocable approved but undrawn loans	**15,898**	9,683
Revocable loans with balances available for redraw	**38,107**	44,698
Revocable undrawn lines of credit, credit cards and overdrafts	**21,774**	24,972
	75,779	79,353

(d) Agreement for lease

The Group has entered into an Agreement for Lease for a new head office site in Spring Street, Melbourne. The actual lease will be entered into once practical completion of construction occurs and an occupancy certificate for the site is received, which is anticipated to happen in 2019. The lease will be for 15 years, having options to extend for two further terms of five years, with an initial annual rent of approximately $7.9 million.

29 Contingencies

Contingent liabilities

As at 30 June 2018, the Group had contingent liabilities in relation to future development activities of the Herston Quarter site in Brisbane, Queensland totalling to $88,931,000 (2017: $78,830,000). Partially offsetting this, the Group is the beneficiary to an insurance bond of $7,618,000 (2017: $5,900,000) in relation to one of the contingent liabilities.

There have been legal claims lodged for damages against the Group for which no provision has been raised, due to the belief it is not probable that these claims will succeed and that it is not practical to estimate the potential effect of these claims. The directors are of the view that none of these claims are likely to result in material exposure.

Guarantees

The Group has entered into bank guarantee arrangements totalling $36,799,000 (2017: $57,488,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

The Group had no other contingent assets or liabilities at 30 June 2018.

30 Events occurring after the reporting period

On 11 July 2018, the $30,000,000 subordinated capital notes issued by the group were repaid in accordance with the terms of the notes.

The board is not aware of any other matter or circumstance arising since 30 June 2018 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.

31 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 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 32.

(d) Related party transactions

Transactions between the Group and related parties for the financial years ended 30 June 2018 and 2017 were as follows:

- Dividends received from joint ventures, $530,432 (2017: $154,310).
- Investment management fees charged by joint ventures, $804,882 (2017: $3,345,958).
- Commission, director fees and other costs charged to joint ventures, $223,597 (2017: $819,978).
- Performance fees charged by joint ventures, $1,434,652 (2017: $730,219).
- Donations to a related charity organisation, $519,451 (2017: $323,406).
- Net amount of development loans repaid by related entities, $16,452,391 (2017: $14,893,749).
- Investment income from related entities, $9,092,441 (2017: $15,598,049).
- Transfers of retirement and aged care facility development rights to associates, $nil (2017: $21,380,000).

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

(e) Balances with related parties

The following balances with related entities were outstanding at the end of each reporting period:

	2018 $	2017 $
Assets		
Cash and cash equivalents	**943,582,809**	703,091,414
Trade and other receivables	**4,297,379**	4,071,521
Loans to related entities (note 6)	**–**	16,452,391
Financial assets at fair value through profit or loss	**638,369,827**	603,910,774
	1,586,250,015	1,327,526,100
Liabilities		
Trade and other payables	**1,770,248**	698,863
Loans payable to related entities	**11,954,334**	5,100,000
	13,724,582	5,798,863

32 Key management personnel disclosures

(a) Key management personnel compensation

	2018 $	2017 $
Short term employee benefits	**6,244,032**	6,391,442
Post employment benefits	**217,655**	254,435
Long term benefits	**573,461**	514,935
	7,035,148	7,160,812

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.

33 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

	2018 $	2017 $
PricewaterhouseCoopers Australia		
Audit and review of financial statements	**1,611,269**	1,627,078
Audit of regulatory returns	**288,130**	281,847
Total remuneration for audit and other assurance services	**1,899,399**	1,908,925

(b) Taxation and other services

	2018 $	2017 $
PricewaterhouseCoopers Australia		
Tax compliance services	**212,651**	212,049
Tax consulting services	**130,184**	160,000
Other services	**221,457**	1,220,832
Total remuneration for taxation and other services	**564,292**	1,592,881
Total auditors' remuneration	**2,463,691**	3,501,806

It is Australian Unity Limited's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties only where PricewaterhouseCoopers' expertise and experience with Australian Unity Limited's business are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

Other information *continued*

34 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

	2018 $'000	2017 $'000
Life investment contract liabilities	**1,179,421**	1,071,464
Life insurance contract liabilities – guaranteed element	**901,979**	945,048
Life insurance contract liabilities – other	**684**	592
Unvested policyholder liabilities	**100,280**	99,360
Total policy liabilities	**2,182,364**	2,116,464
Expected to be realised within 12 months	**320,395**	353,014
Expected to be realised in more than 12 months	**1,861,969**	1,763,450
	2,182,364	2,116,464

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

(b) Reconciliation of changes in policy liabilities

	2018 $'000	2017 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**1,071,464**	858,016
Increase recognised in the profit or loss	**58,375**	43,637
Premiums recognised as a change in contract liabilities	**276,512**	302,013
Claims recognised as a change in contract liabilities	**(226,930)**	(132,202)
Balance at the end of the financial year	**1,179,421**	1,071,464
Life insurance contract liabilities		
Balance at the beginning of the financial year	**945,640**	1,001,821
Decrease recognised in the profit or loss	**(42,977)**	(56,181)
Balance at the end of the financial year	**902,663**	945,640
Unvested policyholder liabilities		
Balance at the beginning of the financial year	**99,360**	96,193
Decrease recognised in the profit or loss	**920**	3,167
Balance at the end of the financial year	**100,280**	99,360
Net policy liabilities at the end of the financial year	**2,182,364**	2,116,464

(c) Analysis of policy liability revenue and expenses

	2018 $'000	2017 $'000
Revenue and other income		
Total life insurance contract premium revenue	**41,517**	179,750
Reinsurance expense	**(223)**	(245)
Life insurance contract claims revenue	**41,294**	179,505
Interest income	**6,275**	7,153
Distribution income	**82,429**	125,562
Realised gains	**6,127**	3,406
Unrealised gains/(losses)	**29,232**	(68,116)
Other income	**2,651**	162
Total revenue from life insurance business	**168,008**	247,672
Expenses		
Total life insurance and participating contract claims expense	**100,626**	220,813
Life insurance contract claims expense	**100,626**	220,813
Management fees	**23,429**	24,067
Other expenses	**2,563**	135
Movement in life insurance contract liabilities	**(42,977)**	(56,181)
Movement in unvested policyholder liabilities	**920**	3,167
Movement in life investment contract liabilities	**58,375**	43,637
Total expenses from life insurance business	**142,936**	235,638

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2018. The actuarial report was prepared by the appointed actuary Mr Sean McGing FIA, FIAA, FAICD, Representative of Mercer Consulting (Australia) Pty Ltd, AFS Licence #411770. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

Policy liability valuations for defined benefit funds

The defined benefit funds comprise the following:

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

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

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

Other information *continued*

34 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2018 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 ALT2014–16)[2]
Funeral Fund	**14.5**	**3.10%**	**1.00%**	**0%**	**2.10%**	**70%**
Life Assurance Benefit Fund	**9.0**	**2.62%**	**2.25%**	**30%**	**0.26%**	**75%**
Central Sick and Funeral Fund	**9.5**	**2.63%**	**2.00%**	**0%**	**0.63%**	**60%**
Funeral and Ancillary Benefit Fund	**14.0**	**2.82%**	**2.00%**	**0%**	**0.82%**	**100%**
Travel Protection Fund	**13.5**	**2.79%**	**2.00%**	**0%**	**0.79%**	**100%**
Whole of Life Funeral Fund	**11.0**	**2.68%**	**1.50%**	**0%**	**1.18%**	**100%**

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2017 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012–14)[2]
Funeral Fund	15.0	3.32%	0.70%	0%	2.62%	70%
Life Assurance Benefit Fund	10.0	2.67%	2.25%	30%	0.29%	75%
Central Sick and Funeral Fund	10.0	2.67%	2.00%	0%	0.67%	60%
Funeral and Ancillary Benefit Fund	14.0	2.96%	2.00%	0%	0.96%	100%
Travel Protection Fund	13.5	2.92%	2.00%	0%	0.92%	100%
Whole of Life Funeral Fund	11.0	2.74%	1.50%	0%	1.24%	100%

Notes:
1 A single zero coupon Commonwealth Government Security rate corresponding to the mean guaranteed liability term has been used to discount cash flows.
2 ALT 2014-16 refers to Australian Life Tables (Male and Female) 2014-2016. ALT 2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.

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

The following additional assumptions apply:

- For the Funeral and Ancillary Benefit Fund, the proportion married varies by age as set out in the relevant valuation report;
- For the Funeral and Ancillary Benefit Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2017: 2.5 percent) per annum; and
- Also for the Funeral and Ancillary Benefit Fund, an assumption for reinstatement of previously lapsed members has been adopted, based on past experience.
- For the Travel Protection Fund, the assumption is that 4.0 percent (2017: 4.0 percent) of deaths will result in claims and the average claim amount is $1,000 (2017: $1,000) inflating at 2.5 percent (2017: 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% of the annual premium. For the Accidental Death Benefits Fund the policy liability is equal to 50% of the annual premium. For the Adult Accident Fund and Student Accident Fund the policy liability is equal to the unearned premium plus the outstanding claim liability, determined by reference to the past delay pattern of claim payments.

Policy liability valuation for defined contribution funds

The defined contribution funds comprise the following:

- Capital Guaranteed Bond;
- Capital Guaranteed Mortgage Bond;
- Grand Bonds Assurance Fund;
- Capital Guaranteed Funeral Fund (Non Taxable);
- Capital Guaranteed Funeral Fund (Taxable);
- Capital Secure Funeral Fund;

- Bonus Accumulation Fund;
- Bonus Bond;
- Capital Guaranteed Deferred Annuity Fund;
- Community Bond Fund;
- Education Savings Plan;
- Flexishield Bond Fund;
- NextGen Capital Guaranteed Fund;
- Telecom Rollover Fund;
- Funeral Bond Fund;
- Prepaid Funeral Fund;
- Funeral Fund No. 2; and
- Tax Minimiser Funeral Fund.

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

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

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

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

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds but using a yield curve rather than a risk-free rate for the average liability duration. The key assumptions for the policy liability calculations for the funeral funds at 30 June 2018 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 ALT2014–16)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	**8.0**	**0%**	**3.00%**	**0%**	**0%**	**105%**
Capital Guaranteed Funeral Fund (Taxable)	**10.0**	**0%**	**3.00%**	**30%**	**0%**	**110%**
Capital Secured Funeral Fund	**6.5**	**0%**	**3.00%**	**0%**	**0%**	**120%**
Funeral Bond Fund	**6.0**	**0%**	**1.50%**	**0%**	**0%**	**100%**
Prepaid Funeral Fund	**6.5**	**0%**	**1.50%**	**0%**	**0%**	**110%**
Funeral Fund No 2 – Non Taxable	**7.5**	**0%**	**2.50%**	**0%**	**0%**	**115%**
Funeral Fund No 2 – Taxable	**9.0**	**0%**	**2.50%**	**30%**	**0%**	**115%**
Tax Minimiser Funeral Fund	**9.0**	**0%**	**1.50%**	**30%**	**0%**	**140%**

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2017 were as follows:

Fund Name	Mean Guaranteed Liability Term (Yrs)	Discount Rate[1]	Fees (% of assets)	Investment Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis (% of ALT2012–14)[2]
Capital Guaranteed Funeral Fund (Non Taxable)	8.0	0%	3.00%	0%	0%	105%
Capital Guaranteed Funeral Fund (Taxable)	10.0	0%	3.00%	30%	0%	115%
Capital Secured Funeral Fund	7.0	0%	3.00%	0%	0%	100%
Funeral Bond Fund	6.5	0%	1.50%	0%	0%	100%
Prepaid Funeral Fund	6.5	0%	1.50%	0%	0%	110%
Funeral Fund No 2 – Non Taxable	8.5	0%	2.50%	0%	0%	110%
Funeral Fund No 2 – Taxable	8.5	0%	2.50%	30%	0%	110%
Tax Minimiser Funeral Fund	9.0	0%	1.50%	30%	0%	150%

Notes:
1 The zero coupon Commonwealth Government Security yield curve plus illiquidity premium have been used to discount cash flows.
2 ALT2014-16 refers to Australian Life Tables (Male and Female) 2014-2016. ALT2012-14 refers to Australian Life Tables (Male and Female) 2012-2014.

Other information *continued*

34 Benefit fund policy liabilities *continued*

(d) Actuarial methods and assumptions *continued*

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

Taxation

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

Surrender values

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

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 2018. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

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

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

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

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

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

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

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

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

(f) Solvency and capital adequacy information

The Group is required by APRA to hold a prudential capital requirement over and above their policy liabilities, as laid down by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS110, LPS112, LPS114, LPS115, LPS117 and LPS118. These standards have been met for all benefit funds as at 30 June 2018 and 2017.

For each benefit fund subject to a solvency requirement, the figures in note 35 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 35 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

35 Disaggregated information – Benefit funds

(a) Summarised information by investment type

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium/ Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2018							
Non–investment linked benefit funds – Life insurance contracts	**270**	**1,704**	**25**	**8,878**	**(7,074)**	**195**	**–**
Investment linked benefit funds – Life investment contracts with DPF*	**41,024**	**36,226**	**2,699**	**91,748**	**(17,837)**	**6,038**	**–**
Investment contracts without DPF*	**–**	**86,133**	**(73)**	**–**	**67,221**	**18,839**	**–**
Total	**41,294**	**124,063**	**2,651**	**100,626**	**42,310**	**25,072**	**–**
30 June 2017							
Non-investment linked benefit funds – Life insurance contracts	387	(2,399)	2	1,659	(3,442)	(227)	–
Investment linked benefit funds – Life investment contracts with DPF*	179,118	4,784	228	219,154	(33,046)	(1,978)	–
Investment contracts without DPF*	–	65,620	(68)	–	51,313	14,239	–
Total	179,505	68,005	162	220,813	14,825	12,034	–

*DPF = Discretionary Participating Features

Other information *continued*

35 Disaggregated information – Benefit funds *continued*

(a) Summarised information by investment type *continued*

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2018					
Non–investment linked benefit funds – Life insurance contracts	**48,605**	**578**	**48,715**	**468**	**–**
Investment linked benefit funds – Life investment contracts with DPF*	**928,002**	**31,849**	**954,228**	**5,623**	**–**
Investment contracts without DPF*	**1,134,878**	**60,009**	**1,179,421**	**15,466**	**–**
Total	**2,111,485**	**92,436**	**2,182,364**	**21,557**	**–**
30 June 2017					
Non–investment linked benefit funds – Life insurance contracts	57,644	1,267	58,432	479	–
Investment linked benefit funds – Life investment contracts with DPF*	953,370	32,974	986,568	(224)	–
Investment contracts without DPF*	1,043,832	51,745	1,071,464	24,113	–
Total	2,054,846	85,986	2,116,464	24,368	–

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

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

	Revenue			Expenses		Profit/(loss) for the year	
	Net premium $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2018							
Assurance benefit fund	**–**	**36**	**–**	**7,351**	**(7,366)**	**51**	**–**
Central sick and funeral fund	**–**	**212**	**–**	**215**	**(4)**	**1**	**–**
Funeral and ancillary benefits fund	**5**	**440**	**–**	**558**	**(114)**	**1**	**–**
Funeral fund	**–**	**495**	**–**	**135**	**360**	**–**	**–**
Life assurance benefit fund	**–**	**438**	**–**	**543**	**(161)**	**56**	**–**
Other	**265**	**83**	**25**	**76**	**211**	**86**	**–**
Total	**270**	**1,704**	**25**	**8,878**	**(7,074)**	**195**	**–**
30 June 2017							
Assurance benefit fund	–	(352)	–	136	(334)	(154)	–
Central sick and funeral fund	–	(198)	–	218	(416)	–	–
Funeral and ancillary benefits fund	6	(841)	–	570	(1,405)	–	–
Funeral fund	–	(593)	–	208	(801)	–	–
Life assurance benefit fund	–	(397)	–	484	(768)	(113)	–
Other	381	(18)	2	43	282	40	–
Total	387	(2,399)	2	1,659	(3,442)	(227)	–

	Assets		Liabilities				
	Investments $'000	Other $'000	Life insurance $'000	Other $'000	Equity $'000	Capital in excess of prescribed capital amount $'000	Capital adequacy multiple
30 June 2018							
Assurance benefit fund	–	–	–	–	–	–	–
Central sick and funeral fund	**6,685**	–	**6,675**	**10**	–	**622**	**7**
Funeral and ancillary benefits fund	**13,243**	**161**	**13,387**	**17**	–	–	**1**
Funeral fund	**13,729**	**125**	**13,847**	**7**	–	**381**	**2**
Life assurance benefit fund	**12,488**	**48**	**12,400**	**136**	–	**154**	**1**
Other	**2,460**	**244**	**2,406**	**298**	–	**612**	–
Total	**48,605**	**578**	**48,715**	**468**	–	**1,769**	
30 June 2017							
Assurance benefit fund	9,474	82	9,411	145	–	1,869	16
Central sick and funeral fund	6,666	130	6,785	11	–	651	8
Funeral and ancillary benefits fund	13,342	389	13,704	27	–	–	1
Funeral fund	13,298	195	13,488	5	–	571	2
Life assurance benefit fund	12,655	248	12,809	94	–	374	5
Other	2,209	223	2,235	197	–	477	–
Total	57,644	1,267	58,432	479	–	3,942	

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

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2018							
Bonus accumulation fund	**212**	**1,070**	–	**13,807**	**(12,957)**	**432**	–
Capital guaranteed bond	**121**	**1,680**	–	**7,546**	**(5,889)**	**144**	–
Funeral fund no 2	**1,176**	**11,300**	**2,337**	**16,274**	**(3,219)**	**1,758**	–
NextGen investments capital guaranteed fund	**2,375**	**764**	–	**8,172**	**(5,144)**	**111**	–
Tax minimiser funeral fund	**34,044**	**11,264**	–	**22,579**	**20,367**	**2,362**	–
Other	**3,096**	**10,148**	**362**	**23,370**	**(10,995)**	**1,231**	–
Total	**41,024**	**36,226**	**2,699**	**91,748**	**(17,837)**	**6,038**	–
30 June 2017							
Bonus accumulation fund	1,074	1,644	–	21,326	(19,168)	560	–
Capital guaranteed bond	133	1,787	–	11,839	(10,055)	136	–
Funeral fund no 2	1,348	963	185	16,826	(13,622)	(708)	–
NextGen investments capital guaranteed fund	115,192	1,907	–	119,432	(2,726)	393	–
Tax minimiser funeral fund	57,677	(4,274)	–	20,255	35,363	(2,215)	–
Other	3,694	2,757	43	29,476	(22,838)	(144)	–
Total	179,118	4,784	228	219,154	(33,046)	(1,978)	–

Other information *continued*

35 Disaggregated information – Benefit funds *continued*

(c) Investment linked benefit funds – Life investment contracts with discretionary participating features (DPF) *continued*

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 June 2018					
Bonus accumulation fund	**67,199**	**86**	**67,153**	**132**	**–**
Capital guaranteed bond	**73,081**	**63**	**72,963**	**181**	**–**
Funeral fund no 2	**194,270**	**11,270**	**202,069**	**3,471**	**–**
NextGen investments capital guaranteed fund	**56,072**	**68**	**56,075**	**65**	**–**
Tax minimiser funeral fund	**290,969**	**12,838**	**303,909**	**(102)**	**–**
Other	**246,411**	**7,524**	**252,059**	**1,876**	**–**
Total	**928,002**	**31,849**	**954,228**	**5,623**	**–**
30 June 2017					
Bonus accumulation fund	80,768	173	80,713	228	–
Capital guaranteed bond	80,324	39	80,055	308	–
Funeral fund no 2	197,639	11,815	209,422	32	–
NextGen investments capital guaranteed fund	61,458	1,144	61,612	990	–
Tax minimiser funeral fund	272,159	12,329	286,909	(2,421)	–
Other	261,022	7,474	267,857	639	–
Total	953,370	32,974	986,568	(224)	–

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

	Revenue		Expenses	Profit/(loss) for the year	
	Investment $'000	Other $'000	Other $'000	Before Tax $'000	After Tax $'000
30 June 2018					
Balanced growth	**2,602**	**(36)**	**1,965**	**601**	**–**
Education savings plan	**13,543**	**–**	**11,033**	**2,510**	**–**
Managed investment	**3,508**	**–**	**2,495**	**1,013**	**–**
NextGen investments	**49,774**	**–**	**38,896**	**10,878**	**–**
Select strategies	**10,372**	**–**	**7,882**	**2,490**	**–**
Other	**6,334**	**(37)**	**4,950**	**1,347**	**–**
Total	**86,133**	**(73)**	**67,221**	**18,839**	**–**
30 June 2017					
Balanced growth	1,288	(39)	1,070	179	–
Education savings plan	11,069	–	8,815	2,254	–
Managed investment	2,679	–	2,296	383	–
NextGen investments	37,420	–	28,837	8,583	–
Select strategies	9,052	–	6,867	2,185	–
Other	4,112	(29)	3,428	655	–
Total	65,620	(68)	51,313	14,239	–

	Assets		Liabilities		
	Investments $'000	Other $'000	Life Insurance $'000	Other $'000	Equity $'000
30 JUNE 2018					
Balanced growth	**24,619**	**921**	**24,341**	**1,199**	**–**
Education savings plan	**178,790**	**20,533**	**195,273**	**4,050**	**–**
Managed investment	**47,011**	**2,623**	**49,380**	**254**	**–**
NextGen investments	**693,946**	**27,797**	**716,833**	**4,910**	**–**
Select strategies	**102,154**	**5,456**	**104,916**	**2,694**	**–**
Other	**88,358**	**2,679**	**88,678**	**2,359**	**–**
Total	**1,134,878**	**60,009**	**1,179,421**	**15,466**	**–**
30 JUNE 2017					
Balanced growth	24,756	498	23,493	1,761	–
Education savings plan	152,507	15,040	163,480	4,067	–
Managed investment	51,752	2,017	53,143	626	–
NextGen investments	617,617	24,210	632,234	9,593	–
Select strategies	110,109	7,289	111,894	5,504	–
Other	87,091	2,691	87,220	2,562	–
Total	1,043,832	51,745	1,071,464	24,113	–

36 Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS

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

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value (including derivative instruments and insurance liabilities at present value of expected future cash flows), certain classes of property, plant and equipment and investment property.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2017:

AASB	Title
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses AASB 112
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle

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

(iv) Early adoption of AASB 9 *Financial Instruments*

The Group has early adopted AASB 9 *Financial Instruments* from 1 July 2016. The adoption of AASB 9 has resulted in adjustments to the amounts recognised in the financial statements for the 2017 financial year. With the implementation of an expected credit loss model (instead of incurred credit loss model) in assessing impairment of financial assets at amortised cost, additional provisions were raised for loans and advances and trade receivables. These resulted in adjustments that reduced the Retained earnings and Credit loss reserve as at 1 July 2016 by $6,382,000 and $2,043,000 respectively.

Other information *continued*

36 Summary of significant accounting policies *continued*

(b) Discontinued operation

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the Consolidated statement of comprehensive income.

(c) Principles of consolidation

(i) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 36(g)).

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

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting (refer to (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

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

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

(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 36(q).

(v) Changes in ownership interests

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

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

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

(vi) Life insurance benefit funds

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

(d) Benefit fund policy liabilities

(i) Classification

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

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

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

Participating life investment contract liabilities are classified and accounted for in the same manner as life insurance contract liabilities, that is under the requirements of AASB 1038 *Life Insurance Contracts* and are referred to in these financial statements as life insurance contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 9 *Financial Instruments* and are referred to in these financial statements as life investment contract liabilities.

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

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

(ii) Valuation

The fair value of life insurance contract liabilities are determined using a projection method. The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method. Further details of the actuarial assumptions used in the calculation of these policy liabilities are set out in note 34.

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

(iii) Claims expense

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

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

(e) Borrowing costs

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

(f) Borrowings

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

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

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

(g) Business combinations

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

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

(h) Cash and cash equivalents

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

(i) Deferred acquisition costs

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

Other information *continued*

36 Summary of significant accounting policies *continued*

(i) Deferred acquisition costs *continued*

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

(j) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedging relationship designated.

The Group designates their derivatives as hedges of interest rate risk associated with the cash flows of recognised liabilities (cash flow hedges).

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are included in other assets or other liabilities as applicable. Movements in the hedging reserve are shown in the Statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

(k) Employee benefits

Employees engaged in the Group's operations are employed by subsidiary entities, Australian Unity Group Services Proprietary Limited, Australian Unity Home Care Service Pty Ltd, Big Sky Building Society Limited and Lifeplan Australia Friendly Society Limited.

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

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

(ii) Long service leave

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

(iii) Termination benefits

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

(iv) Superannuation

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

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

(l) Financial guarantee contracts

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

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

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

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

(m) 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.

(n) 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.

(o) Government grants and subsidies

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

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

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

(p) 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.

(q) 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.

Other information *continued*

36 Summary of significant accounting policies *continued*

(r) 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.

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.

(s) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 36(g). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains/(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount, based on value in use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

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 4 to 7 years.

(t) Inventories

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

(u) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties other than the development sites are stated at fair value. Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise. Development sites are recognised at cost.

Retirement village investment property relates to interests in retirement village independent living units and aged care facilities where the aged care facilities are managed by operators which are not part of the Group. These investments are initially measured at cost and when the facilities are complete, or substantially complete, they are stated at fair value. The fair value represents the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, such as average length of residence and expected changes in property prices.

Land held for development purposes of investment property is also classified as investment property.

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be reclassified as a held for sale asset (refer to note 36(x)) and sold to a retirement village operator.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains/(losses) on the derecognition of an investment property are recognised in the profit or loss in the year of derecognition.

(v) Investments and other financial assets

Classification

The Group classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the relevant cash flows.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model which objective is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Recognition and derecognition

A financial asset is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally at trade date. Loans and receivables are recognised when cash is advanced to the borrowers.

A financial asset is derecognised when the contractual cash flows from the asset expire or the rights to receive contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of the ownership are transferred. Any interest in a transferred financial asset that is created or retained by the Group is recognised as a separate asset or liability.

Measurement

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to the initial recognition, for financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held as described below. The Group reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments, the fair value will be recorded in profit or loss, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Other information *continued*

36 Summary of significant accounting policies *continued*

(v) Investments and other financial assets

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company classifies its debt instruments:

- **Amortised cost**
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI)**
  Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversal of impairment losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method.
- **Fair value through profit or loss (FVPL)**
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net within investment gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the profit or loss using the effective interest rate method.

Equity instruments

The Group subsequently measures all investments in equity instruments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends and distributions from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in investment gains/(losses) in the statement of profit or loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI. The recognition of impairment depends on whether there has been a significant increase in credit risk.

Debt investments at amortised cost are considered to be low credit risk, and thus the impairment provision is determined as 12 months ECL.

For loans to customers, the Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- **Stage 1: 12-months ECL**
  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- **Stage 2: Lifetime ECL – not credit impaired**
  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- **Stage 3: Lifetime ECL – credit impaired**
  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of significant increase in credit risk, loans are grouped on the basis of shared credit risk characteristics, taking into account the type of loans, days in arrears, loan collaterals, remaining term to maturity, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted amount of the present value of all reasonable cash shortfalls over the expected life of the loans discounted at the effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including macroeconomic factors and how changes in these factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The amount of ECL is recognised using a provision for doubtful debts account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(w) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Group as a lessee

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the leased assets' fair value or the present value of the minimum lease payments. The

corresponding lease obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over their useful life. However, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term, the assets are depreciated over the shorter of the asset's useful life and the lease term.

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.

(x) 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.

(y) 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.

(z) Property, plant and equipment

(i) Cost

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected useful life. Estimates of remaining useful lives are reassessed annually for major items.

The expected useful lives are as follows:

Category	Useful life
Buildings	40 years
Plant and equipment	5-20 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount and included in the profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

Non-property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the assets come into operational service.

(aa) 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.

(ab) 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.

Other information *continued*

36 Summary of significant accounting policies *continued*

(ac) 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.

(ad) 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.

(ae) 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.

(af) 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 36(q).

(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 Group 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.

(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.

(ag) Risk Equalisation Special Account

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the *Private Health Insurance (Risk Equalisation Administration) Rules 2007*, all health insurers must participate in the Risk Equalisation Special Account (RESA). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

The amounts receivable from the RESA are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(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.

The Group applies the simplified expected credit loss approach in replace of the incurred credit loss. Under the expected credit loss approach, the Group estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the impairment loss is recognised in the profit or loss. When a trade receivable for which an impairment provision had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

(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 following table sets out the new and amended accounting standards issued by the Australian Accounting Standards Board that are not mandatory for 30 June 2018 reporting period and have not been adopted by the Group.

The Group's assessment on the potential impact of AASB 15, AASB 16 and AASB 17 is set out in the following paragraphs. The other standard amendments noted above are not expected to have a material impact to the amounts reported in the Consolidated financial statements. Where applicable the Group will apply these standards to the annual reporting periods beginning on or after the operative dates set out above.

AASB	Title	Operative Date *
AASB 15	Revenue from contracts with customers	1 January 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	
AASB 2016-7	Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	
AASB 16	Leases	1 January 2019
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4	1 January 2018
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1 January 2019
AASB 2017-5	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2018
AASB 17	Insurance contracts	1 January 2021
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	1 January 2019
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019

* Operative date is for the annual reporting periods beginning on or after the date shown in the above table, unless otherwise stated.

Other information *continued*

36 Summary of significant accounting policies *continued*

(al) New standards and interpretations not yet adopted *continued*

(i) AASB 15 *Revenue from contracts with customers*

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. Under AASB 15, incremental costs of obtaining a contract can be capitalised as an asset. 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.

At the initial application of AASB 15 from 1 July 2018, adjustments were made in relation to the recognition of certain insurance broking services' revenue and certain customer contract costs. Changes were made from recognising the revenue at the time the fee was received in advance to revenue recognition over the term of the contract as the performance obligations are satisfied. The revenue adjustment reduced the Retained earnings as at 1 July 2018 by $328,000, with $140,000, $140,000 and $48,000 to be allocated as revenue in the 2019 to 2021 financial years. Changes were also made in the recognition of customer contract costs in relation to the Herston Quarter project, in which cost capitalisation is applied only to the extent they meet the definition of contract costs under AASB 15. The adjustment relating to Herston Quarter capitalised costs reduced the Retained earnings and the relevant asset as at 1 July 2018 by $4,184,000. The financial effects of these adjustments have not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in the subsequent financial reports.

(ii) AASB 16 *Leases*

AASB 16 will primarily affect accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (a right to use the leased item) and a financial liability to pay rentals for all lease contracts with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors will not significantly change. The standard also requires enhanced disclosures. AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019. The Group has started to consider the extent of impact this standard will have on the Group's operations and its financial statements. The application of this standard will not have any impact on the gearing ratio covenant of the Australian Unity Bonds.

(iii) AASB 17 *Insurance contracts*

AASB 17 will replace AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The standard is applicable to annual reporting periods beginning on or after 1 January 2021. The standard will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. It requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability with a period of one year or less. Claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. The Group has started to consider the impact this standard will have on the Group's operations and its financial statements. The application of this standard will impact the health insurance and life insurance businesses of the Group.

(am) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 22 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

In the directors' opinion:

(a) the financial statements and notes set out on pages 38 to 104 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 2018 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 36; and

(c) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne

29 August 2018

Independent Auditor's report to the members

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Independent auditor's report

To the members of Australian Unity Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $6.7 million, which represents approximately 1% of Members' Funds of the Group.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Members' Funds because, in our view, it is the key financial statement metric used by the primary users of the financial report.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is structured into four operating segments, being Retail, Wealth & Capital Markets, Independent & Assisted Living (IAL) and Corporate Functions and Eliminations.
- We, as the group audit team, audited the most financially significant entities in the Retail, Wealth & Capital Markets and IAL segments.
- We performed an audit of Australian Unity Group Services Limited, a subsidiary within the Corporate Functions and Eliminations segment, which provides payroll, accounts payable and corporate treasury services to the Group.
- We performed specific risk focused audit procedures over certain account balances, and at a Group level performed procedures over the consolidation process and the preparation of the financial report.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*

Valuation of investment properties
(Refer to note 12 in the financial report)
 	
Investment properties consist of the Group's interest in retirement village independent living units and development sites. At 30 June 2018 the carrying value of the Group's investment properties was $1,169.4 million.
 	
Investment properties are carried at fair value. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property impact fair values.
 	
The value of investment properties is dependent on the terms of the residents' contracts and the inputs to the Group's valuation model ("the model"). Amongst others, the following assumptions are key in establishing fair value:
• Discount rate
• Average length of stay
• Property growth rate
 	
As at 30 June 2018, the Group engaged an independent valuation expert to review the key assumptions used in the model.
 	
We considered this a key audit matter because of the:
• Relative size of the investment property balance to net assets and related valuation movements
• Sensitivity of investment property valuations to changes in key inputs / assumptions
	Our audit procedures over the valuation of investment properties included the following:
	• We assessed the valuation methodology, inputs and key assumptions used in the model for the retirement village independent living units and development sites.
	• For a sample of contracts with residents ("resident contracts") across the portfolio, we compared the key inputs used in the model to underlying contracts. We found that the key inputs used in the model were materially consistent with the sampled resident contracts.
	• For the independent review of key valuation assumptions performed by the valuation expert, we performed the following procedures amongst others:
	  - Assessed the expert's independence, experience, competency and the results of their procedures.
	  - Read the expert's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to their valuation.
	  - Compared the key assumptions used in the expert's valuation report to those used in the model.

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Key audit matter	*How our audit addressed the key audit matter*
Revenue recognition: Revenue to provide services in IAL *(Refer to note 2 in the financial report)* Revenue to provide services includes government subsidies received and is recognised as the relevant services are provided by the Group. We considered this a key audit matter due to the high volume of revenue transactions and the possible uncertainty around determining when contractual service obligations under the funding agreements have been achieved.	For revenue to provide services in IAL, we performed the following procedures amongst others: • Read a sample of executed government funding agreements and agreed the funding received by the Group to the supporting bank statements. • Performed testing on a sample of revenue transactions, including comparing service hours delivered to contractual obligations. • Calculated the proportion of services performed by the Group to the total services yet to be performed and compared this to the Group's estimate of revenue recognised at 30 June 2018.
Valuation of intangible assets *(Refer to note 14 in the financial report)* The Group had $329.0m of intangible assets at 30 June 2018. $179.6m of this related to goodwill and a further $24.8m related to management rights and customer contracts which had been acquired as part of historical acquisitions which were assessed by the Group to have an indefinite useful life. Australian Accounting Standards require an assessment, at least annually, to establish whether goodwill and indefinite lived intangible assets should continue to be recognised or if any impairment is required. The Group's impairment assessment is performed at the level of the cash generating unit (CGU) to which the goodwill or intangible asset with indefinite useful life can be allocated. The impairment assessment relied on the calculation of the value-in-use for each of the CGUs. This calculation was based on estimated future cash flows for each CGU discounted at a rate of return. The Group's impairment assessment shows an impairment of $6m in the Trustee Services CGU. No impairment has been identified in relation to other CGUs.	We performed the following procedures, amongst others, to assess the valuation of intangible assets: • Assessed whether the level at which the impairment assessment was performed was consistent with our knowledge of the Group's operations and internal Group reporting. • Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU for the purposes of impairment. • Compared the forecast cash flows used in the impairment assessment to the latest business forecasts. • Compared the performance of the CGUs against historical forecasts to assess the accuracy of the assumptions used in the latest business forecasts. • Compared a sample of discount rates and the long term growth rates applied to the forecast cash flows to industry averages and those determined by PwC valuation experts.

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Key audit matter	*How our audit addressed the key audit matter*
We considered this to be a key audit matter because the: • Estimation of future cash flows including long term growth rates and the level to which they are discounted are inherently uncertain and require significant judgement by the Group. • Carrying value of goodwill and indefinite life intangible assets is material to the financial report.	• Assessed the overall appropriateness of the assumptions when considered in the aggregate. • Considered the sensitivity of the value-in-use calculation by varying key assumptions and applying other values within a reasonably possible range, for example, by increasing the discount rate and reducing growth rates to assess the impact of deviations from forecast operating performance. We satisfied ourselves that the sensitivity of the value-in-use calculations was appropriately highlighted within the disclosures in note 14.
Valuation of actuarially determined insurance liabilities *(Refer to notes 16 and 34 in the financial report)* Actuarially determined insurance liabilities consist of outstanding claims provisions relating to the Group's health insurance business ($56.0m) and non-investment linked benefit fund policyholder liabilities ($48.7m). We considered this a key audit matter because of the significant judgements required by the Group in estimating claims liabilities and benefit fund policyholder liabilities. These significant areas of judgement are discussed further below: a) Healthcare outstanding claims provisions Our audit focussed on the central estimate component as changes in actuarial assumptions driving this component are most likely to result in material changes in the total provision. We focussed on the estimates relating to the last two months of the financial year as a lower proportion of claims for these months are received at balance date, and therefore greater judgement is required. In particular, judgements relate to estimating the type and amount of claims incurred but not yet received or processed. b) Benefit fund policyholder liabilities In determining the valuation of the liabilities, the key actuarial assumptions made by the Group's valuation experts include mortality assumptions and the discount rate applied.	To assess the assumptions used by the Group to determine the value of insurance liabilities, we along with PwC independent actuarial experts performed the following procedures amongst others: • Developed an understanding of the processes that the Group undertook to calculate the value of insurance liabilities, including the models used by the Group in calculating the actuarial liabilities. • Compared the methodologies used by the Group to those commonly applied in the industry and used in the prior year. • Compared key actuarial assumptions used by the Group in forecasting expected payments to our own expectations based on the Group's historical experience, current trends and industry knowledge. For healthcare outstanding claims, we also compared the level of claims received after the year end, which related to the current financial year, to the estimate of outstanding claims provisions recorded by the Group.

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Key audit matter	*How our audit addressed the key audit matter*
Funding and capital management *(Refer to note 9 in the financial report)* As disclosed in Note 9 Australian Unity Limited is required by the Australian Unity Bonds prospectus to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. A key input to the calculation of the Group's debt covenants is the amount of interest bearing liabilities in the Group's consolidated balance sheet. The Group operates a number of development funds which utilise third party capital in conjunction with support from financiers to fund the development of new retirement village units and aged care beds. The Group has not consolidated the Funds into the Group financial position as it does not consider it has control over these Funds. We considered this a key audit matter given: • The judgement required by the Group in determining whether or not the Development Funds should be consolidated • The impact that the financing structure of the development funds may have on the Covenant Gearing Ratio if these funds were consolidated.	We performed the following procedures, amongst others: • We considered the terms and conditions of key agreements (including Trust Deeds, Investment Information Memorandums and Financing agreements) and whether the Group's assessment of the accounting treatment of the development funds was in accordance with Australian Accounting Standards. • We assessed the Group's calculation of the Covenant Gearing Ratio as at 30 June 2018 by: - Comparing the methodology used to perform the calculation against the definition of the Gearing Ratio in the Australian Unity Bonds Base Prospectus - Agreeing the key inputs to the calculation, such as the total of interest bearing liabilities and total equity, to the Group's accounting records - Performing tests over the mathematical accuracy of the calculation - Agreeing the Group's calculated ratio to note 9 in the financial report.
Operation of financial reporting Information Technology (IT) systems and controls We considered this a key audit matter because the Group's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Group's controls over IT systems include: • The framework of governance over IT systems • Program development and changes • Access to process, data and IT operations • Governance over generic and privileged user accounts	Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Operating and financial review. We expect the remaining other information to be made available to us after the date of this auditor's report, including 2018 at a glance, Chair's report, Group Managing Directors' report, etc.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Australian Unity Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Unity Limited for the year ended 30 June 2018 included on Australian Unity Limited's web site. The directors of the Company are responsible for the integrity of Australian Unity Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Peter van Dongen
Partner

Melbourne
29 August 2018

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