Annual Report 2012

Australian Unity

Australian Unity's operations today:

Healthcare

Health insurance

Dental care

Preventative healthcare

Chronic disease management

Financial Services

Investments

Personal Financial Services

Banking

Retirement Living

Retirement villages

Aged care

Community care

Celebrating the heritage of Australian Unity

1996 Australian Unity Funds Management Limited established.

1993 ANA and Manchester Unity (Victoria) merged to form Australian Unity.

Contents

Our strategy is to build a leading, commercial, sustainable, portfolio of businesses that foster wellbeing.

2001 Direct property funds management business established.

2001 Australian Unity Wellbeing Index developed in partnership with Deakin University.

2002 Australian Unity Financial Planning launched.

2004 Significant expansion of retirement living services with purchase of substantial operations in NSW. The Australian Unity Wellbeing Index received 2004 Public Health Award for Excellence and Innovation.

2005 Grand United Friendly Society Limited merged with Australian Unity Limited.

2009 Lifeplan Australia Friendly Society Limited merged with Australian Unity Limited.

2010 Australian Unity Wellbeing Index celebrated its 10th anniversary.

2012 Big Sky Credit Union merged with Australian Unity Limited. Big Sky Building Society Limited is formed.

About us

We imagine a nation where all Australians live with the greatest possible personal and community wellbeing.

We are an independent mutual company that operates on commercial principles with a social purpose and is governed by our members.

We play our part in building community.

We reinvest our profits into wellbeing products and services.

We reach as many families as possible with high trust products and services.

Our ambition is to become Australia's leading wellbeing company.

Our strategy is to build a leading, commercial, sustainable, portfolio of businesses that foster wellbeing.

Wellbeing is at the heart of everything we do.

Australian Unity is a national healthcare, financial services and retirement living organisation providing services to more than half a million Australians.

As a mutual company with a 172 year history, Australian Unity has developed a strong focus on taking care of members.

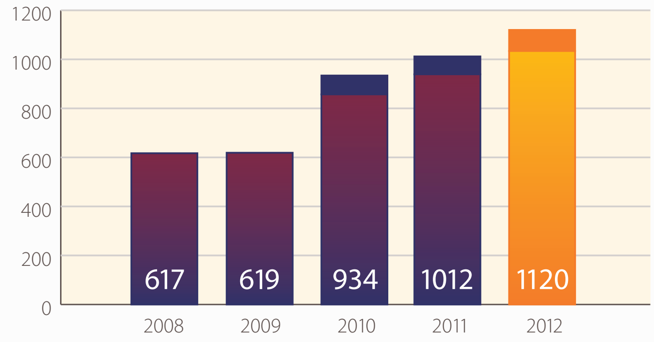
This purpose was forged in previous centuries when governments did not provide the social and welfare services that many Australians now take for granted.

Today, the nation is facing increasing pressures from an ageing population. Australians are faced with new challenges. These include creating financial security in an increasingly uncertain economic environment, dealing with the rise of chronic diseases, and finding a secure and healthy life in retirement.

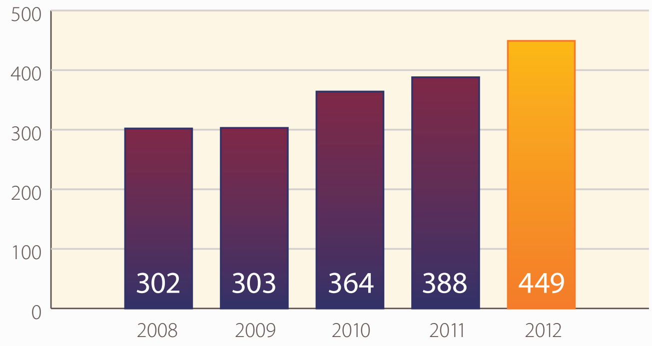
Australian Unity is uniquely placed to help Australians deal with these challenges.

Annual highlights 2012

Revenues ($m)* — $1.12b

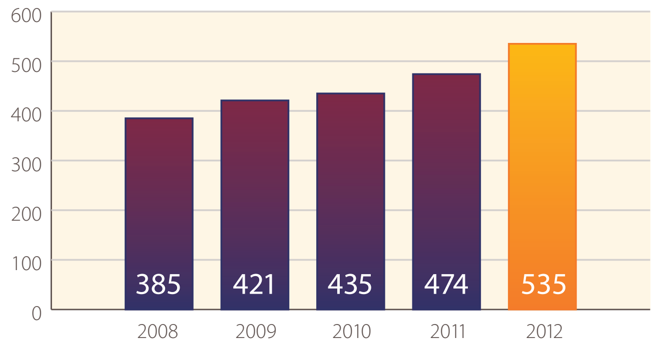


Members' funds ($m) — $449m

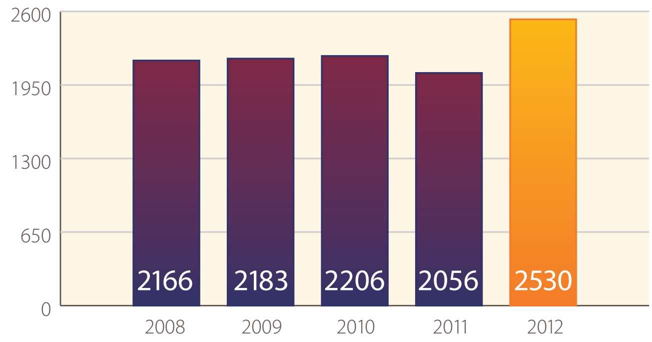


Australian Unity heritage – Manchester Unity – Victoria

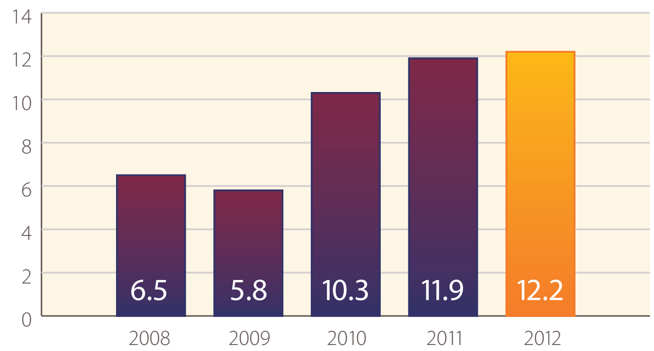
Health claims paid ($m) — $535m



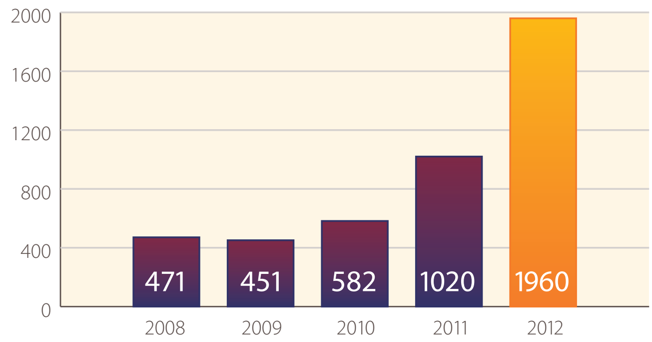
Retirement units, aged care beds and community care packages — 2,530#



Funds under management ($b) — $12.2b



Funds under advice ($m) — $2.0b



1840 Manchester Unity IOOF founded in Victoria.

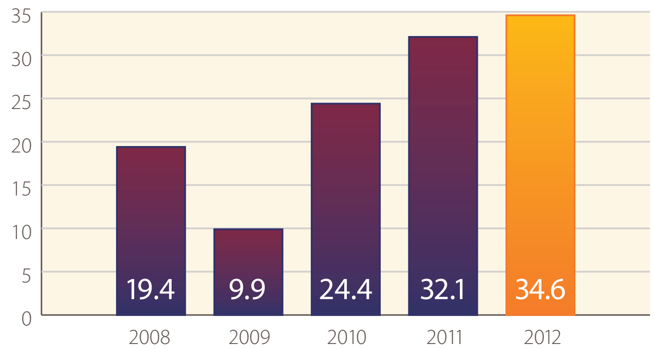
1846 Dr FA Greeves became first Grand Master. Subsequently became Mayor of Melbourne.

1870 Manchester Unity granted Crown land to establish a home for aged and disadvantaged members.

1932 Prominent Manchester Unity building in Swanston Street, Melbourne, completed.

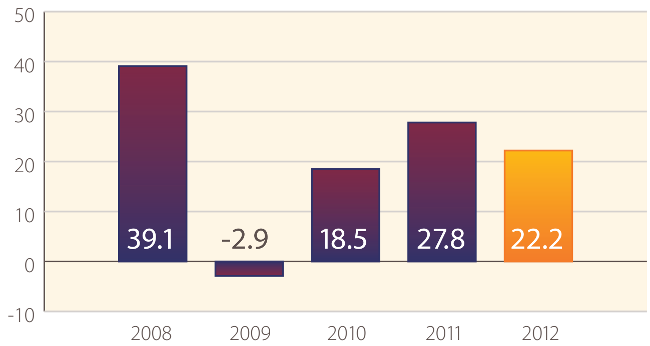
Operating earnings ($m)*

$34.6m



Profit before tax ($m)*

$22.2m



Definition of terms

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

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

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

Operating earnings: Profit before tax less investment income, borrowing costs and discontinued operations and business acquisition costs.

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

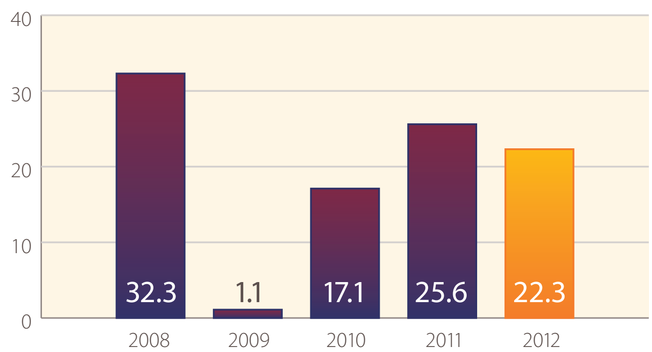
Notes to the annual highlights: Profits before tax and operating earnings exclude the impact of the Benefit funds which are required to be included in the financial statements but which have a zero impact on profit after tax.

*The year 2008 includes the sale of general insurance business in that year, materially affecting the comparative results for 2008, while 2010 includes 10 months of Lifeplan.

The 2011 total was lower due to a management contract for a 178 unit village not being renewed during that year.

Profit after tax ($m)*

$22.3m



Annual achievements

Goals	Results
Continue to establish new channels and new geographic footprint	» Australian Unity merged with Big Sky Credit Union, bringing more than 30,000 new customers and members. » Achieved 6.0 percent growth in retail health fund. » Increased GU Health's insurance policyholders by 16.7 percent. » Increased number of financial advisers by 54.0 percent.
Build and sustain financial strength	» Achieved 10.2 percent growth in revenues. » Achieved 7.8 percent growth in operating earnings. » Funds under advice almost doubled to reach $2.0 billion.
Develop new programs and services connected to wellbeing	» Launched The Integrated Care program, focusing on patients who have had three or more hospital admissions in the past year. » Demonstrated a reduction in all cause hospitalisation benefit payments in the type 2 diabetes program—more than 30 percent to date per graduate when compared to a comparator group. » Delivered a client management system to support staff across all retirement communities by providing real-time care information for residents. » Connected Peninsula Grange to the National Broadband Network, the first retirement community in Australia to be linked up.

1890s ANA campaigned for Federation.

1888 ANA resolved to commemorate Foundation Day (26 January), now celebrated each year as Australia Day.

1871 Victorian Natives' Association established. It was renamed Australian Natives' Association (ANA) shortly after.

Australian Unity heritage – Australian Natives' Association – Victoria

Goals

Results

Strengthen customer understanding and responsiveness

- Healthcare team won the Outstanding Business Award from the International Customer Services Professionals for the third consecutive year.
- Achieved an overall satisfaction rating of 82 percent in Retirement Living's Independent Living Resident Survey; and for Aged Care an overall satisfaction of 85 percent.
- Australian Unity Personal Financial Services awarded '2012 Institutional Dealer Group of the Year' by *Money Management* magazine.

Continue to develop a valuably diversified portfolio of businesses and products

- Merged with Big Sky Credit Union, offering members and customers new suite of personal banking products, including term deposits, savings and loans.
- Acquired the responsible entity for Investa Property Group's retail property fund business.

Strengthen our position as a leading employer

- Announced as an 2012 Employer of Choice for Women for the second consecutive year.
- Employee engagement climbed to 85 percent, a result well above the average of leading Australian companies.

EOWA Employer of Choice for Women

1931 ANA Victoria member Sir Isaac Isaacs became the first Australian-born Governor General.

1901 ANA (NSW) member Edmund Barton became Australia's first Prime Minister.

1903 ANA Victoria member Alfred Deakin became Australia's second Prime Minister—served three terms in office.

Chairman's report

Australian Unity heritage – Grand United

1848 Grand United (GU) founded in NSW (research suggests that the first lodge was opened in 1844).

1888 First GU building completed at Castlereagh Street, Sydney.

It is an honour to present to you my first report as Chairman of Australian Unity:

Our company has a long and proud heritage and a promising future. As always your directors will continue to build on the achievements of the company's past, help management respond to the challenges of the present and continue to make sound investments for the future.

In opening my report to you I would like to address the importance of the legacy Alan Castleman has left for the company and its members. Alan Castleman, chairman since the original merger between Australian Natives' Association and Manchester Unity in 1993, retired in May this year and was fondly farewelled by his colleagues, staff, and members. Alan has led the company through a number of major phases of growth and development and has been a steadying influence through periods of challenge. He has left the role of chairman with Australian Unity in sound health and with the company performing a role in Australian society that our antecedents would be proud of. We all wish Alan and his wife Beverley well in their future activities. I would also like to take this opportunity to thank Kate Spargo, a director since 2009, who also left the board during the year due to the demands of her other activities.

This calendar year is the United Nations' International Year of Co-operatives. This is the first time the UN has recognised a business model for a celebration year, and indicates the important role the mutual sector plays in the global economy. As a mutual company, Australian Unity focuses on the long term interests of members rather than short term financial returns. Yet financial results are indicators of how much success we have had in dealing with contemporary issues, and how much freedom we have to make decisions in the long term interests of our members.

This year the environment—both economic and regulatory—was tougher than we had anticipated and this affected our overall result. We chose, despite this environment, to continue (albeit more slowly in some instances) to invest in growth initiatives across our portfolio of businesses. The turbulence in financial markets and decisions by governments posed new obstacles to the timing of our strategic goals. As a result, our financial result of $22.3 million profit after tax is lower than what we had hoped for at the start of the year; however, we think it remains a creditable achievement. This is especially so when viewed in the light of the expanded capacity and capabilities in financial planning and banking services, along with our continued innovation in aged and community care, and chronic disease management.

Australian Unity at a glance

- 172 years old
- 320,000 members
- 620,000 customers
- 1,700 employees
- 92 locations
- 65 separate properties owned or managed
- $515 million in retirement development projects

1919 GU Order of Odd Fellows War Memorial built in Hyde Park and donated to Sydney Council.

1948 GU Order of Odd Fellows opened GU Centenary Centre—Homes for the Aged and War Memorial Nursing Home in western Sydney.

1998 Redevelopment of GU Centenary Centre—now known as Constitution Hill.

We remain confident that our strategy, which centres on the wellbeing of Australia's people—including responding to the demographic challenges of chronic disease, an ageing population and the need for greater retirement savings—remains the right one. These demographically driven issues will remain with Australia for decades to come and it is clear that organisations such as Australian Unity can help fill social gaps where public and for-profit company responses are too slow or ineffective.

We began the year in continued merger discussions with Big Sky Credit Union. The proposal was endorsed by the Big Sky membership in February, and came into effect, with the establishment of the Big Sky Building Society (combining Big Sky with Lifeplan Australia Building Society), on 1 March. I would like to issue a warm welcome to the members who joined us as a result, and to the Big Sky Chairman Greg Willcock, who joined our parent board following the merger. The expansion of our banking products and service capabilities, along with the improvement in scale, will enable us to better meet the financial wellbeing needs of our members.

Australian Unity's operations in financial services and health insurance bring us under the supervision of two major Commonwealth Government regulators: the Australian Prudential Regulation Authority (APRA) and the Private Health Insurance Administration Council (PHIAC). These regulators are responsible for overseeing the stability and efficiency of operation of the market sectors they supervise. Following an extended period of discussions with APRA, Australian Unity Limited applied for, and became, a "non-operating holding company". This means that we are now supervised by APRA as a group at the parent company level. We believe that this step recognises the importance of the role we play in the Australian financial system.

As mentioned earlier, the legislative environment posed a number of challenges during the year. The most detrimental was the introduction, from 1 July 2012, of the means test on the federal government's private health insurance rebate. The business was required, with very little time or direction from the bureaucracy, to invest considerable resources into major systems changes and customer communications to be ready for the new legislation. We expect the changes to negatively impact the delivery of health services to the community and the future results of the health insurance business. Even though these changes have been, and will remain challenging, we believe we have put ourselves in the best possible position in response.

The federal government also announced major aged care reforms. We were disappointed that these largely diverted funding from one area of the system (residential), to another (home-based care), without recognising the growth in need in the community and the increasing frailty of older Australians. We will continue to encourage governments to introduce changes that allow providers to offer more high-quality family-centred care and greater choice.

My thanks go to my fellow directors for their time and diligence in attending to the governance of Australian Unity. Our group spans a broad range of activities, geographies and interactions with government policy and regulation. As a result our corporate structure and governance frameworks are complex, intellectually demanding and time consuming.

I would also like to thank the Group Managing Director, Rohan Mead, the executive team and all Australian Unity employees, for their hard work during the year. These are the people who, on a day to day basis, are committed to delivering our suite of wellbeing services to our members and customers. They have, again this year, delivered sound progress under challenging conditions.

As I have already mentioned, the company, along with the general business community is facing a number of challenges to do with economic and sovereign risk. Despite these, 2011–2012 was a year of growth — of revenues, members' funds, employee numbers and business initiatives. I have every reason to expect that our ambitions remain the right ones and that we are as well placed as possible to realise them.

Glenn Barnes

Glenn Barnes
Chairman

1984 Lifeplan Australia Friendly Society created from the merger of these and other friendly societies of South Australia.

1840–1880s First lodge of Manchester Unity IOOF, Ancient Order of Foresters' Court Perseverance lodge, and Hibernian-Australasian Catholic Benefit Society established, Order of the Rechabites opened an Adelaide branch, United Ancient Order of Druids opened the Good Intent lodge and the Australian Natives' Association (ANA) opened first branch in Adelaide.

Group Managing Director's report

Once again, I am pleased to report that across the operations of the Australian Unity Group, the year under review is significant for its major investments in growth opportunities for the company.

These include further investment and growth in our preventative health and chronic disease businesses, the addition of an expanded building society following the company's merger with Big Sky Credit Union in March, and major acquisitions in both our financial advisory business and our funds management business.

As the Chairman has said, these investments impacted, in the short term, on our financial results, but each of them demonstrates the depth of opportunity Australian Unity has to pursue its ambition to become Australia's leading wellbeing company. Pleasingly, our trading result, at $34.6 million, is 8.0 percent up on last year, reflecting the underlying strength of our operations.

The year at a glance

- Processed almost two million health claims
- Continued to manage $12 billion of investors' funds and increased funds under advice to $2 billion
- Provided 482,000 meals to the aged
- Treated patients in more than 52,000 dental visits
- Provided intervention and coaching to the 5,000th patient with chronic disease
- Established more than 1,300 financial plans

One of our most significant current initiatives is our landmark metropolitan retirement community in Carlton, Melbourne. The company signed a major funding agreement during the year under review, and finished negotiating various approvals with the assistance of state and local governments. The inner-city nature of this combined aged care and retirement living precinct has inspired new thinking about the ways in which we deliver wellbeing services for older people in ways that connect strongly with the local community.

The merger with Big Sky on 1 March created Big Sky Building Society, an Australia-wide institution of 34,000 customers and $655 million in assets. Big Sky's branches in key growth locations in major mining centres in Queensland and Western Australia, along with a presence in metropolitan areas, expands the geographic reach of the company while giving existing Big Sky customers access to a wider range of products, including health and other insurance products. During the months since the merger, our operations teams have been extremely busy combining the operations of these businesses. By year end, the customer databases and member registers of Big Sky and Australian Unity were combined; along with the balance sheets and general ledger, payroll systems, and risk frameworks, compliance policies and the broader technology platform.

Another achievement was the acquisition and successful integration of the responsible entity for the Investa retail property trusts, which expanded upon our expertise in property with an additional $430 million portfolio. After the acquisition we were pleased to be able to promptly offer improved liquidity for these investors. Given the persistence of patchy and often adverse economic conditions, during the year the business decided to close our High Yield Mortgage Trust and progressively return capital over coming years.

1971 BP Credit Union (BP CU) formed. BHP Employee's Credit Co-operative (BHP ECC) formed.

1995 Lysaght Credit Union merged with BHP ECC.

2002 BHP ECC became Big Sky Credit Union.

2003 Big Sky Credit Union merged with BP CU.

Our Personal Financial Services business has required significant investment over the past few years as it established its reputation as a fee-for-service financial planning and finance broking dealership. During the year under review, the business reported extraordinary growth, of 91 percent in funds under advice. The acquisition of a majority stake in Certainty Financial in January, boosted what was already a strong level of organic growth and assisted in this result. The business reported positive monthly contribution figures during the second half of the year, on track to deliver its first full-year profit in 2012–2013. Subsequent to year end, the business was recognised by trade publication *Money Management* as the '2012 Institutional Dealer Group of the Year'.

Our preventative healthcare business, Remedy Healthcare, enrolled its 5,000th coaching patient and finalised some significant clinical trials and peer-reviewed clinical papers. Our health insurance funds continued their superior growth during the year. GU Health, our corporate fund, grew by 16.7 percent, while the retail fund recorded another growth rate of 6.1 percent, significantly above system growth of 3.7 percent.

Regrettably, the activities of both of these funds were side-tracked during the year with implementing major systems and process changes involved in responding to the federal government's introduction of the means test on the private health insurance rebate. Unfortunately, we needed to expend millions of dollars, along with substantial human and other resources on this effort, which we believe to be of questionable long term benefit. These financial resources might otherwise have been invested in chronic disease programs or other services to members.

On a brighter note, our retail health fund's customer service team was awarded, for the third consecutive year, the Outstanding Business Award from the International Customer Service Professionals. We continue to strive to excel at customer service across the organisation.

All of our products and services depend on the dedication of our employees to deliver on our promises to customers. To achieve this, we endeavour to create a culture that allows our employees to excel and grow as professionals and individuals. We do our best to create roles that are satisfying, meaningful and challenging. I would like to take this opportunity to thank the group's employees for their continued commitment to the objectives of the company.

I would also like to personally thank Alan Castleman for his contribution as Chairman and for his mentoring during the period we worked together.

Four years ago, when the global financial crisis hit, there was a sense that its effects would be long-lasting and far-reaching. It is fair to say that while Australia has been protected by a robust underlying economy, we are still responding to the ongoing impact and some fundamental adjustments to the financial markets and economic changes across the developed and developing world.

I believe that the company continues to be well placed to make important contributions, in the years and decades ahead, to the development of social infrastructure and community wellbeing.

Rohan Mead
Group Managing Director & CEO

2005 RACV CU merged with Big Sky Credit Union.

2009 GMH Credit Union merged with Big Sky Credit Union. Big Sky Financial Solutions established.

2010 Westwide Financial Services merged with Big Sky Financial Solutions.

2012 Big Sky Credit Union merged with Australian Unity Limited.

Healthcare

Health claims
Australian Unity processed almost two million health claims.

The year at a glance

Australian Unity Healthcare is one of Australia's oldest health funds. The business is also a pioneer in preventative health and chronic disease management, with a range of programs and benefits that save lives, reduce illness and contain the cost of health insurance for members.

Australian Unity began making substantial investments in preventative health programs in 2007 and has since been followed by other major health insurers.

It is the only health fund with home-grown expertise in this field and has an unmatched and growing bank of evidence of the benefits of its preventative health and chronic disease management programs for Australians.

Australian Unity has capitalised on its success by making its expertise available to other health funds through Remedy Healthcare, and our affiliate business, Rehability.

Australian Unity's Healthcare operations recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $55.19 million for the year ended 30 June 2012 (2011: $55.02 million).

Total segment revenue for the combined Healthcare business, which includes retail and corporate insurance businesses and the allied health business, was $668.99 million in the latest year (2011: $590.78 million).

Retail health insurance

The number of retail health fund policyholders increased by 6.1 percent in the year to 190,097 at 30 June 2012 (2011: 179,161). This was a very solid performance, that for the second year was significantly higher than growth in the industry as a whole (3.7 percent). This reflected the continued benefits of Australian Unity's efforts to broaden its base across Australia and attract younger customers.

Highlights

- Increased retail fund membership by 6.1 percent
- Customer solutions team won the Outstanding Business Award for the third consecutive year from the International Customer Service Professionals
- Boosted investment in preventative health and chronic disease management to $52 million over five years
- At time of going to print Amanda Hagan, Chief Executive Officer, Healthcare had been announced as a Victorian finalist for the Private and Corporate Sector in the 2012 Telstra Business Women's Awards.

Corporate health insurance

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively for the corporate market.

The number of GU Health's policyholders increased by 16.7 percent in the year to 25,344 at 30 June 2012 (2011: 21,725).

The wellness program GU Health introduced in 2011 for corporate clients' employees continued to grow.

GU Health introduced a new payments system that allows corporate clients to seamlessly split the payment of health fund premiums with their employees. This unique feature was developed in response to the introduction of means testing of the Australian Government private health insurance rebate. Feedback from corporate customers indicates this is an innovative approach that has responded to their needs and is likely to minimise the attrition that may have otherwise occurred as a result of the government policy change.

Service innovation

For the third consecutive year, Australian Unity Healthcare's customer service team won the Outstanding Business Award from the International Customer Service Professionals, reflecting the business' ongoing commitment to customers.

Australian Unity makes it easy for health fund members to obtain information and lodge claims. In 2011, free iPhone and iPad applications were introduced, allowing customers to have claims assessed and processed within one business day by sending photographs of receipts.

Healthcare (continued)

The year at a glance

Dental patients
Australian Unity dentists treated patients in more than 52,000 dental visits.

Dental

Australian Unity operates four dental clinics, all located in Melbourne—Collins Street, South Melbourne, Box Hill and Rowville. The number of patient visits during the year increased by 12 percent to 52,284 (2011: 46,783), reflecting the addition of the Rowville clinic part way through the previous year.

Advocacy and public policy

On 1 July 2012, the federal government introduced a means test for the Australian Government private health insurance rebate. This is a setback for the private health insurance industry, its customers and the Australian health system.

Over the past three years, Australian Unity campaigned against the means test because it is likely to lead to increased health insurance premiums for all fund members.

Australian Unity's position and the views of its members, were made clear in a submission to a Senate enquiry and at many briefings in Canberra. Despite these, and industry wide efforts, the Government's bill was passed in March 2012.

Proponents of the change argued that it would affect only Australians who can afford private health cover without government rebates, and that most of these people will choose to remain covered.

Australian Unity expects younger, healthier people affected by means testing will consider reducing their level of cover or opting out of private health cover, which in some cases will rise in cost by 43 percent.

If a significant proportion of this group exits private health insurance or downgrades cover, the cost of claims across the fund per member will increase, leading to an inevitable rise in premiums for everyone.

The new law is bad policy that goes against one of the most important principles of private health insurance: that every Australian, regardless of age or health status, is charged the same premium for the same health insurance product.

The government concedes it did not model the likely change in behaviour, particularly with regards to downgrade of cover, caused by the introduction of means testing on 1 July 2012. Australian Unity believes there will be negative effects, and is already working hard to minimise the impact on members.

Top 5 individual member claims

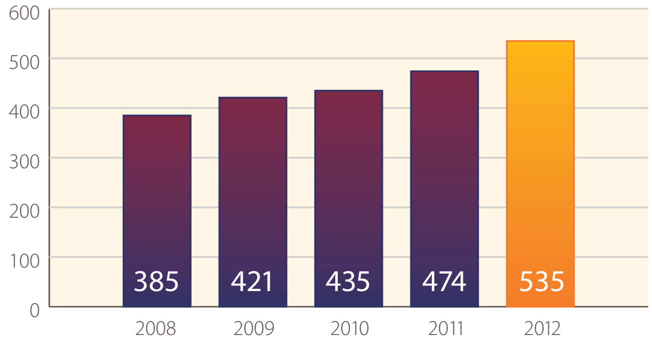
Respiratory	$290,749
Circulatory	$134,552
Circulatory	$133,057
Respiratory	$125,835
Neonate	$119,920

Most common ailments experienced by members

Digestive system	2009	2010	2011	2012
Patients	19,853	20,619	20,931	21,890
Benefits paid ($m)	$26	$27.8	$28.8	$30.8
Average per patient	$1,309	$1,347	$1,375	$1,405
Musculoskeletal				
Patients	8,051	8,121	8,797	9,746
Benefits paid ($m)	$53.4	$54.1	$61.3	$71.5
Average per patient	$6,634	$6,667	$6,964	$7,335
Circulatory (including cardiac)				
Patients	5,774	5,947	5,882	6,025
Benefits paid ($m)	$51.1	$50.5	$53.1	$56.4
Average per patient	$8,857	$8,489	$9,024	$9,364

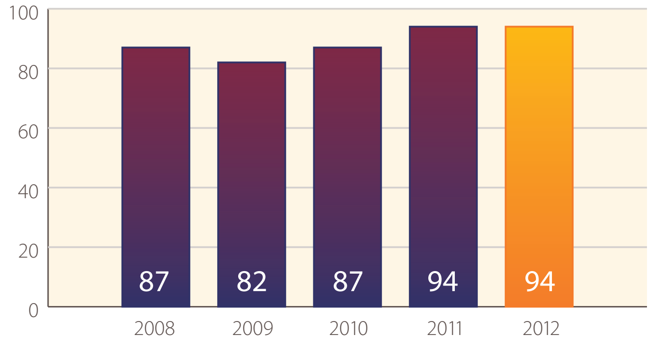
Total claims paid to members ($m)

$535m



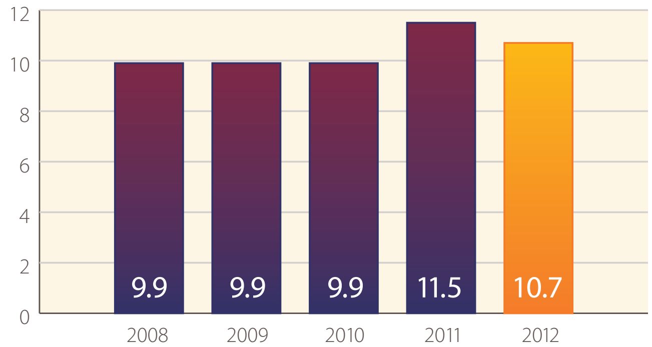
Medical services incurring no out-of-pocket expenses (%)

94%



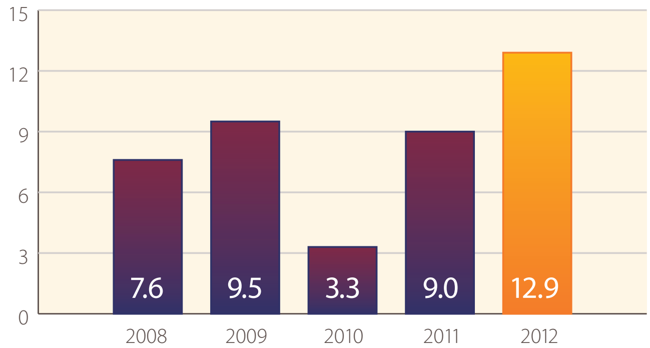
Australian Unity Health Management Expense Ratio (%)

10.7%



Year-on-year increase in health claims paid to members (%)

12.9%



Remedy Healthcare

Improving diet, exercising regularly and making other changes to lifestyle can prevent many costly and disabling diseases.

Australian Unity has been a leader in putting this knowledge into action to improve the health of members. This approach also helps to keep members' health cover more affordable by reducing the incidence of hospitalisations and the length of treatment.

Australian Unity's preventative health and chronic disease management services are provided by a business known as Remedy Healthcare. These services are also provided to other health insurers in commercial arrangements.

A number of Remedy's programs have now been running for several years and are establishing track records of outstanding success.

For example, more than 350 Australian Unity health fund members have now completed the type 2 diabetes program since its introduction in late 2009. Graduates of the program have significantly reduced their risk factors and are less likely to be hospitalised. The average hospitalisation cost for the participant group is 30 percent less compared to a comparison group of Australian Unity health fund members who have not participated in the program.

Preventative healthcare
Remedy Healthcare enrolled its 5,000th coaching patient.

Similar success has been enjoyed by the osteoporosis program, with the average cost of hospitalisation for participants 35 percent less compared to a comparison group of Australian Unity health fund members who have not participated in the program.

These results are reducing claims costs for the Australian Unity health fund, but this is not the only benefit.

Members who participate in the programs are highly positive about their experience, as reflected by their scores in customer satisfaction surveys. Customer feedback will be used to make further improvements, including greater out-of-hours clinical service and the ability to access programs online and through channels such as Skype.

The increasing evidence of Remedy's success helped to increase demand for its services from Australian Unity health fund members.

Remedy now directly employs more than 25 people, up from a total of 15 a year earlier. The Rehability business has also grown at a fast rate to keep pace with the increase in demand for rehabilitation at home and hospital care at home for our members as well as providing services to other health funds.

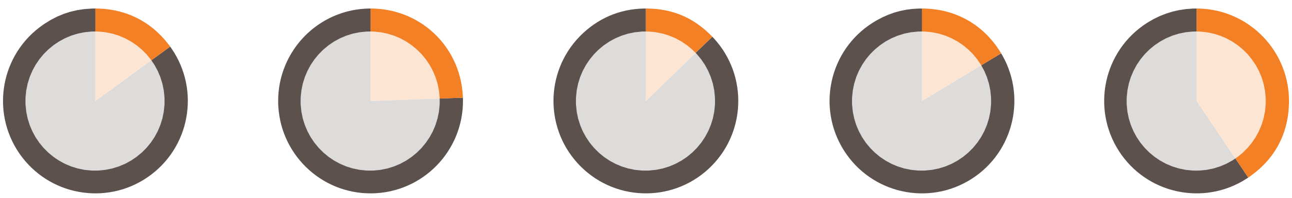
The oral health/diabetes referral program was launched towards the end of the year through Australian Unity's dental practices. A standard check of a patient's oral health can reveal gum problems that might be related to type 2 diabetes.

In most dental practices, patients who are clearly at risk of developing type 2 diabetes or unaware they might already have the disease would receive little or no follow up. Under the new program, Australian Unity dentists have a discussion with the patient and advise them of the Diabetes Action program offered by Remedy Healthcare.

The Integrated Care program was also launched during the year. This program focuses on patients who have had three or more hospital admissions in the past year. Patients receive a phone call from one of Remedy's registered nurses, who offers individualised health advice and information about other support services available in the community.

New programs will be introduced for members in the coming year.

Members achieving Diabetes Australia risk factor targets (%), first 350 graduates



15.0% Improvement in those who achieved target HbA1c; ≤7%

24.7% Improvement in those who achieved target total cholesterol; <4mmol/L

13.0% Improvement in those who achieved target LDL; <2.5mmol/L

16.4% Reduced their BMI to within their target range; <25kg/m²

41.2% Improvement in those who achieved physical activity target; 30 mins walking or equivalent on 5 or more days per week

Diabetes Australia has established the key risk factor targets for best practice management of type 2 diabetes; to reduce the risk of complications and hospitalisation. The above charts detail the clinical outcomes achieved by graduates of the Remedy Diabetes Action program.

Retirement Living

Carlton Wellbeing Precinct
Our landmark metropolitan retirement community will provide 360 jobs through construction and operations.

The year at a glance

Australian Unity builds and operates retirement communities. The business is focused on offering integrated accommodation, care and personal support services, giving residents the opportunity to age in communities of their choosing.

Retirement Living has been able to test a forward-thinking approach in the innovative design of a new wellbeing precinct in the Melbourne inner city suburb of Carlton, Victoria as part of the Victorian Government's Carlton Housing Redevelopment Project.

Construction of the Carlton project commenced in July 2012 and when completed, the precinct will offer 181 independent living units and a 161-bed aged care facility, with ageing in place services.

This exciting development includes new approaches to bringing wellbeing to residents. Taking cues from the World Health Organisation, Global Age-friendly Cities and the Australian Unity Wellbeing Index, the precinct will include a range of facilities for older people to improve their health, participation and connection with society.

Australian Unity's Retirement Living business recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $7.80 million in the year to 30 June 2012 (2011: $7.61 million).

Earnings were flat due to a subdued residential property market which moderated price growth in retirement villages. Investment in new projects and costs to upgrade the technology and services supporting existing facilities also moderated returns achieved from business growth initiatives.

Highlights

- Acquired, through the newly established Retirement Village Property Fund, two retirement villages—Geelong Grove in Geelong and Morven Manor in Mornington, with a total of 234 units
- Completed the first two stages of Peninsula Grange retirement village in Mornington, Victoria, with 75 percent under deposit or settled
- Kept village occupancy and residential care occupancy at 95 percent and 98 percent respectively
- Continued to grow community and in-home care services that now represent 9 percent of revenue

Sales and occupancy

The business operates 18 retirement communities, including four aged care facilities, in Victoria and New South Wales, with a combined 1,899 home units, 451 aged care beds and 180 ambulatory and community care places.

The number of home units rose significantly from 1,605 in the previous year following the acquisition of Geelong Grove and Morven Manor retirement villages through the Retirement Village Property Fund, together with continuing development of the new villages in Victoria and New South Wales.

Occupancy rates consistently met or exceeded industry averages, with occupancy rates at retirement villages and aged care facilities at 95 percent and 98 percent respectively.

During the year, the business achieved 3 percent growth in the average price of independent living units, despite declining or flat prices in the general residential property market.

Accreditation of all residential care facilities was renewed for three years following a regular review.

Current developments

The level of development activity accelerated during the year. Australian Unity significantly expanded activity at Peninsula Grange Retirement Village in Mornington, Victoria and at Victoria Grange Retirement Village in Vermont South in eastern Melbourne. In addition to this activity, construction began on the Carlton Wellbeing Precinct in July 2012.

Retirement Living (continued)

An extension to The Oaks in Croydon in Melbourne's eastern suburbs, was also completed.

A total of $515 million in development projects are currently under construction, including Sienna Grange in Port Macquarie, New South Wales in addition to those already mentioned. This investment forms a significant proportion of our planned business growth in Retirement Living.

Community care

Increases in the number of transition care beds and continued growth of in-home services led to a 45 percent increase in this segment of the business during the year.

The achievement of ACIMSS (Attendant Care Industry Management System Standard) accreditation was a highlight of the year. This provides clients and funders with a high level of assurance about the systems and service quality of Australian Unity's in-home services.

Bill Whannell believes that Community Care staff member Rob Alderson is the best thing that has happened to him for years.

Rob visits Bill twice a week and assists with personal grooming, shaving and a monthly haircut.

Each week Rob transports Bill to the local shopping centre where they hire a motorised scooter which, over time and with Rob's instruction, Bill has become adept at driving.

As Bill doesn't have regular male contact he enjoys Rob's company.

Rob takes his iPad to Bill's place and has opened up a whole world of music, movies and interesting information that Bill ordinarily wouldn't have access to. Bill has recently asked his wife to get him an iPad.

Bill's wife reports that Bill constantly asks when Rob will be attending and on the days of Rob's visits Bill is full of enthusiasm and liveliness.

Bill says that since the commencement of the Community Care services that Australian Unity provides, his life has changed.

Bill is just one of the 180 clients for who Australian Unity's community care services are making a real difference to their quality of life.

Caring for the aged
Our employees provided 482,000 meals to the aged.

Sustainability

Environmental sustainability is a key priority for Retirement Living in both the design of new villages and the way in which existing facilities are managed.

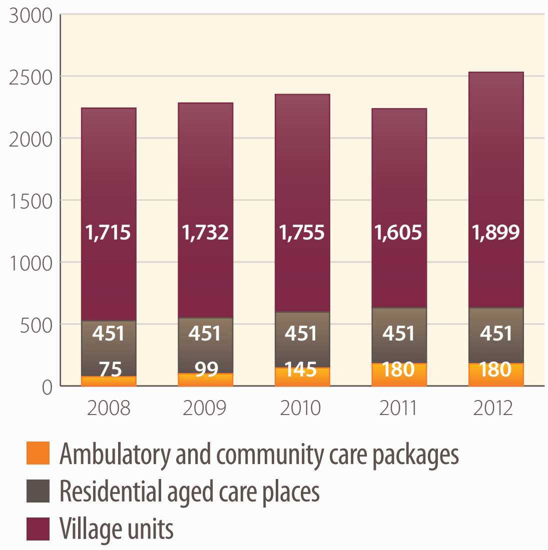
Sustainability includes:

» minimising water consumption;
» promoting water recycling;
» minimising our reliance on non-renewable energy sources;
» creating healthy and sociable neighbourhoods;
» minimising waste;
» promoting sustainable modes of transport; and
» the protection of the long term economic future of our communities and ensuring affordability to residents now and in the future.

Consistent with this policy, the Carlton Wellbeing Precinct will feature leading technologies in sustainability.

An audit of sustainability practices was conducted at Walmsley Friendship Village at Kilsyth in Melbourne's outer eastern suburbs during the year. The audit reviewed energy and water consumption and waste generation, and will be used to set targets across the portfolio.

Our operations



Technology

Retirement Living embraces technology to improve productivity and the quality of services for residents. During the year, a client management system was delivered that supports staff across all villages by providing real-time care information for residents.

When fully implemented, the system will provide an integrated platform to support business growth, and a holistic solution to enable a single view of customers across the Retirement Living portfolio of products and services.

During the year, Retirement Living made news with Peninsula Grange becoming the first village in Australia to connect to the National Broadband Network. Addressing the unique requirements of a retirement community has been challenging for the NBN. However, residents are now among the first in Australia to enjoy super-fast broadband.

Advocacy and public policy

Despite the publication of an insightful and practical review of aged care by the Productivity Commission early in the financial year, aged care reforms announced by the federal government in April 2012 failed to provide much-needed support for older Australians and for private investment in the sector.

Increasing support for older Australians to remain in their homes is welcomed. However, the volume and care hours proposed remain inadequate for the existing needs. Any additional funding has been provided largely at the cost of further restrictions on funding for residential aged care.

Australian Unity will continue to actively engage with government and opinion leaders to encourage reforms that focus on client and family directed care and a fairer system of financing and support for older Australians.

Financial Services

Investor customers

This year the business provided 180,000 investors with access to a range of expert investment managers.

The year at a glance

Investments

Australian Unity Investments offers a wide range of products to help individuals achieve financial security, one of the foundations of wellbeing.

The suite of products now includes term deposits, savings and loans, following the transfer of business of Big Sky Credit Union to Lifeplan Australia Building Society Limited, a wholly-owned subsidiary. The combined business is now named Big Sky Building Society.

Investment markets experienced another difficult year, with concerns about Eurozone debts weighing on economic and investment activity at home and abroad. The Australian sharemarket declined by 6.71 percent over the 12 months to 30 June 2012, as measured by the S&P/ASX200 Accumulation Index[1].

These factors led to a continued shift by investors from equities and managed funds into term deposits and other forms of cash investment, not withstanding the low rates of return on many such investments after tax and inflation.

Despite these trends, the total value of Australian Unity Investments' funds under management increased slightly from $11.9 billion at 30 June 2011 to $12.2 billion at 30 June 2012.

The business recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $12.49 million for the year ended 30 June 2012 (2011: $14.07 million).

These results are a significant achievement at a time when the managed investment industry recorded a decrease in fund inflows, as well declining investment values and profits.

The resilience of Australian Unity Investments in these difficult conditions is reflected in the quality and diversity of its portfolio of investment products in Australian and international equities, fixed interest, bonds, property and mortgages.

Through a number of joint ventures, the business provides investors with access to a range of expert investment managers, each focused on a different sector or investment style. These managers include Acorn Capital, Vianova Asset Management, Platypus Asset Management, Wingate Asset Management, Seres Asset Management and Altius Asset Management. Each asset manager operates a flagship fund, the performance of which is benchmarked and reported on in the commentary below.

Equities

The business continued to build its presence in Australian, international and Asian equities.

International equities manager Wingate Asset Management grew funds under management to $57 million (2011: $45 million). The Wingate Global Equity Fund (Wholesale) returned 6.39 percent for the year, which was 6.89 percent above its benchmark[2].

Funds under management by Asian equities manager Seres Asset Management declined to $40 million at 30 June 2012 (2011: $47 million). The Seres Asian Equity Opportunities Fund returned -7.97 percent for the year, underperforming its benchmark MSCI ACFM Asia Index by 1.32 percent.

Microcap manager Acorn Capital's funds under management held steady at $1.2 billion. The Acorn Microcap Trust (Wholesale) returned -9.74 percent for the year, compared to its benchmark[3], which returned -15.65 percent.

1 Standard & Poor's/Australian Securities Exchange 200 Accumulation Index
2 MSCI World (ex Aust) $A Net Dividends Reinvested
3 Acorn Capital/Australian Graduate School of Management (AGSM) Microcap Accumulation Index

Highlights

- Increased funds under management slightly to $12.2 billion, in contrast to widespread declines across the industry
- Launched Big Sky Building Society (a combination of Big Sky Credit Union and Lifeplan Australia Building Society)—a new, stronger alternative to the 'Big Four Banks' for personal banking customers
- Expanded fixed interest products through a new joint venture, Altius Asset Management
- Acquired the responsible entity of Investa Property Group's $430 million retail property funds

Funds under management for Australian equities manager Platypus Asset Management decreased to $950 million at 30 June 2012 (2011: $1.6 billion), reflecting lower share market levels and fund outflows. The Platypus Australian Equities Trust (Wholesale) returned -6.33 percent for the year, compared to a return of -7.01 percent for the S&P/ASX 300 Accumulation Index[4].

Platypus Asset Management awarded a grant of $150,000 to fund a three-year academic study of anomalies in the Australian stock market and the implementation of anomaly-based investment strategies. Five academics from Melbourne, Monash and Newcastle Universities make up the research group.

Fixed interest

Vianova Asset Management continued to provide investors with solid returns and lower risk in comparison with its peers in the fixed interest market.

Funds under management remained steady at $5 billion at 30 June 2012 (2011: $5 billion). The Vianova Strategic Fixed Interest Trust (Wholesale) returned 10.40 percent for the year to 30 June 2012. The UBS Composite Bond Index returned 12.41 percent.

Australian Unity Investments increased its range of fixed interest products with its most recent joint venture partner Altius Asset Management.

4 Standard & Poor's/Australian Securities Exchange 300 Accumulation Index

Investments (continued)

The launch of the Altius Bond Fund for retail investors contributes to an expanding range of fixed interest products to cater to growing demand for defensive, income-producing investments. In recent years, Australians have turned in large numbers to term deposits, but there is growing recognition of the need for capital-stable investments that deliver results over the medium to long term.

The Altius Bond Fund returned 9.48 percent for the year to 30 June 2012. This compared to the fund's cash benchmark[1], which returned 4.43 percent, but under-performed the fund's bond benchmark[2], which returned 12.41 percent.

Property

Australian Unity Investments continued to build its presence in unlisted property in October 2011 with the acquisition of the responsible entity for Investa Property Group's retail property funds business.

The business comprised three unlisted property trusts, with funds under management of more than $430 million. The Funds hold 12 office and industrial buildings across Australia, which complement Australian Unity Investments' existing portfolio of retail, commercial and industrial property.

Australian Unity Investments continued to build its presence...

The acquisition boosted the value of Australian Unity Investments' unlisted property portfolio to $1.7 billion at 30 June 2012 (2011: $1.4 billion).

During the year, the Healthcare Property Trust raised $50 million through a discounted rights offer. Funds will be used for expansions and refurbishments to existing assets: Valley Private Hospital in Mulgrave, Peninsula Private Hospital in Frankston and Beleura Private Hospital in Mornington, Victoria.

The Healthcare Property Trust also refinanced $200 million in borrowings at a lower interest rate, boosting distribution returns for investors in the Trust.

The Healthcare Property Trust leverages Australian Unity's unique overlap of expertise in healthcare and financial services. This approach has been extended to retirement living with the launch of the Retirement Village Property Fund. In the past year, the new fund made its first two purchases of retirement villages – the Geelong Grove Retirement Village and Morven Manor, in Mornington. Both villages are in Victoria.

Other property highlights in the past year included a $43 million capital raising to expand the Waurn Ponds Shopping Centre in Geelong, the re-opening of the Office Property Fund and the offer of a capped withdrawal opportunity, and the $67 million sale of the Olderfleet office building owned by the Office Property Trust at 477 Collins Street, Melbourne.

Mortgages

The mortgage trust industry was disadvantaged by the federal government's introduction of a bank deposit guarantee in 2008 following the Global Financial Crisis.

Many trusts froze redemptions to stem a run of withdrawals, but Australian Unity Investments worked hard to maintain a degree of liquidity for its mortgage trusts investors.

While mortgage trusts remain a sound investment, a decrease in investors in the High Yield Mortgage Trust led to a decision to begin an orderly wind-up of the trust and progressively return all capital over the coming years.

Demand for redemptions in the Mortgage Income Trust stabilised over the past year and the trust continues to pay a competitive level of income.

The Mortgage Income Trust was awarded second place in *Money* magazine's 'Best of the Best 2012' awards in the 'Best Mortgage Funds' category.

Client services

Australian Unity conducted more than 44,500 customer transactions including applications and withdrawals.

1 Reserve Bank of Australia (RBA) Cash Rate
2 UBSA Composite Bond Index

Brunswick Private Hospital, part of the Healthcare Property Trust portfolio of assets.

Lifeplan

Lifeplan became part of Australian Unity Investments in 2009 following the merger between Australian Unity and Lifeplan Australia Friendly Society. It is Australia's largest provider of investment bonds and education savings plans. Lifeplan's tax-effective solutions can offer substantial benefits for investors in an environment of low returns.

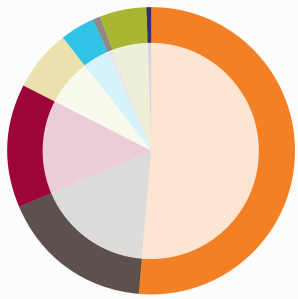
Funds under management and administration were steady at $1.9 billion.

Lifeplan Funds Management's NextGen Investments and Lifeplan Education Investment Fund (LEIF) investment products were updated to increase their appeal to financial advisers and their clients, as well as comply with new regulations under the Future of Financial Advice legislation.

A review of Lifeplan Travel, a smaller provider of travel products, in November 2011 resulted in a decision to commence a phased closure of the business due to its small size.

The year at a glance

Funds under management at 30 June 2012 (%)



51.5	Fixed interest
17.2	Australian equities
14.0	Property
6.9	Lifeplan
3.9	Mortgages
0.8	International equities
5.4	Banking products
0.3	Other

$12.2b

Big Sky

Big Sky Building Society

A highlight of the year was the merger between Australian Unity and Big Sky Credit Union. The merger resulted in the transfer of business of Big Sky Credit Union to a wholly-owned subsidiary of Australian Unity Limited, Lifeplan Australia Building Society Limited, on 1 March 2012.

The new business was named Big Sky Building Society Limited, and will leverage the strength of Australian Unity to offer an attractive alternative to the 'Big Four Banks' for personal banking.

Big Sky Building Society now serves 34,000 customers and members, spread throughout metropolitan, regional and remote Australia. It has $655 million in assets, more than 85 staff in 12 locations and a strong link to the resources industry.

Big Sky began as the BHP Employee's Credit Co-operative some 40 years ago and since then it welcomed members of the Lysaght, BP and GMH Employee's Credit Co-operatives and the RACV Credit Union.

Today Big Sky remains close to its origins; serving the resources industry in regional mining communities in Western Australia, South Australia and Queensland and many customers with a strong presence in Melbourne and Brisbane, as well as assisting onsite at BP, GMH, RACV and Bluescope employer locations.

Big Sky is also a member of Abacus, the industry body for the Australian mutual financial services sector.

An important feature of the mutual banking sector is that it operates under the same strong regulatory framework that serves the Australian banking industry.

The merger of two likeminded mutual organisations combines significant experience, knowledge and understanding of the philosophy and culture of how to service and support members and customers. This, together with the enhanced financial strength of the new organisation ensures Big Sky's offering to all Australian Unity members and customers is competitive and comprehensive and means, as a part of the Australian Unity group, it is well placed to be a genuine alternative to the 'Big Four Banks' for personal banking.

Big Sky offers a full suite of personal deposit and lending products, foreign exchange, financial advice and general insurance products and plans to shortly introduce an online mortgage product with a low interest rate.

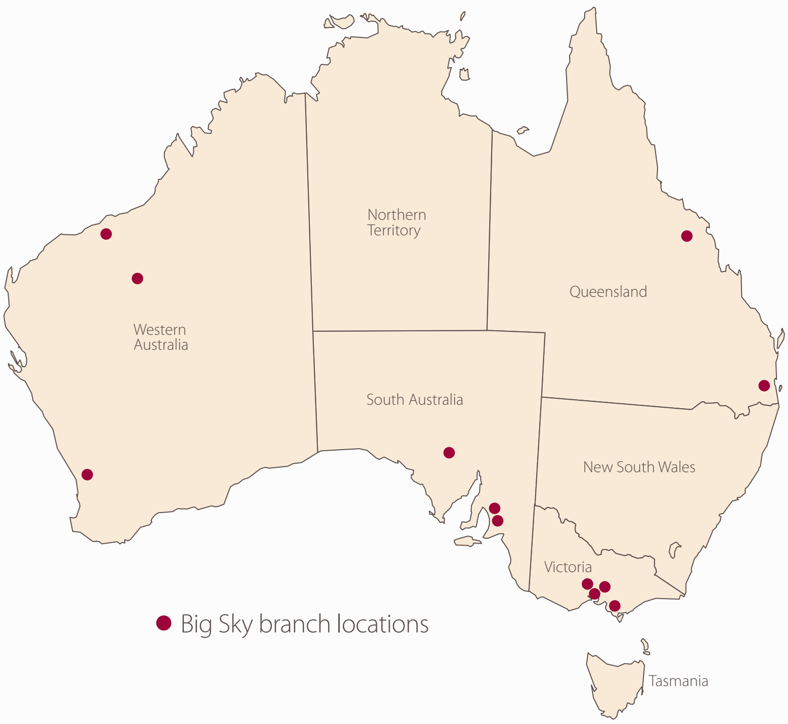
BIG SKY

Banking • Financial Advice • Insurance

The year at a glance

Making borrowing easy

34,000 customers Australia wide were serviced by Big Sky Building Society.



Highlights

- Achieved a positive Big Sky member vote to the proposed merger with Australian Unity
- Passed on promised merger pricing benefits to existing customers following the merger between Big Sky and Australian Unity
- Added Adelaide branch (formerly Lifeplan Australia Building Society branch) to national service centre network
- Acquired MeritPlan, a Brisbane and Ballina based boutique financial advisory firm
- Recorded a satisfaction rating of 89 percent in the annual customer satisfaction survey

Personal Financial Services

Mike Taylor, editor of *Money Management* (left) presents Mr Steve Davis, CEO of Australian Unity Personal Financial Services, with the '2012 Institutional Dealer Group of the Year' award.

Personal Financial Services named *Money Management's* '2012 Institutional Dealer Group of the Year'

Australian Unity Personal Financial Services was awarded '2012 Institutional Dealer Group of the Year' by the highly-regarded *Money Management* magazine.

Money Management collects data via the Money Management Top 100 Dealer Group and then weighs a range of factors including funds under advice, overall planner numbers and growth.

Australian Unity Personal Financial Services emerged as a strong winner of the institutional award based not only on the growth in its planner numbers, but also the manner in which the overall business had grown.

The award is an acknowledgement by the industry of the quality of advice that Australian Unity Personal Financial Services provides its clients.

Australian Unity Personal Financial Services currently has 109 advisers and 20 mortgage brokers operating in all mainland states and the Australian Capital Territory. The team has achieved organic growth with 29 new planners commencing in 2012.

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means Australian Unity is uniquely placed to offer its clients high quality personal financial services.

Australian Unity's financial planning business continued to grow strongly, with funds under advice increasing by 91 percent to $1.96 billion (2011: $1.02 billion). This supported an almost doubling of revenue to $18.03 million (2011: $9.23 million).

The continued success of the business defies trends in the financial advice industry, which has experienced declining revenues for a number of years.

Australian Unity Personal Financial Services has grown in difficult conditions because of growing awareness of its commitment to the interests of clients and to client-adviser relationships.

These values resonate strongly with accountants, who have become important partners in the growth of the business. The number of accounting firms in the Personal Financial Services referral partner program jumped 48 percent to 242 at 30 June 2012 (2011: 163).

The number of financial advisers increased strongly to meet demand, lifting by 54 percent to 109 at 30 June 2012 (2011: 71). Adviser numbers have more than doubled since 2010.

The investment over the past few years in building Personal Financial Services was rewarded with the business making a positive financial contribution in the second half of the year under review.

This was reflected in an improvement in the adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) over the full year from a loss of $4.56 million in 2011 to a loss of $2.64 million in 2012.

Personal Financial Services is on track to produce a maiden annual positive result in the year to 30 June 2013, as forecast in last year's annual report.

Strong organic growth of the business was complemented by the acquisition of a majority interest in Certainty Financial, which has substantial revenue and funds under advice. Certainty Financial has a mix of personal and corporate clients, creating a number of new business opportunities for Australian Unity.

Highlights

- Increased funds under advice by 91 percent to almost $2.0 billion
- Almost doubled revenues from $9.23 million to $18.03 million
- Increased authorised representative numbers from 71 to 109
- Acquired a majority stake in Certainty Financial
- Named *Money Management's* '2012 Institutional Dealer Group of the Year'
- Posted monthly positive financial results figures during the second half of the year.

The mortgage broking business unit acquired three loan books totalling $70 million, boosting the total value of mortgages under advice by 39 percent to $432 million at 30 June 2012 (2011: $311 million).

The Next Rural joint venture launched in 2011 made solid progress. Next Rural helps families transfer their farm to the next generation, while allowing retiring farmers to achieve their financial and lifestyle goals.

Financial planning
Australian Unity's financial advisers established more than 1,300 financial plans this year.

Community

The year at a glance

Wellbeing Index
65,000 people have been surveyed by the Australian Unity Wellbeing Index since 2000.

2012 International Year of Cooperatives

Australian Unity has worked to improve community wellbeing since the earliest days of its founding organisations.

Today, Australian Unity is recognised as a leader in community wellbeing, through its public advocacy, research and financial support for a wide range of community organisations.

Over the year under review, Australian Unity invested almost $1.2 million into community organisations, as measured by the London Benchmarking Group, an internationally recognised community investment model which measures activity, outcomes and community impact. This represented a 20 percent increase from slightly less than $1 million in the previous year.

Assistance was provided to more than 50 state and national community organisations through a combination of sponsorships, grants, in-kind support and time volunteered by staff members.

Australian Unity is also a key supporter of the local secretariat promoting the International Year of the Co-operative, reflecting our lasting and ongoing commitment to mutuality and helping to recognise the strength and resilience of the mutual business model.

Australian Unity Foundation

The Australian Unity Foundation has been one of the organisation's main vehicles for supporting the community since its launch in 2006. This year's grant recipients were Alzheimer's Australia, Camp Breakaway, Australian Red Cross, Operation STITCHES, City Life Inc., Ian Thorpe's Fountain for Youth, the United Housing Co-operative and the Sylvanvale Foundation.

In 2011, the Australian Unity Foundation launched the Heritage Fellowship grant program, which supports post-graduate research in health, ageing, financial security and wellbeing. The grants are available only to Australian Unity members and their immediate families.

Inaugural grants in the order of $50,000 each were awarded to Dr Carolyn McIntyre for her research on vibration treatment in prostate cancer survivors, and Dr Sue Fletcher for her study on client decision-making on attending cardiac rehabilitation programs.

Findings from these studies will be submitted for publication in peer-reviewed journals in 2013 and 2014 respectively.

Wellbeing Index

For more than a decade the Australian Unity Wellbeing Index has taken the pulse of the nation and its people, offering a unique insight into how Australian's feel about their own lives and life in Australia. How we are faring in our relationships, how safe we feel, how connected we are to our communities and how satisfied we are with our governments are just some of the many issues it canvasses.

Internationally renowned and considered the leading and most comprehensive measure of wellbeing in Australia, the Australian Unity Wellbeing Index is a joint project between Australian Unity and Deakin University's Australian Centre on Quality of Life. It offers individuals the opportunity to measure their personal wellbeing against the national average, and periodically examines society-wide issues through surveys of 2,000 people.

This year the survey examined the wellbeing of Australians living in areas affected by the February 2009 Victorian bushfires and the January 2011 Queensland floods. It found people living in disaster-affected zones whose property was not directly affected actually felt safer and more connected to their community than before the tragedy, a finding attributed in part to the shared sense of community they had experienced.

The Australian Unity Wellbeing Index will continue to play a vital role in informing public policy debate on matters of national importance. At the same time it provides unique insights into how Australian Unity might improve customers' wellbeing.

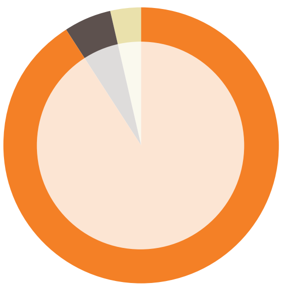
Public advocacy

Since 2008, Group Managing Director Rohan Mead has been a member of the Business Council of Australia's Healthy Australia task force. He is currently the chairman of the task force and in this capacity plays a lead interfacing role between business and government with regard to policy reform of the healthcare sector.

Australian Unity has been a long-time promoter of the need for substantial reform of Australia's healthcare sector in the face of an ageing population. During 2012 we continued to publicly advocate for aged care sector reform that would provide an environment in which quality providers can flourish, rather than one which will force consumers to pay more out of their own pockets for the current, ineffective system.

Community (continued)

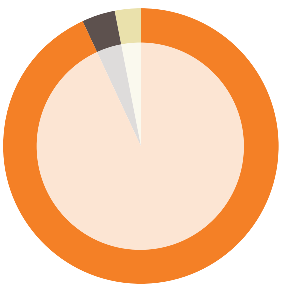
Our community contribution at a glance



- **91%** Cash
- **5.5%** In-kind support
- **3.5%** Staff time

2012 Total

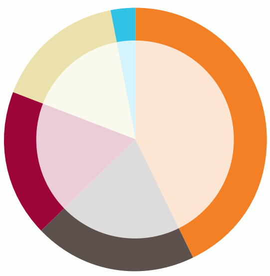
$1,171,411



- **93%** Cash
- **4%** In-kind support
- **3%** Staff time

2011 Total **$971,483**

Areas of support 2012 (% of $)



- **43%** Health
- **20%** Social welfare
- **18%** Education and young people
- **16%** Arts and culture
- **3%** Economic development

Australian Unity was a key contributor to a task force of individuals from senior levels of government, business and academia to discuss ways to measure Australia's social progress.

Australian Unity also supports a number of other groups involved in non-partisan advocacy of issues of importance to Australians and Australia. These include the ADC Forum (formerly known as Australian Davos Connection), Global Access Partners, and the Centre for Independent Studies.

Australian Unity continued to support the Australian Centre for Health Research. The centre is a public policy research program that was launched in 2005 with initial seed funding provided by Australian Unity.

In 2012 the centre released a book, entitled *Health Care in Australia: Prescriptions for Improvement*, which contains a series of essays which each summarise the reports released by the centre since its establishment. The book was launched by Peter Dutton MP, Shadow Minister for Health and Ageing in December 2011.

During the year the centre also commissioned a report, entitled *Towards a Health Productivity Agenda for Australia*, calling upon federal and state governments to pursue reforms to boost productivity in the healthcare sector as a policy priority.

Supporting staff as they help community

Australian Unity provides employees with one day's paid community leave per year to volunteer for community organisations. This year, staff participation in this initiative was up by 36 percent from the previous year.

Australian Unity also began a pilot of a Community Leave Week, where staff members apply the skills they use at Australian Unity to help community organisations for a week. The program is part of the employees' professional development.

Staff are also encouraged to donate to charity through the workplace giving program. Donations made through the program are matched by Australian Unity. This year, staff raised $32,272 (including Australian Unity's contribution), which was distributed to 14 charities.

Community wellbeing

Australian Unity assisted 80 state and national community programs with funding or via other means.

Bell Shakespeare

Australia Day

Australia Day began in 1888 (initially as Foundation Day) thanks to lobbying by the Australian Natives' Association, one of Australian Unity's antecedent organisations, for a national holiday that celebrates the nation and what it means to be Australian.

Australian Unity again supported the Melbourne Australia Day People's March, which attracted 12,500 people, and sponsored the Great Australia Day Breakfast at Parliament House in Melbourne.

Australian Unity also supported the Australian Unity Great Australia Day Swim at Brighton in Melbourne's south eastern suburbs, run by Brighton Rotary. The event continues to grow, with participation increasing by 45 percent on the previous year. A total of $50,000 was raised for local children's charities and Les Twentyman's 20th Man Fund which provides educational, sporting and counselling services and programs to the homeless and disadvantaged.

This year, Australian Unity, along with the Queensland Government, sponsored the Australia Day Festival including the AusSounds Australia Day Concert. Unfortunately due to high rainfall the festival and concert were cancelled.

Community partnerships

Australian Unity partnered with Swim Australia for the fifth consecutive year to encourage all Australians to learn to swim. This sponsorship includes subsidies towards the cost of teaching aids at more than 600 registered Swim Australia schools, and support for a national community service announcement featuring former Olympian Michael Klim.

Australian Unity continued its partnership with Bell Shakespeare, providing support for learning and development programs for children in regional schools. As part of the partnership, Bell Shakespeare's Actors @ Work perform at a number of Australian Unity retirement villages in New South Wales and Victoria, bringing performances to elderly residents who may not otherwise have the opportunity to experience the arts.

Australian Unity strengthened its partnership with the Australian Brandenburg Orchestra. This included the sponsorship of a Wellbeing CD for residents of retirement villages, as well as a number of performances for residents and family members.

Sustainability

Albert Road
Two gas turbines installed at head office are providing better and cleaner energy for the building.

The year at a glance

During 2011–2012 Australian Unity continued to build on its investment and commitment to sustainability across the business.

Investment property assets

A number of properties within Australian Unity Investments' property funds have been fitted with monitoring and reporting technology to identify opportunities for energy savings. This is expected to lead to energy savings of more than $230,000 on behalf of tenants.

Energy and water upgrades at the Healthcare Property Trust's Royal Prince Alfred Hospital Medical Centre in Sydney have provided a saving of more than 52 percent over the 2008–2009 base year. This represents a dramatic improvement in building performance with low capital expenditure and good economic returns.

New computerised systems for managing building services at The Valley Private Hospital in Melbourne's south-eastern suburbs and Wakefield Private Hospital in Adelaide, also owned by the Healthcare Property Trust, are being installed and are expected to generate power savings in the short to medium term.

A boiler/chiller upgrade at 20 Smith Street, Parramatta, owned by the Office Property Fund, produced a 30 percent saving in electricity usage and should improve the NABERS[1] rating for this property from 3.5 to 4 stars, when the rating is next reviewed.

Retirement Living property

Australian Unity Retirement Living provides services and communities that specifically meet residents' and clients' physical and social needs, promoting independence, dignity and wellbeing. Current and future developments are being designed with these principles in mind, while at the same time displaying sensitivity to the environment in which they are built.

At the Peninsula Grange retirement community located on the Mornington Peninsula, Australian Unity has incorporated a range of intelligent environmental systems and designs that make this facility a leading example of a modern sustainable village.

With an overall 6 star energy rating, all homes have been designed so that living areas will be naturally warmer in winter and cooler in summer reducing energy bills and each home's carbon footprint. A central rainwater collection system will ensure that each drop of rain that falls on the village is recycled to keep the manicured gardens green.

The Carlton Wellbeing Residential Aged Care facility, currently under construction, will also feature leading sustainability technology. The facility will include features such as solar hot water, energy efficient lighting, rainwater harvesting as well as on site contained vertical waste management including recycling.

1 National Australian Built Environment Rating System

Head office

Construction of a new data centre at head office was completed in May 2012. The new centre boosts Australian Unity's technology platform from level tier 1 to best practice level tier 3.

Included in the upgrade was the installation of two gas turbines on the roof of 114 Albert Road, South Melbourne.

The turbines supplement the main electricity supply, providing power to 114 Albert Road and specifically the data centre in the event the main electricity supply fails. Use of the turbines will reduce CO_2 emissions, in turn reducing Australian Unity's carbon footprint, as gas is more 'environmentally friendly' than electricity.

Additional benefits of the new data centre and technology upgrade mean that:

- the building is now fully powered by more eco-friendly energy;
- a significant reduction in the cost of electricity for the building;
- Australian Unity now has two additional sources of back-up power for its main data centre;
- heat generated as part of the gas burning is used to create cooling for the data centre; and
- the new data centre uses less power due to highly virtualised infrastructure.

The power system upgrade has provided Australian Unity with three levels of power sources: main feed, gas turbine and diesel generator. This ensures our core applications, those that run our business critical technology, are available at all times.

A number of other initiatives have been introduced at Australian Unity's head office. These include installing light-emitting diodes (LEDs), reprogramming the air conditioning to reduce energy consumption and the installation of carbon sensors in car parks that manage exhaust fans more effectively.

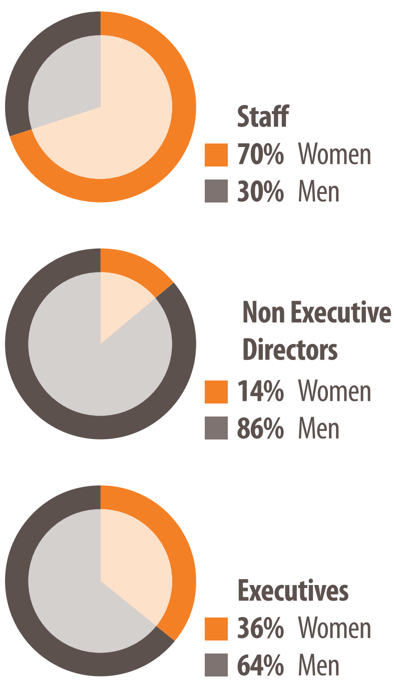
People

The year at a glance

Wellbeing of our people
Employee engagement at Australian Unity rose to 85 percent.

At the time of going to print, Amanda Hagan, Healthcare Chief Executive Officer, had been announced as a Victorian finalist in the 2012 Telstra Business Women's Awards. This award recognises Amanda's achievements in transforming the Australian Unity healthcare business into a leading provider of preventive health services.

Our people



Total staff **1,695**

The wellbeing of customers and members is supported by the wellbeing of those who work for Australian Unity.

That's why Australian Unity invests in creating a great place to work, and constantly strives to be a leading employer.

Alignment between employees and the organisation's success is measured through an annual staff survey, which shows staff levels of 'engagement'–a term that sums up an employee's belief in the values of their company and willingness to help it reach its goals.

The company's measurement survey for employee engagement was changed this year to allow for more robust data on sustainable engagement and the opportunity to benchmark the company against global high performing companies. Employee engagement at Australian Unity climbed to 85 percent, statistically significantly higher (four percentage points) than the comparison mark in the previous survey. The result is well above the average of leading Australian companies and approaches the levels of some of the world's best performing companies.

The high level of engagement is particularly pleasing given the diversity of occupations and the different needs and expectations of Australian Unity staff, which includes asset managers, dietitians, financial advisers and nurses. Australian Unity's wellbeing ambitions for customers and members creates focus and meaning for these many and varied individuals.

Growth

The number of Australian Unity staff grew significantly to 1,695 at 30 June 2012 (2011: 1,515). The merger with Big Sky boosted staff numbers by about 80, and this growth was supplemented by organic growth in a number of businesses.

With growth comes more complexity. Because the company continues to grow existing businesses and build new lines of business, Australian Unity's employees and leaders need a greater range of specialist skills and capabilities. The workforce is also geographically spread and in some locations operates 24 hours a day. These growth factors create challenges that require policies and processes, as well as leadership and management practices, that support the changing workplace and company needs.

People development

The Australian Unity Business School completed its fifth year of building leadership capability. More than 300 managers have participated in various programs since the school opened its doors. These leaders are from all levels of the organisation and from all business areas. Not only do these programs assist leaders to hone their leadership skills, they are important forums to foster innovation and collaboration.

Diversity

Australian Unity believes that workplace diversity encompasses gender, culture, ethnic background and disability, among other factors. Australian Unity believes a diverse mix of experience, thinking styles and backgrounds helps to manage risk and build capability. The company's diversity reference group, representing all business areas, has developed a strategy to support the development of diversity across the Group.

In recent years much of the community's focus has been on gender equity. Australian Unity works hard to create opportunities for women at all levels of the organisation. This is reflected in the strong representation of women among the executive ranks of Australian Unity.

During the year, Australian Unity's efforts were recognised by the federal government's Equal Opportunity for Women in the Workplace Agency, which named Australian Unity an Employer of Choice for Women for the second consecutive year.

Recruitment

Over the year, Australian Unity built a well-functioning recruitment team. This team has assisted the business in recruiting high calibre talent while reducing the costs to the business.

Risk management

Australian Unity acknowledges that the management of people related risks are critical and continued to place a great deal of importance on strong and contemporary guiding policies and processes. These are designed to support the company and every employee, as well as create a safe working environment. These policy settings were reviewed during the year, considering legislative requirements and the need to continue to sustain a strong risk-focused culture.

Board of directors

Glenn Barnes

Glenn Barnes

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

Mr Barnes was appointed Chairman of Australian Unity Limited on 1 June 2012. He is chairman of a number of Australian Unity Limited subsidiaries, a member of the Investment and the Human Resources, Remuneration and Nominations Committees and an ex-officio member of all other board committees and a director of the Australian Centre for Health Research Limited. He is a professional director and consultant and is currently deputy chairman of Ansell Limited and a director of a number of private interest companies. Mr Barnes has 20 years of governance experience in banking and financial services, business information, consumer goods and the not-for-profit sector. He was involved in the packaged goods, banking and financial services sectors for over 30 years, as an executive, business leader and director in Australia, New Zealand, the United Kingdom, United States of America, Republic of Ireland, Japan and China. He has also held a number of regional and global leadership roles. Mr Barnes was previously a director of Lion Nathan Ltd. Mr Barnes has not held any directorships of listed entities in addition to those set out above during the last three years.

Rohan Mead

Rohan Mead

Group Managing Director & CEO

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is chairman of Platypus Asset Management, deputy chair of Acorn Capital, a director of Seres Asset Management (Hong Kong) and a director of the Australian Centre for Health Research Limited. He is chairman of the Business Council of Australia's Healthy Australia task force and is a director of Private Healthcare Australia (formerly the Australian Health Insurance Association). He is also a director of the Centre for Independent Studies and the Australian Brandenburg Orchestra. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996–2003) in a range of senior roles. Prior to his work at Perpetual, Mr Mead headed marketing and communications at Blake Dawson. Mr Mead has not held any directorships of listed entities in addition to those set out above during the last three years.

John Butler

John Butler

FCPA, FIFS, FAICD

Mr Butler was appointed to the board of Australian Unity Limited on 31 August 2009 following the merger with Lifeplan Australia Friendly Society Limited, of which he was chairman. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Risk Committee. The majority of Mr Butler's career was as the chief executive of the Druids Friendly Society in South Australia which operated in the health insurance, building society, retirement accommodation and nursing homes industries. He is currently a director of Beach Energy Ltd, SA Druids Grand Lodge and a trustee of the James Brown Memorial Trust which operates a retirement village and three aged care facilities, as well as maintaining his role as chairman of Lifeplan Australia Friendly Society Limited. For many years he was chairman of National Pharmacies. He is president of the Flagstaff Hill Golf Club in Adelaide. Mr Butler has not held any directorships of listed entities in addition to those set out above during the last three years.

Eve Crestani

Eve Crestani

Dip Law (BAB), FAICD

Ms Crestani was appointed to the board of Australian Unity Limited in 1996. She is a director of a number of Australian Unity Limited subsidiaries, chairman of both the Risk Committee and Human Resources, Remuneration and Nominations Committee. She is also chairman of Mercer Superannuation Australia Limited, a director of Mercer Outsourcing Pty Limited, a director of Zurich Australia Limited and a director of Booking.com Limited. Ms Crestani is qualified in law and management, and is a member of the ASX Disciplinary Tribunal. She consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors, and an emeritus trustee of the Committee for the Economic Development of Australia. Ms Crestani has not held any directorships of listed entities in addition to those set out above during the last three years.

Ian Ferres

Ian Ferres

FIAA, FAICD

Mr Ferres was appointed to the board of Australian Unity Limited in 1999 and was Group Managing Director from 2002 to 2004. He is a director of a number of Australian Unity Limited subsidiaries, chairman of the Investment Committee, and a member of the Audit and Compliance Committee. An actuary by profession, Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of all worldwide investment, property, unit trust, and banking and finance operations from 1975 to 1988, and as an executive director from 1983 to 1990. Mr Ferres is currently a consultant with TressCox Lawyers, a director of Contango Microcap Limited, and the Committee for the Economic Development of Australia, and chair and/or director of several other organisations. He was previously president of Monash Medical Centre, and a director of St Vincent's Health (Melb). Over the past 40 years he has served as chair, director or member of almost 50 private and public sector boards. Mr Ferres has not held any directorships of listed entities in addition to those set out above during the last three years.

Stephen Maitland

Stephen Maitland

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

Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, chairman of the Audit and Compliance Committee, and a member of the Investment Committee and Risk Committee. He is a director of Buderim Ginger Limited, the Royal Automobile Club of Queensland Limited, RACQ Insurance, Centrepoint Alliance Finance Ltd, and of several private companies, and chairman of the Surf Life Saving Foundation Inc. He is also a councillor of the Queensland Division of CPA Australia, chair of the Audit and Risk Committee of the Public Trustee of Queensland, and is an independent member of several audit and compliance committees. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 40 years' experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland has not held any directorships of listed entities in addition to those set out above during the last three years.

Warren Stretton

Warren Stretton

FAICD, FCPA, FCIS, FCSA, FTIA, FAMI CPM

Mr Stretton was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He was managing director of Grand United Friendly Society and during his tenure was instrumental in restructuring, developing and focusing the operations on the Private Health Insurance and Aged Care Industries. He is a director of a number of Australian Unity Limited subsidiaries, a member of the Audit and Compliance Committee, the Investment Committee and the Human Resources, Remuneration and Nominations Committee. Mr Stretton holds a government appointment to the Medical Radiation Practice Council of NSW. Mr Stretton was a director of Australian Hearing from 2004 to 2010 and has gained wide commercial experience working in the motor, computer and entertainment industries for organisations including Ford, Honeywell and Amalgamated Holdings Group. He consults in areas of probity, risk management and strategic planning. Mr Stretton has not held any directorships of listed entities in addition to those set out above during the last three years.

Greg Willcock

Greg Willcock

BComm, FCPA, GAICD, MAIM, FFin

Mr Willcock was appointed to the board of Australian Unity Limited on 1 March 2012. He is Chairman of Big Sky Building Society Limited, a director of Big Sky Financial Planning Pty Ltd and a member of the Audit and Compliance Committee. Mr Willcock has over 33 years' experience in banking and financial services in Australia, United States of America and the United Kingdom including seven years in general management roles at National Australia Bank in the areas of risk management, strategy and change management. Mr Willcock has not held any directorships of listed entities in addition to those set out above during the last three years.

Group leadership team

Rohan Mead
Group Managing Director & CEO

Biography on page 36

Sharon Beaumont

Sharon Beaumont BSc (physiotherapy), Grad Dip OHS, MBA, GAICD
Group Executive, Human Resources

Ms Beaumont joined Australian Unity in 2007. As Group Executive, Human Resources, she is responsible for the management of the Group's people and culture strategies and processes. She is a director of a number of Australian Unity Limited subsidiaries including Remedy Healthcare Group Pty Limited, Australian Unity Personal Financial Services Limited, Australian Unity Retirement Living Services Limited and Australian Unity Retirement Living Management Pty Limited. Ms Beaumont has more than 20 years' experience in health, risk management and human resource management.

David Bryant

David Bryant GAICD
Chief Executive Officer, Investments and Chief Investment Officer

Mr Bryant joined Australian Unity in 2004. As Chief Executive Officer, Investments, he is responsible for all of the investment management businesses and activities across Australian Unity's financial and property assets. He is a director of a number of Australian Unity Limited subsidiaries including Australian Unity Funds Management Limited, Australian Unity Property Limited, Australian Unity Finance Limited, Big Sky Building Society Limited and most of its Investment Joint Venture subsidiaries. Mr Bryant is a member of the Financial Services Council Policy and Investment board committees, and has 30 years' experience in investment and financial services.

Anthony Connon

Anthony Connon BA (Oxon), FCA, FAICD
Chief Financial Officer

Mr Connon joined Australian Unity in 1995. As Chief Financial Officer, he is responsible for all elements of Australian Unity's finance function with special emphasis on reporting, capital management, taxation and the development of corporate structures for prudential and regulatory purposes. He is a director of the majority of the Australian Unity Limited subsidiaries. Mr Connon has more than 30 years' experience in senior finance and administrative roles and is a non-executive director of Calliden Group Limited, the honorary treasurer of Friendly Societies Australia Inc and is a member of the board of the Lord Mayor's Charitable Foundation.

Steve Davis

Steve Davis
Chief Executive Officer, Personal Financial Services

Mr Davis joined Australian Unity in February 2009 as Head of Practice Development, Personal Financial Services and in August 2009 he was promoted to the role of General Manager, and again to Chief Executive Officer in August 2012. Mr Davis is responsible for the operations and growth of the Group's Personal Financial Services business, which delivers high quality financial planning, finance broking and life risk insurance services to clients through a network of financial advisers, accountants and finance brokers. Mr Davis has more than 30 years' experience in financial services.

Amanda Hagan

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

Ms Hagan joined Australian Unity in May 2006. As Chief Executive Officer, Healthcare and Chief Executive Officer and director of Australian Unity Health Limited and Grand United Corporate Health Limited, she is responsible for all elements of Australian Unity's healthcare operations and strategic development of the business. She is a director of a number of Australian Unity Limited subsidiaries including Remedy Healthcare Group Pty Ltd and Australian Unity Retirement Living Services Limited. She is also a director of the Australian Health Service Alliance (a cooperative hospital contracting company formed by 24 health insurance funds). Ms Hagan has more than 15 years' experience across healthcare and financial services.

Kimina Lyall

Kimina Lyall GAICD
Group Executive, Corporate Development

Ms Lyall joined Australian Unity in 2007. Appointed as Group Executive, Corporate Development in August 2008, she is responsible for group strategy, corporate communications, member relations and the development of the corporate brand. She is a director of Australian Unity Retirement Living Services Limited and Australian Unity Personal Financial Services Limited. She holds positions in a voluntary capacity as director and company secretary of the Dart Centre for Journalism and Trauma (Asia Pacific) and a director of Greatconnections.

Kevin McCoy

Kevin McCoy BComm, HDip Acc, CA, PMP
Group Executive, Strategic Business Development and Deputy CFO

Mr McCoy joined Australian Unity in April 2012. As Group Executive, Strategic Business Development and Deputy CFO, he is responsible for the effective execution of our strategic initiatives, treasury, capital management and organisation-wide performance measures. He previously had a successful consulting relationship with Australian Unity having project managed the merger with Grand United in 2005, the sale of the General Insurance business in 2007 and the recent merger with Big Sky Credit Union. Mr McCoy has more than 15 years' experience in senior finance and project management roles, primarily in the finance industry. He is a member of the Institute of Chartered Accountants and is also an accredited Project Management Professional (PMP) through the Project Management Institute.

Derek McMillan

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

Mr McMillan joined Australian Unity in 1999. He held a number of executive positions before being appointed as Chief Executive Officer, Retirement Living in 2005. He is responsible for all elements of the operations and development of the retirement living business. He is a director of Australian Unity Limited subsidiaries Australian Unity Retirement Living Services Limited, Australian Unity Health Limited, Remedy Healthcare Group Pty Limited and Australian Unity Personal Financial Services Limited. Mr McMillan was elected to the board of the Retirement Village Association (RVA) in 2007 and currently holds the position of vice president and was appointed to the board of Leading Age Services Australia - Victoria in 2012. Mr McMillan has more than 20 years' commercial experience in the health and ageing, financial services and agricultural industries.

Kirsten Mander

Kirsten Mander LLM, FAICD, FCIS, FRMIA
General Counsel and Company Secretary

Ms Mander was appointed General Counsel and Company Secretary of Australian Unity Limited in June 2009. She is responsible for Group Governance Services, including legal and company secretarial affairs, risk management and compliance. Ms Mander has had extensive experience as a senior executive, general counsel and company secretary of a number of Australia's top companies. She is also chair of the Victorian Assisted Reproductive Treatment Authority and a director on several other boards including the Consultative Council for Human Research Ethics and MEGT Australia.

Tahir Tanveer

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

Mr Tanveer joined Australian Unity in July 2008 as the Head of Solutions Delivery and in October 2009, he was appointed General Manager, Business Technology before being appointed Group Executive, Business Technology in October 2010. Mr Tanveer is responsible for the management of the business technology group which deploys the company's technology infrastructure and analyses and translates strategies into appropriate solutions. He is also a director of Health Providers Australia Pty Limited (Rehability). Mr Tanveer has more than 20 years' of extensive experience in developing strategies, managing change and implementing technology solutions in the financial services sector. He is also a qualified project director certified by the Australian Institute of Project Management and has managed multi-million dollar projects.

Governance statement

Australian Unity Limited is a mutual company comprising 320,000 members as at 30 June 2012, with a number of wholly-owned and closely-held subsidiaries carrying out the major operational business activities of the Australian Unity Group.

Approach to corporate governance

ASX Listing Rules

Australian Unity is listed on the Australian Securities Exchange (ASX) as a Debt Listing, following the issue and quotation of its Australian Unity Notes in April 2011. The company is committed to maintaining high corporate governance standards and adheres to the ASX Corporate Governance Principles and Recommendations and ASX requirements relevant to its Australian Unity Notes. The board has adopted a governance charter that reflects many of these principles, as relevant to a mutual company.

Regulators

Australian Unity's business operations are primarily and extensively regulated by the Private Health Insurance Administration Council (health), Australian Prudential Regulation Authority (APRA) (friendly society benefit funds, building society and life insurance), Australian Securities and Investments Commission (corporate and financial services) and ASX (in connection with the listed Australian Unity Notes), in addition to state regulation (retirement living services), Commonwealth regulation (aged care), and the regulation of trade practices by the Australian Competition and Consumer Commission.

Australian Unity is required to comply with a wide range of regulations that apply across its various business activities, including for example, APRA Governance Prudential Standards APS 510 (for authorised deposit-taking institutions) and LPS 510 (for life insurers) and the Governance Standard for private health insurance in Schedule 1 of the Private Health Insurance (Insurer Obligations) Rules 2009. On 11 May 2012, Australian Unity Limited was registered as a non-operating holding company by APRA under subsection 28A(3) of the Life Insurance Act 1995.

Australian Unity Limited board of directors

Board composition and expertise

As at 30 June 2012, there were eight directors on the Australian Unity Limited board, each with specific expertise and experience relevant to the Group's activities. The board comprises a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members.

The personal qualities required of Australian Unity's directors are: honesty and integrity; strategic insight; capacity to relevantly question, probe and challenge; and, a commitment to both the values of the Group and the highest standards of corporate governance. Each director 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. These may include specific skills, knowledge and experience in one or more of insurance, healthcare, retirement living services, investment management and financial services, as well as general skills, knowledge and experience in management, legal, financial, accounting, actuarial, regulatory, human resources, marketing and commercial disciplines.

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

Board role and responsibilities

The role of the Australian Unity Limited board is to promote and protect the interests of the company and its members. It does so by strategically directing and 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;
» Approval of Group and business unit annual operating plans, including capital and operating budgets and the overall salaries and benefits budget;
» Approval of delegated authorities;
» Approval of financial expenditures and allocations and changes to the Group's capital structure above the Group Managing Director's delegated limits;
» Approval and adoption of annual Group accounts;
» Approval of new subsidiaries and subsidiary board members;
» Setting and monitoring the Group risk management framework, control and accountability policies and systems;
» Approval of Group policies;
» Approval of matters reserved to the board committees by their terms of reference; and
» Approval of any other matter that, in the opinion of the board, is necessary from time to time to maintain a high standard of corporate governance.

Role of Chairman

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

Meetings of the board

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

Avoidance of conflicts of interests

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

Retirement and re-election of directors

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

Committees

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

The Chairman of Australian Unity is either a member or an ex-officio member of each committee. Each committee is chaired by a non-executive director appointed by the board. Each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting. The current key committees established by the board to assist it in the performance of its duties are outlined on the following page.

Audit and Compliance Committee

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

» Oversee and appraise the quality of the audits conducted by both the Group's internal and external auditors;
» Determine the adequacy of the Group's controls and evaluate adherence;
» Ascertain the adequacy of management financial reports;
» Serve as an independent and objective party to review the financial information presented to members, regulators and the general public; and
» Maintain open lines of communication with the external auditor.

Risk Committee

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

Investment Committee

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

Human Resources, Remuneration and Nominations Committee

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

The HR Committee works to ensure that Australian Unity has remuneration policies and practices that fairly, responsibly and competitively reward executives and staff. The HR Committee's considerations on reward structures are based on the nature of Australian Unity's business performance, external competitiveness, compliance with legal obligations, and high standards of corporate governance. All members of the HR Committee are independent non-executive directors. Independent remuneration consultants are engaged to assist the HR Committee as necessary, providing specialist market information and technical advice. Refer to section 3.2 of the Remuneration report for further information about remuneration consultants engaged by the HR Committee.

Remuneration

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

The Remuneration report, contained on pages 50–57, sets out the key objectives and principles of the remuneration policy. The report also outlines the executive remuneration structure, which comprises fixed remuneration and at-risk remuneration components, in addition to details about non-executive directors' remuneration and other information specifically required under the *Corporations Act 2001*.

External auditor

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

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

Internal audit

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

Risk management

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

As part of the risk management framework, all business units maintain, regularly review and update their risk registers and provide annual presentations to the board's Risk Committee on their existing and emerging risks, associated mitigation strategies and status of implementation. Higher rated risks are reviewed by the Risk Committee each quarter.

Risk identification, measurement and mitigation strategies are included in all business-related proposals considered by the board and form a part of the project management framework. There are also a number of programs in place to manage risk in specific areas, such as capital management, business continuity and emerging regulation.

The potentially adverse financial impacts associated with catastrophic risk exposures are also limited by the purchase of appropriate insurance cover.

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

Compliance

Australian Unity has a well developed and implemented compliance framework. Compliance managers are in place in specific business units where appropriate. The focus of this function is to ensure ongoing compliance with all laws and regulatory requirements, with particular focus on industry specific requirements. Group wide compliance is also supported by a Group compliance training system and the computer-based compliance database.

Financial overview

The financial statements provide a numerical insight into the Group's progress in pursuit of its objectives, the growth in members' funds and the composition of the Group's assets and liabilities in accordance with all relevant accounting standards. The following introductory comments are intended to provide a guide as to where particular information is to be found.

The financial statements are divided into sections. First there is the Directors' report, which outlines the activities during the year and key governance matters. This is followed by the four key statements (comprehensive income, balance sheet, changes in equity and cash flow). The first three Notes to the financial statements then describe the accounting policies, including any changes, and the risk profile of the Group. Notes 4 to 34 provide the details of many of the individual figures reported in the four key statements. There follows a set of notes (35 to 41) not related to specific financial figures but which describe related parties, the structure of the Group's companies, and transactions between them. Finally Notes 42 to 47 provide additional detail in respect of three specific businesses (Health Insurance, Benefit Funds and Big Sky Building Society) as well as the Parent entity and an important reconciliation of the profit attributable to the members of Australian Unity.

The financial statements content is supported by a declaration from the directors as to their compliance with statutory requirements and the Group's solvency, and a report from the independent auditors on their examination of the Group's accounts.

The statement of comprehensive income shows that revenues (excluding premiums from life investment contracts) have grown by 10.2 percent this year primarily as a result of continuing growth in our Health Insurance businesses and the addition of Big Sky Building Society to the Group. Expenses excluding finance costs grew by 10.4 percent reflecting similar factors. Finance costs are shown separately and are nearly double the prior year total because they include a full year of the Australian Notes on issue compared with only four months in the prior year. Also included is our share of the net profits of associates (companies we own less than 50 percent of and our joint venture partnerships) which is in addition to the profits from our own revenues.

Profit after tax has dropped back by 13 percent this year, as against an increase of 50 percent last year. This was partly because of sluggish trading conditions and investment market declines in financial services businesses and substantial expenditures on merger and acquisition activities. Other comprehensive income includes a charge relating to revaluation of cash flow hedges which is taken directly to reserves. The charge will unwind when the hedges mature. The lower comprehensive income nevertheless increased members' funds by 5 percent, which is more than inflation during the last year. The amounts shown in the statement of comprehensive income cover both the businesses governed by the members of Australian Unity Limited and the benefit funds owned by the policyholders (the split between them is set out in note 45).

The consolidated balance sheet is a snapshot as at the last day of the year and this year it has been transformed in many respects as a consequence of the merger with Big Sky Credit Union. Details of the changes, which affect particularly loans and advances reported in non-current assets and deposits reported in other current liabilities, are to be found in Note 5 on business combinations. A key balance sheet test is whether current assets exceed current liabilities—if not then corrective action would be needed within the next year. As at 30 June 2012, Australian Unity had 1.6 times as many current assets as current liabilities down from 2.5 times last year because it is the nature of the business of Big Sky Building Society that it takes predominately shorter term deposits to fund longer term mortgages.

Our total assets of $3.89 billion include 29 percent cash, 30 percent marketable securities, 13 percent loans and 17 percent properties (including retirement villages and aged care facilities) and equipment. Deferred or intangible assets make up only 4 percent of our total assets.

Our interest bearing borrowings of $828 million include $120 million of Australian Unity Notes, $62 million of Retirement Village Investment Notes, $25 million of sub-ordinated notes and $599 million of deposits in Big Sky Building Society. The terms of the Australian Unity Notes issue stipulate that the ratio of the borrowings (excluding the deposits) to members' funds plus borrowings must not be more than 45 percent. At 30 June 2012 that ratio was 37.9 percent.

The consolidated statement of changes in equity shows the changes in equity in the Group over the last year. Members' funds grew not only by the $19.7 million of total comprehensive income but by $41.6 million as a result of the merger with Big Sky. It should be noted that the dividends paid of $0.4 million were not paid by the Parent entity to members, as Australian Unity is a mutual, but by a subsidiary to a related party, which owns a minority interest in it.

The consolidated statement of cash flows should be read alongside the statement of comprehensive income—it is quite possible for a company to report a good profit and yet run out of cash. Australian Unity is not in this position and generated net cash from trading operations of $123 million. It is difficult to see clear comparisons with last year in this statement because the merger with Big Sky affects many components. The investing activities section does show that the Group invested a further $15 million in new fixed assets, primarily computer systems and equipment and $11 million in joint ventures and other associates. A major component was the continuing investment in retirement villages, aged care facilities and development sites of $56 million included in the investment properties line.

The final part of the consolidated statement of cash flows identifies the extent to which the Group has financed its activities from borrowings or repaid them. As a mutual, Australian Unity does not have the inflows from share issues or outflows of dividends which would be also included in this section by a shareholder company. Rather the fees and loans provided by new residents to retirement villages and aged care facilities were the main source of external funding this year.

I encourage members to read the financial statements in the pages that follow.

Anthony Connon
Chief Financial Officer

Financial report for year ended 30 June 2012

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

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

114 Albert Road, South Melbourne VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 46 to 48 which is not part of these financial statements.

The financial statements were authorised for the issue by the directors on 13 September 2012.

Contents

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

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

Glenn Barnes, Chairman (appointed as Chairman 1 June 2012)
Rohan Mead, Group Managing Director
John Butler, Director
Eve Crestani, Director
Ian Ferres, Director
Stephen Maitland, Director
Warren Stretton, Director
Greg Willcock, Director (appointed 1 March 2012)
Alan Castleman, Chairman and Director (ceased 31 May 2012)
Warren French, Director (ceased 25 October 2011)
Kate Spargo, Director (ceased 31 December 2011)

Company secretaries

Kirsten Mander and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2012.

Principal activities

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

Dividends

Australian Unity Limited is a mutual company owned 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.

During the year ended 30 June 2012, subsidiary companies paid dividends totalling $21,490,000 (2011: $12,903,000) to Australian Unity Limited.

During the year ended 30 June 2012, a majority-owned subsidiary declared and paid dividends totalling $389,000 (2011: $nil) to a non-controlling interest.

After the end of the reporting period, a number of subsidiary companies declared and paid final ordinary dividends totalling $17,690,000 to Australian Unity Limited. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

Review of operations

In 2012, the Group achieved a profit after tax of $22,332,000 which, although lower than 2011's $25,624,000, was a solid result in a year of unsteady economic and regulatory conditions.

Operational development of business activities and investments in customer service continued throughout the year as the Group remained focused on its strategic goals.

Key developments in the Group's businesses have included the expansion of building society activities following the merger with the business of Big Sky Credit Union Limited, further investment in the preventative health and chronic disease management businesses, major acquisitions in the funds management and financial advisory businesses, and increased facilities and developments in the Retirement Living business.

Key aspects of each of the Group's activities during the year are set out in pages 10–27 of this report.

Significant changes in the state of affairs

On 1 March 2012 Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited), a wholly-owned subsidiary of the Group, combined with the business of Big Sky Credit Union Limited (BSCU). The combination was effected through a transfer of BSCU's business (including all its assets and liabilities) to Big Sky Building Society Limited (BSBS). BSBS did not acquire BSCU which remains a separate, dormant entity. The assets of the BSCU business included two wholly-owned controlled entities operating in the provision of financial advice. At the date of the business combination, all members of BSCU became members of Australian Unity Limited and the two BSCU controlled entities became wholly-owned subsidiaries of BSBS.

BSBS is an Authorised Deposit–taking Institution (ADI). The combination of BSBS with the BSCU business aims to create a larger ADI with greater capacity to increase services, improve prices and enhance the financial strength of the business. The combined network has 14 branches providing banking, insurance and financial advice products and services to 34,000 customers across major states of Australia.

Further information regarding the combination is set out at note 5 to the consolidated financial statements while information on BSBS' financial performance and position is set out at note 46.

Total members' funds increased to $448,993,000 at 30 June 2012 (2011: $388,073,000), an increase of $60,920,000. This movement reflects additional members' funds as a result of the merger with Big Sky of $41,577,000 and the profit for the year, offset by movements in reserves and entitlements of non-controlling interests.

Matters subsequent to the end of the financial year

After the end of the reporting period, the directors agreed to subscribe additional shares in the wholly-owned subsidiaries as follows:

> 2,020,071 ordinary shares of $1 each in Australian Unity Funds Management Limited;

> 7,658,772 ordinary shares of $1 each in Australian Unity Retirement Living Investments Limited;

> 888,347 ordinary shares of $1 each in Australian Unity Retirement Living Services; and

> 276,675 ordinary shares of $1 each in Australian Unity Strategic Holdings Pty Ltd.

The board is not aware of any other matter or circumstance arising since 30 June 2012 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 existing prudential capital requirements applicable to the Group's life and health insurance entities will be replaced by new capital standards effective 1 January 2013 and 1 July 2013 respectively. Generally the new standards increase capital requirements, but not significantly. The Group expects its life and health insurance entities to be able to meet the new requirements.

The board is not aware of any other 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 3 contains an explanation of the Group's approach to market risk management.

Environmental regulation

No significant environmental regulations apply to the Parent entity. The property operations within both the Retirement Living 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

Please see page 36 and 37 for directors' biographies.

Company secretaries

Kirsten Mander

Please see page 39 for biography.

Catherine Visentin, CSA (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 16 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 2012, 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
Glenn Barnes	10	10	–	–	4	4	7	7	4	4
Rohan Mead	10	10	–	–	4	4	6	7	–	–
John Butler	10	10	5	6	4	4	–	–	–	–
Eve Crestani	10	10	–	–	4	4	–	–	4	4
Ian Ferres	10	10	6	6	–	–	7	7	–	–
Stephen Maitland	10	10	6	6	4	4	7	7	–	–
Warren Stretton	10	10	6	6	–	–	7	7	–	–
Greg Willcock	2	2	2	2	–	–	–	–	–	–
Alan Castleman	10	10	–	–	–	–	–	–	4	4
Warren French	4	4	–	–	2	2	–	–	2	2
Kate Spargo	5	5	3	3	–	–	4	4	–	–

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

Glenn Barnes is Chairman of the Company and is a member of the Investment Committee and the Human Resources, Remuneration and Nominations Committee, a former member of the Risk Committee and an ex-officio member of all other board committees; Stephen Maitland is Chairman of the Audit and Compliance Committee; Eve Crestani is Chairman of the Risk Committee and Ian Ferres is Chairman of the Investment Committee. Rohan Mead regularly attends all meetings of the Audit and Compliance Committee and the Human Resources, Remuneration and Nominations Committee at the invitation of the committees.

Glenn Barnes' attendances at board committees in an ex-officio capacity, and the attendance of other directors who are not members of the particular committee, are not reported above.

Directors' report (continued)

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 50 to 57. 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 Director's 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 37.

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 a current member and within one year afterwards.

Provision of non-audit services by the auditor

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

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

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

> All non-audit services have been reviewed by the Audit and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

> None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	2012	2011
	$	$
Ernst & Young Australian firm:		
Audit of regulatory returns	**87,246**	118,971
Tax compliance services	**288,520**	222,125
Other taxation services	**468,976**	284,864
Other services	**57,415**	36,980
Total remuneration for non-audit services	**902,157**	662,940

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 49.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and Financial statements. Amounts in the Directors' report and Financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Glenn Barnes

Glenn Barnes
Chairman

Rohan Mead
Group Managing Director & CEO

South Melbourne
13 September 2012

Auditor's independence declaration

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

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

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

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
13 September 2012

2012 Remuneration report

This Remuneration report relates to Company performance for the year ending June 2012. This means that where information is included on individual remuneration it is a combination of incentive payments (where applicable) for the financial year ending 2011 that were paid in October 2011, together with ongoing remuneration paid during the financial year ending 2012.

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

This Remuneration report sets out the remuneration information for Australian Unity Limited and the entities it controls ('Australian Unity' or 'Group') for the year ending 30 June 2012 ('Year'). It has been prepared and audited as required by the *Corporations Act 2001* ('the Act'). The report covers all Key Management Personnel of the Group.

1 Overview

The board of Australian Unity Limited considers that its remuneration framework plays an important part in driving the successful performance of the Group and in turn the creation and delivery of value for members. In establishing the overall remuneration framework, including its governance, the board and its Human Resources, Remuneration and Nominations Committee ('HR Committee') have had particular regard to the purpose and structure of the company, the business' strategies, market conditions and expectations of relevant stakeholders. The remuneration framework has been established, and is regularly reviewed to ensure it is:

> Effective in connecting remuneration arrangements with both Group and business unit short and long term performance and risk management;

> Effective in attracting and retaining the talent required for sustainable business performance and growth; and

> Reflective of relevant and current market practices.

Australian Unity is an independent mutual company that operates on commercial principles. The Group operates with a social purpose and is governed by its members. Profits are reinvested into the growth of member wellbeing services and products and we aim to reach as many people as possible with high trust products and services.

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

> It operates Australia's sixth largest retail private health insurance fund servicing over 325,000 customers;

> The Company also operates Australia's leading corporate health fund (GU Health);

> It is building a preventative health and hospital substitution business, Remedy Healthcare Group, a unique business that provides evidence based health care to members, and other private health funds across Australia. This growing business has already provided services to more than 5,000 patients;

> The Group develops and operates 18 retirement communities, including four aged care facilities across New South Wales and Victoria, with growth planned for more communities;

> Australian Unity is growing the retirement and aged care services provided to the community and in people's homes;

> The Group manages and develops property in retirement and aged care, and also as part of a number of property trusts across all property sectors including healthcare, industrial, office and retail. The aggregate development pipeline being managed by the Group currently exceeds $500 million;

> Australian Unity operates a diversified financial services business with over $12 billion of investors' and members' funds invested in many different managed investment schemes, benefit funds, a building society and specialised investment joint ventures;

> Recently, the business of Big Sky Credit Union Limited was added to the Group's existing building society to form a medium sized operation with a range of personal banking products and services. The new business is known as Big Sky Building Society Limited;

> The Group has built a material financial advisory business, including personal financial planning and risk advice, advising on client portfolios with a total of more than $2 billion; and

> Overall, the Group provides services to 320,000 members and more than 620,000 customers.

To support these businesses the Group operates a number of subsidiary companies made necessary by the complexity of the financial, regulatory and legal environments in which it operates. This requires both non-executive directors and senior management to serve on a number of boards and committees of the company, its subsidiaries, and a number of joint venture companies.

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

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

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

Eve Crestani
Chairman, HR Committee

2 Key terms

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

'*Company*' means Australian Unity Limited

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

Non-executive directors	Position
Glenn Barnes[1]	Non-executive Director – Chairman (part year)
Alan Castleman[2]	Non-executive Chairman (part year)
John Butler	Non-executive Director
Eve Crestani	Non-executive Director
Ian Ferres	Non-executive Director
Warren French[3]	Non-executive Director (part year)
Stephen Maitland	Non-executive Director
Kate Spargo[4]	Non-executive Director (part year)
Warren Stretton	Non-executive Director
Greg Willcock[5]	Non-executive Director (part year)

Executives	Position
Rohan Mead	Group Managing Director & CEO
David Bryant	CEO Investments
Anthony Connon	Chief Financial Officer
Amanda Hagan	CEO Healthcare
Derek McMillan	CEO Retirement Living

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

3 Remuneration framework

3.1 Human Resources, Remuneration and Nominations Committee

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

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

3.2 Advisers to the HR Committee

The HR Committee seeks advice from external advisers from time to time. For advice on matters pertaining to the remuneration of Key Management Personnel, the HR Committee has retained the services of Godfrey Remuneration Group Pty Limited ('Godfrey Remuneration'). During the Year Godfrey Remuneration provided advice to the HR Committee on the remuneration practices for Executives, in consideration of the competitive environment. The amount paid to them during the Year was $1,680. They have also provided similar services in relation to this report that are post balance date and ongoing. These amounts shall be disclosed in the 2013 report.

Godfrey Remuneration is an independent remuneration adviser, and is engaged only to provide remuneration advice to Australian Unity. To ensure that the making of its remuneration recommendations are free from any possible or perceived influence by management, Godfrey Remuneration is retained directly by the HR Committee and reports directly to it through the chairman of the committee. As a term of its retainer, the HR Committee has obtained confirmation from Godfrey Remuneration that it was suitable for appointment as an independent adviser, that it has not provided advice to Australian Unity or any of its management team over the last three years except in this capacity, that it does not have a relationship with any member of the management team, and that it would not provide advice to management of Australian Unity during the period of its appointment as an independent adviser.

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

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

> Provide competitive rewards to attract, motivate and retain highly skilled employees;

> Apply goals and measures of performance which support Australian Unity's strategy; and

> Balance fixed and variable (short and long term) rewards to encourage behaviour that supports the long term strategic development, sustainability and financial soundness of Australian Unity.

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

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

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

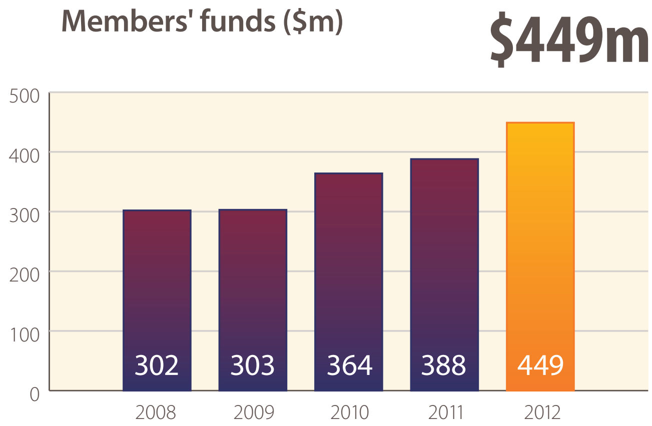
1 Director and elected to Chairman effective 1 June 2012
2 Retired effective 31 May 2012
3 Retired effective 25 October 2011
4 Resigned effective 31 December 2011
5 Appointed 1 March 2012 with Big Sky merger

3 Remuneration framework (continued)

In respect of the short term measures, the Group's financial performance over the 2011 year (measured by Profit after Income Tax) is relevant. The short term performance payments in this report were paid to reward a growth in profit from $17,128,000 in 2009–2010 to $25,624,000 in 2010–2011. This growth occurred in difficult economic conditions. The results in 2012, reported in other sections of this report, will form the basis for remuneration decisions that will be reported in the 2013 remuneration report.

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

Figure 1: Members' funds over the last five years



When approving remuneration increases, the board and the HR Committee also have regard to non-financial objectives, which include customer satisfaction with the services provided, staff engagement and productivity, brand growth together with risk and compliance management. Over the 2011 year, Australian Unity achieved solid growth in customer and member services, in both volume and breadth, continuing the steady growth of recent years. A number of the other relevant key performance highlights are set out in the 2011 annual report which is available online at australianunity.com.au.

The Group's performance during the 2011 year across all measures was strong, and this is reflected in the remuneration outcomes for Senior Executives and Key Management Personnel included in this report. This assessment has been made by the board taking the business context into account, together with the relative complexity and challenges associated with operating in the business areas in which the relevant KMP operate. In particular, consideration was given to the fact that Australian Unity has several business areas, which in recent years have been growing strongly and are structured for continued substantial growth.

3.4 Big Sky remuneration

Big Sky merged with the Australian Unity Group during the 2012 year. As part of the merger it was agreed that Big Sky's existing remuneration arrangements would apply for the entire 2012 year. The arrangements are largely consistent with the Australian Unity Group structure, with staff eligible for both a fixed and variable component. From the 2013 financial year, the staff of Big Sky will move to the Australian Unity Group arrangements.

4 Senior Executive remuneration

4.1 Remuneration mix

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

Senior Executive remuneration

Fixed remuneration	*At risk remuneration*	
Fixed remuneration	Short term incentive (1 year assessment period)	Long term incentive (3 year assessment period)

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

All remuneration, both fixed and at-risk, is cash based. No director or executive has shares or options in Australian Unity.

4.2 Fixed remuneration

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

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

> Group and business unit performance against financial, strategic and operational goals;

> Individual skills and competencies, together with performance against goals in the short term incentive program; and

> External market data.

During the year, the board determined appropriate increases in executive remuneration in line with market practices and reflecting the performance of the company and the executive. In making this determination the board referenced the independent Godfrey Remuneration benchmarking recommendations (2010) together with relevant market data. Godfrey Remuneration has reviewed Australian Unity's current remuneration practices to confirm they are consistant with market practice modified to reflect that Australian Unity is a mutual company. Their letter is annexed to this report.

Further details of individual KMP fixed remuneration during the Year are set out in table 6.1.

4.3 At risk remuneration

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

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

4.3.1 Short term incentive – Senior Executives except Group Managing Director

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

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

> Group financial performance (for example profit before tax and profit after tax);

> Divisional financial performance and other key financial metrics (for example business unit profit);

> Customers, people and operations (for example customer satisfaction and staff engagement);

> Risk and compliance management; and

> Strategy and vision.

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

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

4.3.2 Long term incentive – Senior Executives except Group Managing Director

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

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

A number of "performance rights" are allocated to participating executives and managers, providing them with a right to earn a cash reward if Australian Unity is successful in achieving targeted levels of growth. Each year the Group Managing Director, in consultation with the HR Committee, determines the participants who will be offered the opportunity to receive performance rights, as well as the number of performance rights they will be offered, based on their job size, nature and the balance of their remuneration package.

The performance rights are subject to the achievement of two conditions: a continuous service condition (usually three years from grant, with some limited provisions for early no-fault termination) and a performance condition, based on the compound annual growth rate in the Group's members' funds from the date of grant to the maturity date ('Growth Rate'). Growth Rate was selected as the measure because it provides a simple yet effective measure of the performance and long term growth of Australian Unity over time, and the success of the executives in continuing the development of a robust and sustainable organisation capable of providing top quality services to its customers and members. When issuing performance rights, the board considers and applies a Growth Rate that recognises the general interest rate environment, business growth plans and the mix of short term and long term assets being held by the Group in accordance with long term strategic developments.

The performance rights will be cancelled if the service condition is not met. The performance rights also will have no value unless a threshold Growth Rate is achieved before the maturity date. The board can adjust the LTI arrangements to address any unusual changes in members' funds, for example related to the disposal or acquisition of assets.

The LTI operates as follows:

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

> Performance Period: A required continuous service period of three years from a Commencement Date (1 July of the financial year of grant) through to a Maturity Date (usually 30 June of the third financial year);

> Threshold Rate: A Threshold Growth Rate, reflecting the board's base level growth expectation for the Group. For example, under the LTI granted in October 2011, the required Threshold Growth Rate was 7.0 percent per annum compound; and

> Target Rate: A Target Growth Rate, reflecting the target rate the board wants the participants to achieve. By way of example, under the LTI granted in October 2011 the required Target Growth Rate was 8.75 percent per annum compound.

Maturity:

> Number Available for Exercise: If the Threshold Rate is not achieved by the Maturity Date, no performance rights may be exercised. If the Target Growth Rate is achieved or exceeded, all performance rights may be exercised. Between Threshold Rate and Target Rate the number of performance rights which may be exercised increases on a straight line between the Threshold Rate (at which zero percent is available) and the Target Rate (at which 100 percent is available).

> Value on Maturity: The value of each performance right on maturity is calculated as follows:

> > The value of a notional performance right is calculated, equal to $10, augmented by the Adjusted Growth Rate (compound percentage per annum) over the Performance Period. 'Adjusted Growth Rate' means the actual Growth Rate, provided it is equal to or below the Target Rate. If the actual Growth Rate exceeds the Target Rate, the Adjusted Growth Rate equals the Target Rate plus 50 percent of any excess over the Target Rate;

> > The notional strike price is set at $10, augmented by the Threshold Rate over the Performance Period; and

> > The notional strike price is deducted from the notional performance right value to determine the value of each performance right.

4 Senior Executive remuneration (continued)

Illustrative example (based on 2011 LTI scheme)

Assuming the Threshold Rate was 7.0% and the Target Rate was 8.75%, and 100,000 performance rights were allocated to an executive;

And assuming an actual growth rate of 7.7% was achieved over the period of the three-year performance plan;

Then:

> The number of rights available for exercise would be 40%, or 40,000 (this is because the 7.7% actual growth rate amounts to 40% of the difference between the Threshold Rate and the Target Rate);

> Each performance right would be worth $0.24. This is calculated using the formula: notional performance right less notional strike price;

> Notional performance right is $10.00 plus three compounding increments of the actual growth rate (in this case 7.7%) = $12.49;

> Notional strike price is $10.00 plus three compounding increments of the threshold growth rate (in this case 7.0%) = $12.25;

> Therefore each performance right is $12.49 less $12.25 = $0.24; and

> Total value at Maturity of all performance rights = $0.24 x 40,000 = $9,600

Further details of KPI incentive remuneration in respect of the last three years is set out in table 6.3.

4.3.3 Incentives – Group Managing Director

The Group Managing Director participates in different 'at risk' incentive schemes to other Senior Executives. The components are as follows:

> Short term incentive—The Group Managing Director has the opportunity to earn an annual cash incentive, depending on his performance against performance conditions set by the board as described below. The incentive is payable in one annual payment; and

> Long term incentive—The Group Managing Director has the opportunity to earn a deferred cash incentive based on his performance against performance conditions set by the board as described below. The incentive is determined during the year and is payable in three tranches over three calendar years, providing employment in the company continues in those payment periods. The board reserves the right to review and potentially reduce to zero future payments of the award in certain circumstances.

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

For the short term incentive the Group Managing Director's performance is reviewed by the board in consultation with the HR Committee at the end of each financial year and for the LTI at the end of each calendar year.

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

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

4.4 Non-monetary benefits

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

5 Non-executive director remuneration

Australian Unity Limited's constitution and board charter require that directors meet a variety of standards in order to be eligible to remain directors of the board. These include membership of Australian Unity Limited and meeting 'fit and proper' standards under legislation and prudential standards. The constitution also provides that non-executive directors are to be paid fees as remuneration for their services as directors, subject to the aggregate fees not exceeding the annual sum last approved at a general meeting. Members last approved an increase in the aggregate fees payable to non-executive directors at the annual general meeting on 25 October 2007. At this meeting Members approved the sum of up to $1.2 million in aggregate fees per financial year, to be divided between the non-executive directors in an appropriate manner as determined by the directors. This amount has not changed since that time.

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

In addition to the above, directors appointed before the Company's 2004 annual general meeting are entitled to a retirement allowance pursuant to the Non-Executive Directors' Retirement Scheme. This scheme was applicable prior to that time but was closed to new directors in 2004. Under that scheme, participants are entitled to a retirement benefit equivalent to 2.2 times the average of their highest three consecutive years' remuneration, after six years of service. Alan Castleman retired from the board on 31 May 2012 after 18 years' service with the company as its Chairman. In accordance with the retirement benefit scheme described, Alan Castleman was entitled to the retirement benefit and he received $550,000. Eve Crestani and Ian Ferres are also entitled to receive a retirement benefit when they retire.

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

6 Remuneration tables

6.1 Remuneration for the years ended 30 June 2012 and 2011

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

Name	Year	Cash salary and fees[1]	Cash bonus (Annual incentive or STI)[1]	Non-monetary benefits[1,4]	Super-annuation contributions[2]	Cash bonus (Deferred incentive or LTI)[3]	Total remuneration	Increase in long service leave provision[3]	Increase in retirement benefits provision[2,5]
		$	$	$	$	$	$	$	$
Non-executive directors									
Glenn Barnes, Chairman	**2012**	**140,096**	**–**	**–**	**–**	**–**	**140,096**	**–**	**–**
	2011	120,000	–	–	–	–	120,000	–	–
John Butler	**2012**	**94,676**	**–**	**–**	**35,324**	**–**	**130,000**	**–**	**–**
	2011	86,413	–	–	33,587	–	120,000	–	–
Alan Castleman	**2012**	**188,353**	**–**	**1,455**	**50,000**	**–**	**239,808**	**–**	**51,077**
(ceased 31 May 2012)	2011	197,626	–	1,887	40,486	–	240,000	–	–
Eve Crestani	**2012**	**116,968**	**–**	**2,505**	**10,527**	**–**	**130,000**	**–**	**20,121**
	2011	107,956	–	2,327	9,716	–	120,000	–	–
Ian Ferres	**2012**	**128,038**	**–**	**1,962**	**–**	**–**	**130,000**	**–**	**19,821**
	2011	114,149	–	1,851	4,000	–	120,000	–	–
Warren French	**2012**	**27,110**	**–**	**719**	**16,594**	**–**	**44,423**	**–**	**–**
(ceased 25 October 2011)[6]	2011	71,556	–	2,004	46,440	–	120,000	–	–
Stephen Maitland	**2012**	**117,311**	**–**	**2,131**	**10,558**	**–**	**130,000**	**–**	**–**
	2011	108,276	–	1,979	9,745	–	120,000	–	–
Kate Spargo	**2012**	**61,927**	**–**	**–**	**5,573**	**–**	**67,500**	**–**	**–**
(ceased 31 December 2011)	2011	110,092	–	–	9,908	–	120,000	–	–
Warren Stretton	**2012**	**89,679**	**–**	**82**	**40,239**	**–**	**130,000**	**–**	**–**
	2011	81,095	–	630	38,275	–	120,000	–	–
Greg Willcock (appointed 1 March 2012)	**2012**	**38,286**	**–**	**95**	**3,446**	**–**	**41,827**	**–**	**–**
Sub-total	**2012**	**1,002,444**	**–**	**8,949**	**172,261**	**–**	**1,183,654**	**–**	**91,019**
Non-executive directors	2011	997,162	–	10,680	192,158	–	1,200,000	–	–
Executives									
Rohan Mead,	**2012**	**940,866**	**400,000**	**2,363**	**25,000**	**343,333**	**1,711,562**	**36,156**	**–**
Group Managing Director	2011	879,274	300,000	2,410	25,000	383,333	1,590,017	21,756	–
David Bryant	**2012**	**624,643**	**213,000**	**92,082**	**15,775**	**115,380**	**1,060,880**	**23,328**	**–**
	2011	612,351	312,000	92,097	15,784	399,287	1,431,518	18,549	–
Anthony Connon	**2012**	**487,148**	**228,250**	**2,806**	**15,775**	**50,057**	**784,036**	**19,457**	**–**
	2011	484,968	172,100	2,855	45,784	205,239	910,945	10,751	–
Amanda Hagan	**2012**	**527,181**	**250,000**	**2,772**	**15,775**	**49,703**	**845,431**	**20,314**	**–**
	2011	461,361	210,000	2,754	15,245	171,901	861,261	9,202	–
Derek McMillan	**2012**	**474,008**	**168,750**	**5,945**	**15,775**	**68,340**	**732,818**	**22,601**	**–**
	2011	426,882	154,000	6,143	15,784	217,407	820,215	15,663	–
Total	**2012**	**4,056,290**	**1,260,000**	**114,917**	**260,361**	**626,813**	**6,318,381**	**121,856**	**91,019**
	2011	3,861,998	1,148,100	116,937	309,753	1,377,167	6,813,955	75,921	–

1 Short term benefits
2 Post-employment benefits
3 Long term benefits
4 Non-monetary benefits refers to salary packaged benefits such as motor vehicles, car parking, health insurance.
5 As noted in section 5 above, a directors' retiring allowance scheme, for which provision has been made over the years, was closed to new appointees in 2004. Mr Alan Castleman was entitled to and received a retirement payment of $550,000 from the provision during the year ended 30 June 2012. Payroll tax on the retirement benefit was also met from the provision. The remaining provision relates solely to the discounted values of the future retirement benefit entitlements of $275,000 for Ms Eve Crestani and $275,000 for Mr Ian Ferres.
6 Mr Warren French has been retained on a three year contract to address various matters regarding Australian Unity's fraternal membership. These fees are not included above.

6 Remuneration tables (continued)

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

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

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

	2012					2011				
Name	**STI**	**LTI**	**Total at risk**	**Fixed remuneration**	**Total remuneration**	**STI**	**LTI**	**Total at risk**	**Fixed remuneration**	**Total remuneration**
David Bryant										
Maximum entitlement	25%	30%	55%	45%	100%	22%	37%	59%	41%	100%
Proportion of entitlement paid	*50%*	*24%*	*36%*		*64%*	*80%*	*62%*	*68%*		*81%*
Proportion of entitlement not earned	*50%*	*76%*	*64%*			*20%*	*38%*	*32%*		
The at-risk proportion of total remuneration paid in the year 2011–2012 was 30 percent (2011: 49 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Anthony Connon										
Maximum entitlement	25%	22%	47%	53%	100%	22%	32%	53%	47%	100%
Proportion of entitlement paid	*93%*	*24%*	*61%*		*81%*	*86%*	*60%*	*71%*		*84%*
Proportion of entitlement not earned	*7%*	*76%*	*39%*			*14%*	*40%*	*29%*		
The at-risk proportion of total remuneration paid in the year 2011–2012 was 35 percent (2011: 44 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Amanda Hagan										
Maximum entitlement	25%	21%	46%	54%	100%	22%	29%	51%	49%	100%
Proportion of entitlement paid	*100%*	*24%*	*65%*		*84%*	*100%*	*61%*	*78%*		*89%*
Proportion of entitlement not earned	*0%*	*76%*	*35%*			*0%*	*39%*	*22%*		
The at-risk proportion of total remuneration paid in the year 2011–2012 was 35 percent (2011: 44 percent), as a result of the implementation of the company's incentive policies outlined in this report.										
Derek McMillan										
Maximum entitlement	22%	29%	51%	49%	100%	19%	35%	55%	45%	100%
Proportion of entitlement paid	*75%*	*24%*	*46%*		*73%*	*80%*	*63%*	*69%*		*83%*
Proportion of entitlement not earned	*25%*	*76%*	*54%*			*20%*	*37%*	*31%*		
The at-risk proportion of total remuneration paid in the year 2011–2012 was 31 percent (2011: 44 percent), as a result of the implementation of the company's incentive policies outlined in this report.										

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

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

	Long Term Incentive			
Name	**Date when LTI was granted**	**Number of performance rights**	**Date when LTI fully matures**	**Maximum total value of LTI yet to mature[1] $**
David Bryant	1 October 2011	581,056	1 October 2014	355,000
	1 October 2010	744,730	1 October 2013	455,000
	1 October 2009	887,270	1 October 2012	455,000
Anthony Connon	1 October 2011	360,909	1 October 2014	220,500
	1 October 2010	346,180	1 October 2013	211,500
	1 October 2009	412,440	1 October 2012	211,500
Amanda Hagan	1 October 2011	491,033	1 October 2014	300,000
	1 October 2010	343,720	1 October 2013	210,000
	1 October 2009	409,510	1 October 2012	210,000
Derek McMillan	1 October 2011	515,585	1 October 2014	315,000
	1 October 2010	441,110	1 October 2013	269,500
	1 October 2009	525,540	1 October 2012	269,500

1 The per annum compound Threshold Rates for performance rights granted 1 October 2009, 2010 and 2011 were 6.00 percent, 7.00 percent and 7.00 percent respectively. The maximum total value of LTI yet to mature equates to the amount payable if the per annum compound Target Rate is achieved. The per annum compound Target Rates for performance rights granted 1 October 2009, 2010 and 2011 were 7.50 percent, 8.75 percent and 8.75 percent respectively.

6.4 Details of remuneration – 2012 performance related incentives for the Group Managing Director

The following table sets out for each annual incentive or deferred incentive paid during the year ended 30 June 2012, the percentage of the available amount that was paid and the percentage that was forfeited because the applicable performance and service criteria were not met to the extent required for the maximum payment. These criteria are set out in section 4.3.3 above. The table also shows details of deferred incentive which is not yet due.

	Short Term Incentive		Long Term Incentive					
Name	Paid in 2012[1]	Forfeited in 2012	Calendar award year	Deferred incentive paid or payable	Deferred incentive forfeited	Date when tranche due[2]	Value of Deferred Incentive paid in 2012	Maximum total value of Deferred Incentive not yet due
	%	%		%	%		$	$
Rohan Mead	89	11	2011	67	33	31 January 2012	110,000	–
						31 January 2013	–	110,000
						31 January 2014	–	110,000
			2010	100	–	31 January 2012	133,333	–
						31 January 2013	–	133,334
			2009	100	–	31 January 2012	100,000	–

1 Mr Rohan Mead's annual incentive was awarded on 1 October 2011.
2 Mr Rohan Mead's deferred incentive is paid in three equal annual tranches commencing in the January following the calendar year of award, as set out in section 4.3.3.
The at-risk proportion of total remuneration paid in the year 2011–2012 was 43 percent (2011: 42 percent), as a result of the implementation of the company's incentive policies outlined in this report.

6.5 Contract terms for relevant executives

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

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

1 All relevant executives have contract durations with no set term.
2 Payment in lieu of notice may be made and the Group's redundancy policies may also apply.
3 Entitlement to at risk incentives is set out in section 4.3 above.

GODFREY REMUNERATION GROUP

Godfrey Remuneration Group Pty Limited

56 Berry Street, North Sydney 2060
Telephone 61-2-8923 5700
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ABN: 38 096 171 247

23 August 2012

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

Dear Ms Crestani,

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

Godfrey Remuneration Group Pty Limited (GRG) has for over 10 years been a specialist advisor on key management personnel remuneration. Our clients are mainly companies listed on the Australian Securities Exchange and include a significant number of the companies included in the S&P/ASX100.

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

On reviewing Australian Unity's current remuneration practices for directors and executives it is clear that they are consistent with market practice but modified to reflect that Australian Unity is a mutual company. For executives both the base packages and the "at risk" components of remuneration have been set such that at target performance, the total remuneration packages will fall within the market practice range observed in a large sample of listed companies of similar size and complexity to Australian Unity. The total remuneration packages place a strong emphasis on performance while not producing excessive total remuneration package outcomes.

The current remuneration practices of Australian Unity with regards to non-executive directors (NEDs) also fall within the range of market practice observed in the sample.

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

Yours sincerely,

Denis Godfrey
Managing Director

Financial statements

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Revenue and other income	6	**1,034,275**	938,866
Expenses, excluding finance costs		**(974,550)**	(877,010)
Finance costs	7	**(21,563)**	(11,503)
Share of net profits of associates	16	**1,327**	2,075
Profit before income tax		**39,489**	52,428
Income tax expense	8	**(17,157)**	(26,804)
Profit after income tax		**22,332**	25,624
Other comprehensive income			
Cash flow hedges	32(a)	**(3,550)**	–
Income tax relating to components of other comprehensive income	32(a)	**1,064**	–
Other comprehensive income for the year, net of tax		**(2,486)**	–
Total comprehensive income for the year		**19,846**	25,624
Profit for the year is attributable to:			
Members of Australian Unity Limited		**22,231**	25,624
Non-controlling interest		**101**	–
		22,332	25,624
Total comprehensive income for the year is attributable to:			
Members of Australian Unity Limited		**19,745**	25,624
Non-controlling interest		**101**	–
		19,846	25,624

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 45.

Consolidated balance sheet

As at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**1,125,181**	1,097,688
Trade and other receivables	10	**105,135**	95,909
Inventories	11	**641**	604
Loans and advances	12	**25,633**	7,758
Financial assets at fair value through profit or loss	13	**1,092,689**	1,008,983
Held-to-maturity investments	14	**95,378**	827
Total current assets		**2,444,657**	2,211,769
Non-current assets			
Financial assets at fair value through profit or loss	13	**86,837**	98,559
Loans and advances	15	**514,247**	95,667
Investments in associates	16	**37,552**	19,023
Other financial assets	17	**1,138**	863
Property, plant and equipment	18	**73,296**	66,587
Investment properties	19	**586,565**	502,853
Deferred tax assets	20	**60,569**	61,769
Intangible assets	21	**87,182**	65,632
Other non-current assets	22	**143**	616
Total non-current assets		**1,447,529**	911,569
Total assets		**3,892,186**	3,123,338
LIABILITIES			
Current liabilities			
Trade and other payables	23	**66,902**	68,693
Interest bearing liabilities	24	**627,202**	99,731
Current tax liabilities	25	**9,070**	6,793
Provisions	26	**62,993**	55,651
Other current liabilities	27	**536,219**	406,923
Benefit fund policy liabilities	43	**225,453**	230,141
Total current liabilities		**1,527,839**	867,932
Non-current liabilities			
Interest bearing liabilities	28	**201,243**	190,629
Deferred tax liabilities	29	**56,723**	50,392
Provisions	30	**2,991**	5,731
Other non-current liabilities	31	**24,906**	950
Benefit fund policy liabilities	43	**1,628,262**	1,615,918
Total non-current liabilities		**1,914,125**	1,863,620
Total liabilities		**3,441,964**	2,731,552
Net assets		**450,222**	391,786
EQUITY			
Members' balances		**255,919**	215,513
Reserves	32(a)	**1,188**	2,475
Retained earnings	32(c)	**191,886**	170,085
Members' balances and reserves attributable to members of Australian Unity Limited		**448,993**	388,073
Non-controlling interest	33	**1,229**	3,713
Total equity		**450,222**	391,786

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 2012

		Attributable to members of Australian Unity Limited					
		Members' balances	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2010		215,513	2,466	145,630	363,609	–	363,609
Profit for the year		–	–	25,624	25,624	–	25,624
Other adjustment	32	–	–	(1,169)	(1,169)	–	(1,169)
Other comprehensive income	32	–	9	–	9	–	9
Total comprehensive income		–	9	24,455	24,464	–	24,464
Transactions with owners in their capacity as owners:							
Sale of non-controlling interest in subsidiary	33	–	–	–	–	3,713	3,713
Balance at 30 June 2011		215,513	2,475	170,085	388,073	3,713	391,786
Balance at 1 July 2011		**215,513**	**2,475**	**170,085**	**388,073**	**3,713**	**391,786**
Profit for the year		**–**	**–**	**22,231**	**22,231**	**101**	**22,332**
Other comprehensive income	32	**–**	**(2,499)**	**–**	**(2,499)**	**–**	**(2,499)**
Total comprehensive income		**–**	**(2,499)**	**22,231**	**19,732**	**101**	**19,833**
Transactions with owners in their capacity as owners:							
Increase in ownership of majority-owned subsidiary	33	**–**	**–**	**–**	**–**	**(2,585)**	**(2,585)**
Dividends provided for or paid	32(c)	**–**	**–**	**(389)**	**(389)**	**–**	**(389)**
Additions from business combination	5	**40,406**	**1,171**	**–**	**41,577**	**–**	**41,577**
Transfers within equity	32(a)	**–**	**41**	**(41)**	**–**	**–**	**–**
		40,406	**1,212**	**(430)**	**41,188**	**(2,585)**	**38,603**
Balance at 30 June 2012		**255,919**	**1,188**	**191,886**	**448,993**	**1,229**	**450,222**

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

Financial statements (continued)

Consolidated statement of cash flows

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		**932,586**	816,133
Claims and benefits paid		**(507,387)**	(442,131)
Payments to suppliers and employees		**(271,431)**	(222,425)
Life investment contracts – Contributions received		**180,201**	163,298
Life investment contracts – Withdrawals		**(224,716)**	(227,464)
Life insurance – Premium received		**239**	349
Life insurance – Policy claims paid		**(1,984)**	(2,683)
Net receipts from loans asset		**9,435**	6,624
Net receipts from deposits liability		**9,482**	1,622
Interest received		**21,204**	8,271
Dividends and distributions received		**12,809**	9,672
Interest and finance charges paid		**(32,691)**	(13,716)
Income tax payments		**(4,286)**	(3,260)
Net cash inflow from operating activities	34	**123,461**	94,290
Cash flows from investing activities			
Cash outflow from business combination		**(217)**	(6,267)
Payments for investments		**(867,520)**	(618,158)
Payments for property, plant and equipment		**(15,075)**	(2,911)
Payments for investment properties		**(98,300)**	(34,297)
Payments for intangible assets		**(11,875)**	(7,253)
Payments for investments in associates		**(11,583)**	(4,437)
Payments for additional shares in subsidiary		**(3,581)**	–
Loans to related entities		**(1,422)**	(7,031)
Receipts from investments		**801,980**	520,411
Proceeds from sale of investment properties		**25,095**	–
Dividends received from associates		**2,204**	3,927
Proceeds from sale of property, plant and equipment		**462**	454
Proceeds from sale of investment in subsidiary		**–**	6,024
Net cash outflow from investing activities		**(179,832)**	(149,538)
Cash flows from financing activities			
Receipts from borrowings		**11,198**	68,592
Receipts from refundable lease deposits and resident liabilities		**73,055**	27,875
Dividend paid to non-controlling interest		**(389)**	–
Net cash inflow from financing activities		**83,864**	96,467
Net increase in cash and cash equivalents		**27,493**	41,219
Cash and cash equivalents at the beginning of the financial year		**1,097,688**	1,056,469
Cash and cash equivalents at the end of the financial year	9	**1,125,181**	1,097,688

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

Notes to the consolidated financial statements
For the year ended 30 June 2012

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

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).

Historical cost convention

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

Critical accounting estimates

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 in note 2.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Unity Limited as at 30 June 2012 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

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

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post acquisition profits/(losses) is recognised in the profit or loss, and its share of post acquisition movements in reserves is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(iii) Joint ventures

The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in profit or loss, and the share of post acquisition movements in reserves is recognised in other comprehensive income.

(iv) 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 included within the consolidated financial statements. Revenue and expense transactions between the benefit funds and other entities within the Group are not eliminated. Balances outstanding between benefit funds and other entities within the Group are eliminated.

(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

1 Summary of significant accounting policies (continued)

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.

(c) Benefit fund policy liabilities

(i) Classification

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

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

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

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

Life investment contract liabilities include investment linked contracts in which the Group issues a contract where the benefit amount is directly linked to the market value of the investments held by the benefit fund. While the underlying assets are registered in the name of the benefit fund and the investment linked 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. This involves estimates of policy cash flows projected into the future. The policy liability is calculated as the net present value of these projected cash flows (premiums, benefits, expenses and profit margins to be released in future periods) using best estimate assumptions about the future. A minority of life insurance contract liabilities are determined using a Margin on Services methodology.

The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method whereby policyholder liabilities are equal to the value of the assets backing the liabilities. The liability reported under this approach is equal to the account balance pre-bonus plus the current bonus plus the difference between the value of the assets and the preceding items.

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.

Further details of the actuarial assumptions used in the calculation of policy liabilities are set out in note 43.

(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 (that is, on notification of death, at time of admittance, or when payment is due).

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

(d) Borrowing costs

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

(e) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

(f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. 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 and the fair value of any pre-existing equity interest in the subsidiary.

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. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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.

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

(g) Cash and cash equivalents

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

(h) Deferred acquisition costs

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

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(i) Derivatives and hedging activities

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

> hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or

> hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 3. Movements in the hedging reserve in members' equity are shown in note 32. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

1 Summary of significant accounting policies (continued)

(j) Employee benefits

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

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

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

(ii) Long service leave

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

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or 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 each reporting period are discounted to present value.

(iv) Superannuation

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

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

(k) Financial guarantee contracts

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

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

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

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

(l) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(m) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

> When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

> Receivables and payables, which are stated with the amount of GST included.

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

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

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

(n) Government grants

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

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

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

(o) Health insurance

(i) Classification

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

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

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

(ii) Claims expense

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

(p) Impairment of assets

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

(q) Income tax

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.

1 Summary of significant accounting policies (continued)

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 only if a legally enforceable right exists to set off 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 legislation

The Parent entity and the majority of its wholly-owned Australian controlled entities have formed a tax consolidation group, as allowed under the tax consolidation legislation.

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. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(r) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration transferred of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill 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.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes according to operating segments, refer to note 4.

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 four to 20 years. These management rights are assessed for impairment whenever there is an indication that they may be impaired. Management rights with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(iv) Computer software

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

(s) Interests in wholly-owned subsidiaries

The Parent entity has valued its investment in wholly-owned subsidiaries at cost less any adjustments for impairment losses.

(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 are stated at fair value.

Gains/(losses) arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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

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

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

(v) Investments and other financial assets

Classification

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months of the end of the reporting period; otherwise they are classified as non-current.

(ii) Loans and advances

Loans and advances are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities within 12 months of the end of the reporting period, which are classified as current assets.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in a reclassification of all held-to-maturity investments as available-for-sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held-to-maturity investments to available-for-sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held-to-maturity in the financial year of the sale or reclassification and the following two financial years.

(iv) Available-for-sale financial assets

Available-for-sale financial assets comprise marketable and non-marketable equity securities and floating rates notes, that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

Recognition and derecognition

Purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership. When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

Measurement

Financial assets are initially measured at fair value plus, where they are not financial assets at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs of financial assets at fair value through profit or loss are expensed. Loans and advances and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains/(losses) arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit or loss in the period in which they arise. Gains/(losses) arising from changes in the fair value of the available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the profit or loss as gains/(losses) from investment securities in the period in which they arise.

The fair values of quoted investments are based on closing bid prices. If the market prices are not available (for example; for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

1 Summary of significant accounting policies (continued)

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Loans and advances

Loans and advances are subject to recurring review and assessed for possible impairment. Indicators of objective impairment include an accumulation of repayment defaults, knowledge of financial difficulty of borrowers, probability of bankruptcy of borrowers and difficulties with the borrower to negotiate arrangements to repay arrears or pay out the loan balance.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired. Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

If there is objective evidence that an impairment loss on the assets has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred but including an allowance for proceeds of realisation of collateral and other credit enhancements) discounted at the original effective interest rate for fixed rate loans and at the current effective interest rate for variable rate loans. The carrying amount of the assets is reduced through the use of a provision account and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

In the case where a loan is restructured, the process may involve extending payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, the arrears profile of the member is extinguished after six months if the member has complied with the renegotiated terms.

When there is no realistic prospect of future recovery and all collateral has been realised, impaired loans are written off against the relevant provision for impairment.

(ii) Held-to-maturity investments

The Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the profit or loss.

(iii) Available-for-sale financial assets

In the assessment for impairment, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(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) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the end of each reporting period under insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims Incurred But Not Reported (IBNR), claims Incurred But Not Enough Reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments of claims expected to be settled within one year are not discounted as the undiscounted value approximates their present value. The expected future payments of other claims are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(y) Outwards reinsurance

Amounts paid to reinsurers under insurance contracts held by the Group are recorded as an outwards reinsurance expense and are recognised in the profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Premium ceded to reinsurers is recognised as outwards reinsurance expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

(z) Property, plant and equipment

(i) Cost and valuation

Freehold land and buildings on freehold land are measured on a fair value basis. The fair value is based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. At the date of revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. At the end of each reporting period, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to other comprehensive income and accumulated in the asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the profit or loss, the increase is first recognised in the profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the profit or loss.

All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation

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

The expected useful lives are as follows:

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

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

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets 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 legal, equitable or constructive obligation to make future sacrifice of economic benefits as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the subsequent increase in the provision due solely to the passage of time is recognised as an interest charge.

(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.

(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 subsidiary company (the Building Society) to recognise an additional impairment allowance for credit losses required by 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 Statement of Comprehensive Income.

1 Summary of significant accounting policies (continued)

(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

Dividend revenue is recognised when the Group's right to receive the dividend 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 1(p).

(iv) Fair value increments

Fair value gains on investment properties are recognised when they arise.

(v) Health insurance premium revenue

Health insurance premium revenue is recognised in the profit or loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of premium received or receivable not earned in the profit or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

(vi) Interest income

Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment.

The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(vii) Life insurance premium revenue and fees

For life insurance contract liabilities and participating investment contract liabilities, premiums are recognised when the liabilities arising from them are created.

For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities in the balance sheet (rather than being included in the profit or loss).

(viii) Other revenue

Commissions from reinsurance are recognised when the Group's right to receive the commission is established.

(ix) Property, funds management and administration fee income

Fee income is recognised based upon the contractual obligations of the Responsible Entity/Trustee to perform certain tasks.

(x) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

Rental income from the lease of aged care facilities to aged care facility operators is recognised on a straight-line basis over the lease term.

(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.

(xiii) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the customer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(xiv) Share of profits of property development contracts – retirement village developments

During the construction phase, the Group's share of development profits is recognised based upon cumulative development sales revenue as a proportion of total expected development sales revenue. On completion of a property development, all of the previously unrecognised share of development profits is recognised in the profit or loss.

(ag) Risk equalisation trust fund

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the *Private Health Insurance (Risk Equalisation Administration) Rules 2007*, which became effective from 1 April 2007, all health insurers must participate in the Risk Equalisation Trust Fund (RETF). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

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

(ah) Securitisation

The Group participates in a loan securitisation program whereby mortgage loans are sold as securities to a third party. The Trustee of the securitisation program has funded the purchase of housing mortgage loans through the issue of securities. The securities issued by this entity do not represent deposits or liabilities of the Group. The Group does not guarantee the capital value or performance of the securities, or the assets of that entity. The Group does not guarantee the payment of the interest or the repayment of principal due on the securities. The Group is not obliged to support any losses incurred by investors in that entity and does not intend to provide such support. The risks and rewards of each security do not rest with the Group. Accordingly, the Group no longer hold the relevant mortgage loans in its balance sheet (refer to derecognition of financial assets disclosed in note 1(v)). In accordance with contractual arrangements, the Group receives income from the third party to service the loans which is included in non-interest income.

(ai) 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.

(aj) 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.

(ak) Trade and other receivables

Trade and other receivables, which are generally settled on 30–90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate at the date of recognition of the receivable. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

(al) 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.

1 Summary of significant accounting policies (continued)

(am) New accounting standards and interpretations

The Australian Accounting Standards Board (AASB) has issued the following amendments to Australian Accounting Standards:

AASB	Title	Operative Date
AASB 9 and AASB 2009-11	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
AASB 1053, AASB 2010-2, AASB 2011-2, AASB 2011-6, AASB 2011-11, and AASB 2012-1	Application of Tiers of Australian Accounting Standards, Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements, Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project – Reduced Disclosure Requirements, Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation-Reduced Disclosure Requirements, Amendments to AASB 119 arising from Reduced Disclosure Requirements, and Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements.	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets	1 January 2012
AASB 10	Consolidated Financial Statements	1 January 2013
AASB 11	Joint Arrangements	1 January 2013
AASB 12	Disclosures of Interest in Other Entities	1 January 2013
AASB 13 and AASB 2011-8	Fair Value Measurement and Amendments to Australian Accounting Standards Arising from AASB 13	1 January 2013
AASB 119 AASB 2011-10	Employee Benefits and Amendments to Australian Accounting Standards Arising from AASB 119	1 January 2013
AASB 127	Separate Financial Statements	1 January 2013
Revised AASB 128	Investments in Associates and Joint Ventures	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual KMP Disclosure Requirements	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Comprehensive Income	1 July 2012
AASB 2011-12	Amendments to Australian Accounting Standards arising from Interpretation 20	1 January 2013
AASB 2011-13	Amendments to Australian Accounting Standard – Improvements to AASB 1049	1 July 2012
AASB 2012-1	Amendments to Australian Accounting Standards arising from Interpretation 20	1 January 2013

AASB 1053 establishes a differential financial reporting framework consisting of two Tiers of reporting requirements:

> Tier 1: Australian Accounting Standards; and

> Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1, but with substantially reduced disclosures requirements. Tier 2 is applicable to for-profit, private sector entities which are not publicly accountable. A number of the controlled entities have early adopted AASB 1053 and the relevant amendments arising from this standard for the financial year beginning on 1 July 2011. The adoption of these standards allowed the Company to remove a number of disclosures. There was no other impact on the current or prior year financial statements.

The above standards are not yet effective for the annual reporting year ended 30 June 2012 and have not been applied in preparing the Group's financial statements. Where applicable, the Group will apply the amendments to the annual reporting periods beginning on or after the operative dates set out above. Apart from AASB 9 and 10, application of these amendments is not expected to require any changes to accounting policies.

AASB 9 requires all financial assets to be recognised at fair value except for debt instruments with basic features. Where debt instruments' contractual cash flows are solely payments of principal and interest on the outstanding principal, these instruments are recognised at amortised cost. For financial assets at fair value, any movements in fair value must be recognised in the profit or loss. Only fair value movements of those equity instruments that are not held for trading are permitted to be recognised in other comprehensive income. AASB 9 and the relevant amendments are not applicable until 1 January 2013. The Group intends to apply this standard for the financial reporting beginning on 1 July 2013. The full impact of this standard application has not been quantified. However, based on the existing recognition of financial assets, the Group does not expect a material impact.

AASB 10 replaces parts of AASB 127 *Consolidated and Separate Financial Statements* and UIG-112 *Consolidation – Special Purpose Entities*. It introduces a consolidation model based on controls. It defines control as consisting of three elements: power, exposure to variable returns and ability to use power to affect the amount of variable returns. It includes application guidance regarding situations in which control is difficult to assess, including situations involving potential voting rights, agency relationships, relationships with structured entities and control without a majority of voting rights. While the Group does not expect this new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

(an) Parent entity financial information

The financial information for the Parent entity, Australian Unity Limited, disclosed in note 47 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 in the financial statements of Australian Unity Limited. 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.

(ao) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified.

The Group has changed the presentation of premiums and claims relating to life investment contracts. These amounts are recognised as movements in benefit fund policy liabilities (rather than being included in revenue and expenses). Comparatives have been reclassified to be comparable with the figures stated in the current year. The impact of this reclassification was to reduce 2011 revenue and expenses by $73,155,000. The change in presentation has no impact on profit or net assets.

2 Critical accounting estimates and judgements

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, as explained in note 1(v), relating to measuring the impairment of loans and advances, requires the Company to assess impairment at least at each reporting date. The provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on experienced judgement. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

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

The Group tests annually whether goodwill or other intangibles have suffered any impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated in accordance with the accounting policy stated in note 1(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of 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. Further information is detailed in note 19.

(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 42 and 43.

(vi) Long service leave provision

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

(vii) Income taxes

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

2 Critical accounting estimates and judgements (continued)

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

(i) Recovery of deferred tax assets

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

(ii) Classification of life insurance liabilities

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

3 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 Group Risk Committee, which is responsible for developing and monitoring risk management policies.

The Group Risk Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group and reports regularly to the board on its activities.

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 Group Finance. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Group Finance 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: price risk, foreign currency 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 does not expose the Group to market risk as these financial instruments are matched with policyholder liabilities in the benefit funds; any movement in the carrying value of financial instruments held by the benefit funds has an equal and opposite effect on policyholder liabilities.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial instrument will fluctuate as a result of movements in international exchange rates. The Group does not operate internationally and is not directly exposed to any material foreign exchange risk, however, there are small exposures through various International Share Fund Trust Investments and Investments in Associates which are also immaterial.

(ii) Price risk

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

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with investment policies overseen by the 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 and are included within market indices such as the Standard & Poor's ASX 200 Index.

The table below summarises the impact of increases/(decreases) of the index on the Group's post tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/(decreased) by 10 percent at the end of the reporting period (2011: 15 percent) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

Index	Impact on post tax profit 2012 $'000	Impact on post tax profit 2011 $'000	Impact on equity 2012 $'000	Impact on equity 2011 $'000
ASX 200 + 10% (2011: + 15%)	**6,506**	8,440	**6,506**	8,440
ASX 200 -10% (2011: -15%)	**(6,487)**	(8,440)	**(6,487)**	(8,440)

The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been 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 2012 and 2011, the Group's borrowings at variable rate were denominated in Australian Dollars.

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

	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	**311,672**	233,660
Financial assets at fair value through profit or loss	**87,050**	58,170
Held-to-maturity investments	**4,943**	–
Loans and advances	**430,465**	21,732
	834,130	313,562
Financial liabilities		
Deposits	**282,642**	12,478
Development finance loans	**17,003**	9,855
Cash advance facility	**8,000**	–
Loan payable to related entity	**2,800**	–
Australian Unity Notes (i)	**120,000**	120,000
Subordinated Capital Notes (ii)	**25,000**	25,000
Interest rate swap, at notional principal amounts	**(115,000)**	(25,000)
	340,445	142,333
Net exposure	**493,685**	171,229

(i) The Australian Unity Notes issued in April 2011 carry a 3.55 percent fixed margin resulting in a total interest rate at 30 June 2012 of 7.79 percent (2011: 8.45 percent). As at 30 June 2012, only the variable portion of $90 million Notes are hedged via interest rate swaps (2011: none was hedged).
(ii) The subordinated capital notes carry a 4.90 percent fixed margin resulting in a total interest rate at 30 June 2012 of 9.14 percent (2011: 9.77 percent). Only the variable 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.

At 30 June 2012 and 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Impact on post tax profit		Impact on equity	
Judgements of reasonably possible movements:	**2012** **$'000**	2011 $'000	**2012** **$'000**	2011 $'000
+ 0.50% (50 basis points)	**364**	(1,159)	**364**	(1,159)
- 0.50% (50 basis points)	**(364)**	1,159	**(364)**	1,159

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

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

3 Financial risk management (continued)

(b) Credit risk

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

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

Trade and other receivables

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

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

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

Loans and advances

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

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due or impaired	Total
	High grade $'000	Other grade $'000	$'000	$'000
At 30 June 2012				
Cash and cash equivalents	**1,125,181**	**–**	**–**	**1,125,181**
Trade receivables	**89**	**105,046**	**–**	**105,135**
Financial assets at fair value through profit or loss	**289,913**	**882,541**	**7,072**	**1,179,526**
Held-to-maturity investments	**95,378**	**–**	**–**	**95,378**
Loans and advances	**479,831**	**44,297**	**15,987**	**540,115**
Investments in associates	**–**	**37,552**	**–**	**37,552**
Other financial assets	**–**	**1,138**	**–**	**1,138**
	1,990,392	**1,070,574**	**23,059**	**3,084,025**
At 30 June 2011				
Cash and cash equivalents	1,097,688	–	–	1,097,688
Trade receivables	–	95,909	–	95,909
Financial assets at fair value through profit or loss	348,445	747,367	11,730	1,107,542
Held-to-maturity investments	–	–	–	–
Loans and advances	84,338	15,489	3,643	103,470
Investments in associates	–	19,023	–	19,023
Other financial assets	–	863	–	863
	1,530,471	878,651	15,373	2,424,495

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

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. The credit risk on 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.

(c) Liquidity risk

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

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

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings 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 cash flows which represent principal and interest cash flows and hence may differ compared 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.

	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 5 years $'000	Over 5 years $'000	No specific maturity $'000	Total $'000
At 30 June 2012						
Trade and other payables	**66,902**	**–**	**–**	**–**	**–**	**66,902**
Interest bearing liabilities	**578,878**	**71,054**	**226,318**	**27,596**	**–**	**903,846**
Current tax liabilities	**9,070**	**–**	**–**	**–**	**–**	**9,070**
Benefit fund policy liabilities	**124,824**	**100,629**	**–**	**–**	**1,628,262**	**1,853,715**
Other liabilities	**393,838**	**–**	**5,651**	**–**	**–**	**399,489**
	1,173,512	**171,683**	**231,969**	**27,596**	**1,628,262**	**3,233,022**
At 30 June 2011						
Trade and other payables	68,693	–	–	–	–	68,693
Interest bearing liabilities	72,516	46,794	225,089	30,088	–	374,487
Current tax liabilities	6,793	–	–	–	–	6,793
Benefit fund policy liabilities	134,881	95,260	–	–	1,615,918	1,846,059
Other liabilities	314,455	–	915	–	–	315,370
	597,338	142,054	226,004	30,088	1,615,918	2,611,402

3 Financial risk management (continued)

(d) Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes, therefore information relating to the estimation of fair values is provided in the relevant note to the accounts.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

At 30 June 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	**281,802**	**11,645**	**7,072**	**300,519**
Equities	**658,898**	**–**	**–**	**658,898**
Mortgage trusts	**39,176**	**37,032**	**–**	**76,208**
Property syndicates and trusts	**120,321**	**9,807**	**–**	**130,128**
Debt securities	**13,773**	**–**	**–**	**13,773**
Other financial assets	**–**	**–**	**199**	**199**
Total financial assets	**1,113,970**	**58,484**	**7,271**	**1,179,725**
Financial liabilities				
Interest rate swaps	**–**	**3,550**	**–**	**3,550**
Life investment contract policy liabilities	**–**	**595,968**	**–**	**595,968**
Total financial liabilities	**–**	**599,518**	**–**	**599,518**
At 30 June 2011				
Financial assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	345,121	–	18,353	363,474
Equities	487,251	–	–	487,251
Mortgage trusts	49,967	81,911	–	131,878
Property syndicates and trusts	85,628	8,598	–	94,226
Debt securities	755	–	29,958	30,713
Other financial assets	863	–	–	863
Total financial assets	969,585	90,509	48,311	1,108,405
Financial liabilities				
Interest rate swaps	–	35	–	35
Life investment contract policy liabilities	–	600,577	–	600,577
Total financial liabilities	–	600,612	–	600,612

Reconciliation of Level 3 fair value movements:	2012 $'000	2011 $'000
Opening balance	**48,311**	55,067
Transfer from/(to) other categories	**(24,645)**	7,239
Sales	**(11,286)**	(11,836)
Principal repayments	**(451)**	(2,159)
Revaluation through profit or loss	**(4,658)**	–
Closing balance	**7,271**	48,311

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts. These instruments are included in level 2 depending on the redemption terms of the manager.

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. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

(e) 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 2012 financial year and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, the economic, operational and capital needs of the business.

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

(f) Insurance risk

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

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

Product design

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

Claims management

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

Insurance risk and experience monitoring

The Group's Risk Committee and the board review the monthly financial and operational results, including insurance operating measures and prudential capital requirements. The insurance risks and experience for the industry are also monitored by the Private Health Insurance Administration Council (PHIAC).

Prudential capital requirements

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

Risk equalisation

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

Concentration of insurance risk

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

Ability to vary premium rates

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

Preventative health programs

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

3 Financial risk management (continued)

(g) 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 overall responsibility for risk management, 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.

4 Segment information

(a) Description of segments

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

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

Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.
Allied Health	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Health Insurance	Provision of private health insurance and management of the customer service centre.
Investments	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-taking Institution.
Personal Financial Services	Provision of financial planning and finance broking services.
Retirement Living	Provision of aged care facilities, support services and independent living units.

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

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable operating segments for the year ended 30 June 2012 is as follows:

30 June 2012	Corporate Functions and Eliminations $'000	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(9,514)	23,800	645,193	90,758	18,032	64,199	832,468
Inter-segment revenue	5,334	(5,495)	2,227	–	–	(2,066)	–
Revenue from external customers	**(4,180)**	**18,305**	**647,420**	**90,758**	**18,032**	**62,133**	**832,468**
Adjusted EBITDA	**(20,258)**	**2,474**	**52,711**	**12,491**	**(2,644)**	**7,795**	**52,569**
Depreciation and amortisation							(19,694)
Interest expense							(25,318)
Investment income							14,615
Income tax benefit/(expense)							160
Profit after income tax							**22,332**
Share of profit/(loss) from associates after tax (included in adjusted EBITDA)							888
Total segment assets include:							
Income producing assets	3,581	4,232	338,472	715,531	1,598	8,908	1,072,322
Working capital assets	(15,133)	920	56,778	39,544	2,947	22,287	107,343
Non-interest bearing assets	98,945	720	13,032	52,023	22,941	290,170	477,831
Total segment assets	**87,393**	**5,872**	**408,282**	**807,098**	**27,486**	**321,365**	**1,657,496**
Total segment liabilities include:							
Borrowings and net inter-segment lending	158,930	–	18,500	599,285	(300)	56,828	833,243
Working capital liabilities	13,978	1,461	231,080	29,336	12,800	29,234	317,889
Non-interest bearing liabilities	21,540	–	7,505	2,953	2	24,063	56,063
Total segment liabilities	**194,448**	**1,461**	**257,085**	**631,574**	**12,502**	**110,125**	**1,207,195**

4 Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable operating segments for the year ended 30 June 2011 is as follows:

30 June 2011	Corporate Functions and Eliminations $'000	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(13,423)	19,373	571,412	79,984	9,231	62,725	729,302
Inter-segment revenue	7,932	(4,367)	(265)	(1,670)	–	(1,630)	–
Revenue from external customers	(5,491)	15,006	571,147	78,314	9,231	61,095	729,302
Adjusted EBITDA	(22,526)	1,190	53,830	14,068	(4,556)	7,606	49,612
Depreciation and amortisation							(14,235)
Interest expense							(19,764)
Investment income							12,152
Income tax benefit/(expense)							(2,141)
Profit after income tax							25,624
Share of profit/(loss) from associates after tax (included in adjusted EBITDA)							1,482
Total segment assets include:							
Income producing assets	32,853	1,052	254,634	144,118	1,453	7,338	441,448
Working capital assets	5,692	981	48,473	31,350	1,308	9,167	96,971
Non-interest bearing assets	25,819	1,274	23,589	125,970	3,474	246,112	426,238
Total segment assets	64,364	3,307	326,696	301,438	6,235	262,617	964,657
Total segment liabilities include:							
Borrowings	172,941	(1,100)	25,000	136,135	400	(36,684)	296,692
Working capital liabilities	19,052	1,294	161,967	24,628	1,920	16,098	224,959
Non-interest bearing liabilities	21,991	–	6,475	3,203	6	19,545	51,220
Total segment liabilities	213,984	194	193,442	163,966	2,326	(1,041)	572,871

(c) Other segment information

Management reviews monthly reports for the purposes of assessing the performance of an operating segment and to make decisions regarding allocation of resources and plans for the segment.

Management monthly reports exclude information relating to the benefit funds that are managed by the Group, as the revenues, expenses, assets and liabilities of benefit funds are not attributable to the members of the Group. In accordance with AASB 1038 *Life Insurance Contracts* the revenues, expenses, assets and liabilities of benefit funds managed by the Group are included in the consolidated financial statements.

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

Hence, the primary reconciling differences between operating segment results and the financial statements relates to the treatment of investment property assets, resident liabilities, refundable lease deposit liabilities and benefit funds.

(i) Segment revenue

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

Segment revenue reconciles to total revenue as follows:

	2012 $'000	2011 $'000
Total segment revenue	**832,468**	729,302
Dividends and distributions (note 6)	**12,809**	9,672
Other net investment gains/(losses) (note 6)	**4,905**	5,652
Accommodation bond interest reclassification	**(3,456)**	(3,642)
Rental income	**304**	271
Building society investment gains in adjusted EBITDA	**(484)**	(44)
Share of joint venture profit/(loss)	**(1,133)**	(680)
Fair value amortisation adjustment on non-interest bearing asset	**(408)**	10
Retirement village revaluation and other reclassification	**673**	–
Other	**(9)**	(3)
Revenue attributable to members of Australian Unity Limited (note 45)	**845,669**	740,538
Revenue from benefit funds (note 45)	**188,606**	198,328
Total revenue and other income	**1,034,275**	938,866

(ii) Adjusted EBITDA

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

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

	2012 $'000	2011 $'000
Adjusted EBITDA	**52,569**	49,612
Depreciation and amortisation:		
Depreciation and amortisation expense (note 7)	**(14,853)**	(14,152)
Net loss on disposal of assets (note 7)	**(1,378)**	(93)
Fair value amortisation adjustment on non-interest bearing asset	**(408)**	10
Merger and acquisition expenses	**(3,055)**	–
	(19,694)	(14,235)
Interest expense:		
Finance costs (note 7)	**(21,563)**	(16,110)
Accommodation bond interest reclassification	**(3,456)**	(3,642)
Other	**(299)**	(12)
	(25,318)	(19,764)
Investment income:		
Dividends and distributions (note 6)	**12,809**	9,672
Other net investment gains (note 6)	**4,905**	5,652
Impairment of investment (note 7)	**(2,615)**	(3,606)
Adjustment to share in associates profit	**–**	478
Building society investment gains in adjusted EBITDA	**(484)**	(44)
	14,615	12,152
Profit before income tax of benefit funds (note 45)	**17,317**	24,663
Profit before income tax	**39,489**	52,428

(iii) Segment assets

Segment assets provided are split into three categories: income producing assets, working capital assets 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, intercompany investments and other non-current assets.

4 Segment information (continued)

The amounts provided to management with respect to total assets are measured in a manner consistent with that of the 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:

	2012 $'000	2011 $'000
Segment assets	**1,657,496**	964,657
Resident liabilities and refundable lease deposits (note 27)	**349,019**	311,558
GST payable	**(1,730)**	(984)
Resident accounts recurrent charge	**958**	575
Wtihdrawal deposits reclassified	**1,378**	–
Receivables reclassified	**(63)**	450
Retirement Village Property Fund consolidation	**36,455**	–
Loan establishment costs reclassified	**(5,078)**	(6,322)
Other – reclassification between assets and liabilities	**(19,918)**	(26,460)
Other	**(79)**	–
Total assets attributable to members of Australian Unity Limited	**2,018,438**	1,243,474
Benefit fund assets (note 44)	**1,873,748**	1,879,864
Total assets	**3,892,186**	3,123,338

(iv) Segment liabilities

Segment liabilities provided 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 amounts provided to management with respect to total liabilities are measured in a manner consistent with that of the financial statements, except for resident liabilities and refundable lease deposits which are not considered to be segment liabilities. Rather they are managed on a net basis with investment property and thus 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:

	2012 $'000	2011 $'000
Segment liabilities	**1,207,195**	572,871
Resident liabilities and refundable lease deposits (note 27)	**349,019**	311,558
GST payable	**(1,730)**	(984)
Resident accounts recurrent charge	**958**	575
Withdrawal deposits reclassified	**1,378**	–
Receivables reclassified	**(63)**	450
Retirement Village Property Fund consolidation	**36,455**	–
Loan establishment costs reclassified	**(5,078)**	(6,322)
Other – reclassification between assets and liabilities	**(19,918)**	(26,460)
Total liabilities attributable to members of Australian Unity Limited	**1,568,216**	851,688
Benefit fund liabilities (note 44)	**20,033**	33,805
Benefit fund policy liabilities (note 44)	**1,853,715**	1,846,059
Total liabilities	**3,441,964**	2,731,552

5 Business combination

(a) Australian Unity Property Limited

On 30 September 2011 Australian Unity Property Limited, a wholly-owned subsidiary of the Group, acquired 100 percent of the issued shares in Australian Unity Property Investment Management Limited (formerly Investa Funds Management Limited) for $13,931,449. The acquired entity acts as the responsible entity of three unlisted property funds which have total funds under management of more than $430 million and collectively hold interests in 11 office and industrial buildings across Australia. The acquisition is in line with the Group's strategy to grow its property funds business.

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

	$'000
Purchase consideration	
Cash paid	**13,931**

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Trade receivables	**860**
Trade payables	**(232)**
Management rights	**13,303**
Net identifiable assets acquired	**13,931**

The fair values of trade receivables and payables equal their carrying amounts.

Acquisition-related costs

Acquisition-related costs of $930,525 are included in expenses in the profit or loss.

Revenue and profit contribution

The acquired entity has contributed revenues of $2,894,000 and net profit of $229,000 to the Group for the period from the acquisition date to 30 June 2012.

If the acquisition had occurred on 1 July 2011, contributed revenue and net profit for the year ended 30 June 2012 would have been $3,919,000 and $993,000, respectively.

(b) Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited)

On 1 March 2012 Lifeplan Australia Building Society Limited, a wholly-owned subsidiary of the Group, combined with the business of Big Sky Credit Union Limited (BSCU) and the name of the combined entity was changed to Big Sky Building Society Limited (BSBS). The combination was effected through a transfer of BSCU's business (including all its assets and liabilities) to BSBS. BSCU was not acquired and remains a separate, now dormant entity. The assets of the BSCU business included two wholly-owned controlled entities and these became subsidiaries of BSBS. At the date of the merger, all members of BSCU became members of Australian Unity Limited, the Parent entity of BSBS and the ultimate Parent entity of the Australian Unity Group.

The principal activity of the consolidated BSCU business merged into BSBS is also that of an Authorised Deposit-taking Institution (ADI). At the time of merger, the consolidated BSCU business operated across a number of Australian States with over 31,000 customers, $573 million in gross assets and $46.1 million in net assets. The controlled entities, Big Sky Financial Solutions Pty Ltd, a provider of wealth management and financial advice services, and Big Sky Financial Planning Pty Ltd, a provider of financial planning services, had aggregate funds under advice of over $220 million at the time of merger.

The merger of BSBS with the BSCU business aims to creates a larger ADI with greater capacity to increase services, improve prices and enhance the financial strength of the business.

As the transaction was a merger of two mutual entities, no cash consideration was paid.

Detail of the purchase consideration and the net assets and liabilities acquired are as follows:

	$'000
Purchase consideration	
Cash paid	–
Fair value of members' interest	–
Total purchase consideration	–
Fair value of net identifiable assets acquired (refer below)	**41,722**

5 Business combination (continued)

The assets and liabilities recognised in the Group's financial statements in the preliminary accounting for the business combination are as follows:

	Carrying amount $'000	Fair value $'000
Cash and cash equivalents	15,625	15,625
Due from financial institutions	13,789	13,789
Trade and other receivables	3,204	3,204
Held-to-maturity investments	85,925	85,925
Loans and advances	446,063	446,215
Other investments	939	939
Deferred tax assets	1,673	1,673
Goodwill	1,067	1,067
Other intangible assets	1,877	1,881
Property, plant and equipment	761	761
Trade and other payables	(8,024)	(8,024)
Deposits from members	(517,405)	(517,416)
Income tax payable	(79)	(79)
Provisions	(3,314)	(3,314)
Deferred tax liabilities	(524)	(524)
Net identifiable assets acquired	**41,577**	**41,722**

Identifiable intangibles arising from the combination are included in the above fair values. These were confined to the value of the trade name. The assessment of identifiable intangibles concluded that there were none arising from core deposits or other sources.

Acquisition-related costs

Acquisition-related costs of $774,832 are included in expenses in the profit or loss.

Revenue and profit contribution

The formerly BSCU business has contributed revenue of $14,052,000 and net profit of $1,589,000 to the Group for the period from 1 March 2012 to 30 June 2012. If the acquisition had occurred on 1 July 2011, contributed revenue and net profit for the year ended 30 June 2012 would have been $41,362,000 and $4,092,000, respectively.

(c) Cash flow information

	$'000
Cash consideration	13,931
Less: Cash acquired	(15,625)
Acquisition-related costs	1,706
Outflow of cash – investing activities	12

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

On 30 September 2010 Australian Unity Property Limited (AUPL) acquired 100 percent of the issued shares in Australian Unity Property Funds Management Limited for $10,000,000. From the acquisition, AUPL reported an intangible asset of $4,496,000 in the Group's annual financial statements for the year ended 30 June 2011. The acquisition accounting was finalised within one year from the date of acquisition and the amount of $4,496,000 was recognised as management rights with an indefinite useful life.

Australian Unity Personal Financial Services Limited (PFS) acquired the businesses of John Barker Pty Ltd and McIntosh Financial Planning Pty Ltd on 1 September 2010 and 1 October 2010, respectively, for a total amount of $2,637,000. From these acquisitions, PFS reported intangible assets totalling $2,452,000 in the annual financial statements for the year ended 30 June 2011. The acquisition accounting was finalised within one year from the date of each acquisition and the amount of $2,452,000 was recognised as management rights with those of each acquisition having a finite useful life of 20 years from the acquisition date. The recognition of these management rights would have resulted in an additional expense to the 2011 financial year amounting to $94,546 based on a full year amortisation expense amounting to $122,625 per annum. Total amortisation expense charged for the 2012 financial year was $217,171, being the amortisation charge applicable from the date of acquisition of each business to 30 June 2012.

Other details of the above business combinations were disclosed in Note 5 of the Group's annual financial statements for the year ended 30 June 2011.

6 Revenue and other income

	2012 $'000	2011 $'000
Building society interest income	**17,124**	5,833
Contributions and premiums (note 42)	**646,457**	570,496
Commission received	**18,718**	9,879
Dental sales	**18,075**	14,909
Dividends and distributions	**12,809**	9,672
Fair value gains on investment property	**8,999**	8,882
Management fees income	**61,156**	60,037
Investment gains	**4,905**	5,652
Other income	**7,307**	5,267
Rental income	**4,554**	5,369
Retirement village fees and subsidies	**45,565**	44,542
Revenue of benefit funds (note 43)	**188,606**	198,328
	1,034,275	938,866

7 Expenses

	2012 $'000	2011 $'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Advertising costs	**11,223**	15,639
Bank charges	**2,270**	2,841
Building society interest expense	**11,566**	4,607
Claims expense	**530,380**	470,117
Commission expense	**32,623**	22,352
Communication costs	**4,216**	4,409
Computer and equipment costs	**9,625**	7,610
Depreciation and amortisation expense	**14,853**	14,152
Employee benefits expense	**128,211**	123,111
Expenses in relation to benefit funds (note 43)	**171,289**	173,665
Financial and insurance costs	**3,253**	1,514
Fund manager and administration fees	**14,178**	9,258
Impairment of investment in associate (note 16)	**2,615**	3,606
Legal and professional fees	**10,818**	9,168
Occupancy costs	**9,411**	8,716
Other direct expenses	**21,964**	26,565
Net loss on disposal of assets	**1,378**	93
Net risk equalisation trust fund recoveries	**(19,120)**	(26,047)
Other expenses	**13,797**	5,634
	974,550	877,010
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**1,016**	962
Leasehold improvements	**2,656**	2,966
Plant and equipment	**2,107**	2,318
Total depreciation	**5,779**	6,246
Amortisation		
Computer software	**7,458**	7,139
Management rights	**1,616**	767
Total amortisation	**9,074**	7,906
Total depreciation and amortisation	**14,853**	14,152
Finance costs		
Interest and finance charges paid/payable	**22,827**	12,093
Amount capitalised	**(1,264)**	(590)
Finance costs expensed	**21,563**	11,503

Notes to the consolidated financial statements

For the year ended 30 June 2012

8 Income tax expense

	2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	**(892)**	(2,350)
Current tax – benefit funds	**12,315**	14,592
Deferred tax	**4,486**	2,926
Deferred tax – benefit funds	**6,116**	9,459
Adjustments for current tax of prior periods	**(3,754)**	1,566
Adjustments for current tax of prior periods – benefit funds	**(1,114)**	611
	17,157	26,804
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 20)	**7,504**	10,726
Increase in deferred tax liabilities (note 29)	**3,098**	1,659
	10,602	12,385
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**39,489**	52,428
Less: profit in benefit funds	**(17,317)**	(24,662)
	22,172	27,766
Tax at the Australian tax rate of 30% (2011: 30%)	**6,652**	8,330
Non-assessable income	**(9,581)**	(5,023)
Other assessable amounts	**1,264**	1,198
Non-deductible expenditure	**7,044**	1,549
Other deductible expenditure	**116**	1
Other deferred tax adjustments	**(4,515)**	(2,223)
Tax in benefit funds	**17,317**	24,662
Tax credits	**(1,140)**	(1,690)
Income tax expense	**17,157**	26,804

(c) Tax consolidation legislation

Australian Unity Limited and the majority of its wholly-owned Australian controlled entities have formed a tax consolidated group with effect from 1 July 2002. Australian Unity Limited is the head entity of the tax consolidated group. The accounting policy in relation to this legislation is set out in note 1(q).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Australian Unity Limited. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Australian Unity Limited for any current tax payable assumed and are compensated by Australian Unity Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Australian Unity Limited 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 head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

9 Current assets – Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and on hand	**1,873**	740
Bank balances	**38,065**	30,578
Deposits at call	**1,085,243**	1,066,370
	1,125,181	1,097,688

(a) Deposits at call

Deposits at call include $685,274,000 (2011: $565,767,000) held in the Australian Unity Wholesale Cash Fund.

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 3.

(c) Fair value

The carrying amount of cash and cash equivalents equals their fair value.

10 Current assets – Trade and other receivables

	2012 $'000	2011 $'000
Net trade receivables		
Trade receivables	**49,686**	43,638
Provision for impairment of trade receivables (a)	**(233)**	(221)
	49,453	43,417
Prepayments		
Deferred acquisition costs	**5,924**	3,891
Management fees receivable	**3,287**	6,948
Prepaid reinsurance	**23**	18
Prepayments	**6,579**	4,736
	15,813	15,593
Other receivables		
Interest receivable	**941**	733
Risk equalisation trust fund receivable	**10,900**	10,448
Seed capital	**6,497**	9,057
Sundry debtors	**20,131**	15,261
	38,469	35,499
Property receivables		
Property deposits	**1,400**	1,400
	1,400	1,400
	105,135	95,909

(a) Impaired trade receivables

Trade receivables are non-interest bearing and are generally on 30–90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

At 30 June 2012, current trade receivables of the Group with a nominal value of $233,000 (2011: $221,000) were impaired. An impairment provision of $233,000 (2011: $221,000) has been recognised.

The ageing of these trade receivables is as follows:

	2012 $'000	2011 $'000
Up to 3 months	**176**	177
3–6 months	**57**	–
6–12 months	**–**	44
	233	221

Movements in the provision for impairment of trade receivables are as follows:

	2012 $'000	2011 $'000
Balance at the beginning of the financial year	**221**	356
Provision recognised/(reversed) during the year	**12**	(135)
	233	221

The creation of the provision for impaired receivables has been included in financial and insurance costs in the profit or loss. The release of the provision for impaired receivables has been included in other income in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

At 30 June 2012, trade receivables of $2,335,000 (2011: $2,475,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

	2012 $'000	2011 $'000
Up to 3 months	**291**	2,293
3–6 months	**36**	47
6–12 months	**2,008**	135
	2,335	2,475

10 Current assets – Trade and other receivables (continued)

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in note 3.

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Information about the Group's exposure to credit risk and the credit quality in relation to trade and other receivables is provided in note 3.

11 Current assets – Inventories

	2012	2011
	$'000	$'000
Inventories at cost – Allied Health	**541**	511
Other inventories	**100**	93
	641	604

12 Current assets – Loans and advances

	2012	2011
	$'000	$'000
Mortgage loans	**16,698**	5,449
Personal loans	**9,170**	1,587
Provision for impairment	**(235)**	(31)
Advances	**–**	753
	25,633	7,758

(a) Mortgage loans

The mortgage loans are secured on real property. The loans earn interest at annual interest rates between 5.14 percent and 9.34 percent (2011: between 5.65 percent and 10.63 percent).

(b) Personal loans

The personal loans earn interest at annual fixed rates between 5.50 percent and 16.90 percent (2011: between 7.69 percent and 14.50 percent).

(c) Impaired loans and advances

As at 30 June 2012, current other loans and advances with a nominal value of $235,000 (2011: $31,000) were impaired. An impairment provision of $235,000 (2011: $31,000) has been recognised. This provision comprises a total of $191,000 for individual accounts (2011: $nil) and $44,000 for collective accounts (2011: $44,000).

The maturities of these loans and advances are as follows:

	2012	2011
	$'000	$'000
Up to 3 months	**38**	4
3–6 months	**84**	–
6–12 months	**113**	27
	235	31
Balance at the beginning of the financial year	**31**	23
Additions from business combination	**195**	–
Provision recognised during the year	**9**	27
Receivables written-off during the year as uncollectible	**–**	(19)
Balance at the end of the financial year	**235**	31

The creation of the provision for impaired loans and advances has been included in other expenses in the profit or loss. The release of the provision for impaired loans and advances has been included in other revenue in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(d) Past due but not impaired

At 30 June 2012, loans and advances of $1,080,000 (2011: $157,000) were past due but not impaired. These relate to a number of borrowers from whom there is no recent history of default.

The ageing of these loans and advances is as follows:

	2012 $'000	2011 $'000
Up to 3 months		
Mortgages	**475**	104
Personal loans	**605**	53
	1,080	157

(e) Risk exposure

Information about the Group's exposure to credit risk and interest rate risk in relation to loans and advances is provided in note 3.

13 Financial assets at fair value through profit or loss

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

	2012 $'000	2011 $'000
Securities held by benefit funds	**1,022,963**	954,907
Securities held in funds managed by related entities	**156,563**	152,635
	1,179,526	1,107,542

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment gains/(losses) in the profit or loss.

(a) Securities held by benefit funds comprise the following:

	2012 $'000	2011 $'000
Fixed interest securities	**214,893**	295,727
Equities	**635,837**	453,527
Mortgage trusts	**58,420**	106,658
Property syndicates and trusts	**100,040**	68,319
Debt securities	**13,773**	30,676
	1,022,963	954,907

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

	2012 $'000	2011 $'000
Fixed interest securities	**85,627**	67,748
Equities	**23,061**	33,724
Mortgage trusts	**17,788**	25,220
Property syndicates and trusts	**30,087**	25,906
Debt securities	**–**	37
	156,563	152,635

(c) Current and non-current split

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

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

	2012 $'000	2011 $'000
Current	**1,092,689**	1,008,983
Non-current	**86,837**	98,559
	1,179,526	1,107,542

(d) Risk exposure

Information about the Group's exposure to credit risk and price risk is provided in note 3.

Further information on the fair value measurement basis is provided in note 3.

14 Held-to-maturity investments

	2012 $'000	2011 $'000
Bank bills	47,136	–
Term deposits	48,242	827
	95,378	827

15 Non-current assets – Loans and advances

	2012 $'000	2011 $'000
Loan to associate	201	203
Loans to related entities	29,595	28,169
Mortgage loans	461,353	64,977
Personal loans	22,738	1,130
Provision for impairment	–	(14)
Advances	360	1,202
	514,247	95,667

Further information relating to loans to related parties and key management personnel is set out in notes 35 and 37, respectively.

(a) Loan to associate

Loan to associate comprises a receivable from Health Providers Australia Pty Ltd (trading as "Rehability"). This loan is repayable on or before 30 June 2014 and accrues interest on a quarterly basis at the 90 day bank bill rate plus a margin of 1.5 percent set on the first day of each quarter. At 30 June 2012 the rate for the quarter ending 30 June 2012 amounted to 5.05 percent (2011: 4.93 percent).

(b) Loans to related entities

The loans to related entities were made for the purpose of the development of a retirement village under a joint development arrangement. These loans are secured by a second mortgage on the properties of the related entities and by personal guarantees from the directors of the related entities. Included in these loans are fixed rate loans of $7,596,221 (2011: $4,919,721) which accrue interest on a monthly basis at an annual fixed rate of 15 percent (2011: 15 percent) and fixed rate loans of $21,999,042 (2011: $23,249,042) which accrue interest on a monthly basis at an annual fixed rate of 12 percent (2011: 12 percent).

The recoverability of this receivable is based on the completion of the retirement village development project. Completion of the project is dependent on continued debt funding to the related entities. As at 30 June 2012, the related entities have a two year funding facility from Bank of Western Australia expiring on 30 June 2013.

(c) 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 30 June 2042 and earn interest at annual interest rates between 5.14 percent and 9.34 percent (2011: between 5.65 percent and 10.63 percent).

(d) Personal loans

The personal loans mature at various dates up to 31 May 2021 and earn interest at annual rates between 5.50 percent and 16.90 percent (2011: between 4.63 percent and 14.50 percent).

(e) Impaired loans and advances

At 30 June 2012, none of the loans and advances were impaired (2011: $14,000 were impaired).

Movements in the provision for impairment of other loans and advances are as follows:

	2012 $'000	2011 $'000
Balance at the beginning of the financial year	14	22
Provision reversed during the year	(14)	(8)
	–	14

The creation of the provision for impaired loans and advances has been included in other expenses in the profit or loss. The release of the provision for impaired loans and advances has been included in other revenue in the profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(f) Past due but not impaired

At 30 June 2012, loans and advances of $14,672,000 (2011: $3,412,000) were past due but not impaired. These relate to a number of borrowers from whom there is no recent history of default.

The ageing of these loans and advances is as follows:

	2012 $'000	2011 $'000
Up to 3 months		
Mortgages	13,131	3,341
Personal loans	1,541	71
	14,672	3,412

(g) Fair values

The fair values and carrying values of current and non-current loans and advances are as follows:

	2012 Carrying amount $'000	2012 Fair value $'000	2011 Carrying amount $'000	2011 Fair value $'000
Loan to associate	201	201	203	203
Loans to related entities	29,596	29,596	28,169	28,169
Mortgage loans	478,051	477,668	70,426	70,345
Personal loans	31,908	31,908	2,717	2,717
	539,756	539,373	101,515	101,434

(h) Risk exposure

Information about the Group's exposure to credit risk and interest rate risk is provided in note 3.

16 Non-current assets – Investments in associates

(a) Carrying amounts

		Ownership interest		Value of investment	
		2012	2011	2012	2011
Name of entities	**Principal activity**	%	%	$'000	$'000
Listed					
Calliden Group Limited (i)	General insurance underwriting	13	13	5,658	8,967
Unlisted					
Acorn Capital Limited	Investment management	50	50	2,503	1,930
Altius Asset Management Pty Ltd	Investment management	50	50	1,491	922
Certainty Financial (ii)	Financial planning and finance broking	70	–	19,422	–
Health Providers Australia Pty Ltd	Rehabilitative health services	50	50	441	389
Lifestyle Manor Anglesea Pty Ltd (iii)	Property development	51	51	500	500
Next Rural Financial Management Pty Ltd	Financial planning and finance broking	50	50	360	240
Platypus Asset Management Pty Limited	Investment management	50	50	1,738	1,707
Seres Asset Management Limited	Investment management	50	50	3,509	2,785
Vianova Unit Trust	Investment management	50	50	1,603	1,310
Wingate Asset Management Pty Limited	Investment management	45	45	327	273
				37,552	19,023

Each of the above associates is incorporated in Australia, except for Seres Asset Management Limited which is incorporated in Hong Kong.

(i) The Group appoints one member to the Calliden board of directors and Group entities distribute Calliden insurance products and provide Calliden with some office accommodation on commercial terms. Consequently, the Group recognises the investment in Calliden as an investment in an associate. A provision for impairment has been made for the investment in Calliden in accordance with the Group's policy as set out in note 1(p) and after consideration of movements in the fair value of the holding.

(ii) On 3 January 2012 the Group acquired 70 percent of the issued and fully paid shares of Certainty Financial Pty Limited and a 70 percent interest in each of the Certainty Financial Victorian Joint Venture and Certainty Financial NSW Joint Venture (jointly Certainty). However, the Group nominates only 50 percent of available positions of the board of directors. It has no majority control through the voting rights or control over the financial and operational decisions. The agreement with the other investors also includes call and put options. The Group has a call option to purchase the remaining shares and interest ownership in Certainty, while the other parties have a put option to require the Group to purchase the remaining shares and interest ownership in Certainty. These call and put options are exercisable any time after 1 January 2015 and have no expiry date.

(iii) The Group has beneficial ownership of 51 percent of the issued share capital of Lifestyle Manor Anglesea Pty Ltd (LMA), but nominates only 50 percent of available board of directors positions. Consequently, the Group is unable to exercise control over LMA but has significant influence over the operating and financial policy decisions of LMA.

16 Non-current assets – Investments in associates (continued)

(b) Movements in carrying amounts

	2012 $'000	2011 $'000
Balance at the beginning of the financial year	**19,023**	20,044
Investments acquired during the year	**22,021**	4,437
Provision for impairment of investment	**(2,615)**	(3,606)
Share of net profits after income tax	**1,327**	2,075
Dividends received	**(2,204)**	(3,927)
Carrying amount at the end of the financial year	**37,552**	19,023

(c) Fair value of listed investments in associates

	2012 $'000	2011 $'000
Calliden Group Limited	**3,617**	6,029

(d) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Group's share of:			
	Assets $'000	Liabilities $'000	Revenue $'000	Profit after tax $'000
2012				
Total	**84,012**	**64,058**	**68,254**	**1,327**
2011				
Total	84,652	62,826	62,664	2,075

17 Non-current assets – Other financial assets

	2012 $'000	2011 $'000
Unlisted investments	**1,138**	863

Unlisted investments comprise investments in unlisted shares.

18 Non-current assets – Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2010					
Cost	–	–	24,915	18,583	43,498
Valuation	18,694	40,952	–	–	59,646
Accumulated depreciation	–	(6,982)	(13,887)	(11,420)	(32,289)
Net book amount	18,694	33,970	11,028	7,163	70,855
Year ended 30 June 2011					
Opening net book amount	18,694	33,970	11,028	7,163	70,855
Acquisition of subsidiary	–	–	14	1	15
Additions	–	992	876	825	2,693
Disposals	–	–	(329)	–	(329)
Transfers to investment properties	––	2	(403)	–	(401)
Other transfers	295	(295)	–	–	–
Depreciation charge	–	(962)	(2,318)	(2,966)	(6,246)
Closing net book amount	18,989	33,707	8,868	5,023	66,587
At 30 June 2011					
Cost	–	–	24,224	19,409	43,633
Valuation	18,989	41,651	–	–	60,640
Accumulated depreciation	–	(7,944)	(15,356)	(14,386)	(37,686)
Net book amount	18,989	33,707	8,868	5,023	66,587

	Land	Buildings	Plant and equipment	Leasehold improvements	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2012					
Opening net book amount	18,989	33,707	8,868	5,023	66,587
Acquisition of business	–	–	239	522	761
Additions	8,385	1,978	4,347	365	15,075
Disposals	–	(419)	(77)	(26)	(522)
Transfers to investment properties	(2,450)	(370)	(6)	–	(2,826)
Other transfers	588	(588)	–	–	–
Depreciation charge	–	(1,016)	(2,107)	(2,656)	(5,779)
Closing net book amount	25,512	33,292	11,264	3,228	73,296
At 30 June 2012					
Cost	–	–	29,028	20,765	49,793
Valuation	25,512	42,128	–	–	67,640
Accumulated depreciation	–	(8,836)	(17,764)	(17,537)	(44,137)
Net book amount	25,512	33,292	11,264	3,228	73,296

(a) Valuations of land and buildings

The Group generally obtains independent valuation for its land and buildings at least every three years.

In the 2012 and 2010 financial years, the Group engaged Savills Valuations Pty Ltd and CB Richard Ellis (V) Pty Ltd respectively, accredited independent valuers to determine the fair value of its land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The independent valuations support the Group's carrying value.

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

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

	2012	2011
	$'000	$'000
Land		
Cost	24,231	16,437
Net book amount	24,231	16,437
Buildings		
Cost	41,186	40,452
Accumulated depreciation	(9,023)	(7,993)
Net book amount	32,163	32,459

19 Non-current assets – Investment properties

	2012	2011
	$'000	$'000
At fair value		
Balance at the beginning of the financial year	502,853	458,805
Acquisitions	98,300	34,765
Disposals	(26,413)	–
Net fair value movements	8,999	8,882
Transfers from owner occupied property	2,826	401
Balance at the end of the financial year	586,565	502,853

(a) Amounts recognised in the profit or loss for investment properties

	2012	2011
	$'000	$'000
Revenue	25,142	34,210
Expenses	(15,584)	(21,204)
Changes in fair value recognised in profit or loss	9,408	9,350
	18,966	22,356

19 Non-current assets – Investment properties (continued)

(b) Valuation basis

Investment properties comprise the Group's interests in retirement village independent living units, the aged care facility at Victoria Grange in Victoria, development sites and other non-owner occupied property. A related party, not part of the wholly-owned Group, has an interest in the Victoria Grange aged care facility. The Group's other aged care facilities are managed by operators within the Group and so are included in property, plant and equipment as owner occupied property, refer to note 18.

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

Fair value for completed retirement villages is determined using a financial model which calculates the net present value of future cash flows rather than a valuation by an external accredited independent valuer. The financial model incorporates information from a variety of sources including:

(i) Current prices in an active market for properties of a similar nature; and

(ii) 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.

Fair value of the Victoria Grange aged care facility and other non-owner occupied property is based on periodic, but at least triennial, valuations by external accredited independent valuers.

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

(c) Summarised information of investment properties

Investments in properties are held as follows:

	2012 $'000	2011 $'000
Retirement village independent living units	**374,158**	355,375
Retirement village property funds	**51,013**	–
Residential aged care facilities	**22,912**	26,176
Development sites	**133,882**	105,302
Non-owner occupied property	**4,600**	16,000
	586,565	502,853

20 Non-current assets – Deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Accrued expenses	**3,361**	4,447
Capitalised expenditure	**2,200**	4,957
Capitalised professional fees	**5,312**	1,488
Depreciable professional fees	**1,771**	1,332
Investment in associates	**2,676**	–
Other assessable items	**3,138**	2,703
Policy bonus credits	**8,618**	3,614
Provisions	**5,158**	5,105
Risk equalisation	**1,961**	1,616
Tax losses	**7,829**	8,838
Unallocated income	**354**	5,286
Unrealised losses	**18,191**	22,383
Total deferred tax assets	**60,569**	61,769
Movements:		
Balance at the beginning of the financial year	**61,769**	72,560
Charged to the profit or loss (note 8)	**(7,504)**	(10,726)
Credited/(debited) to other comprehensive income	**1,070**	(4)
Other transfers	**5,234**	(61)
Balance at the end of the financial year	**60,569**	61,769

21 Non-current assets – Intangible assets

	Goodwill / management rights	Computer software	Aged care bed licences	Total
	$'000	$'000	$'000	$'000
At 1 July 2010				
Cost	18,187	62,693	10,740	91,620
Accumulated amortisation	(1,545)	(30,738)	–	(32,283)
Net book amount	16,642	31,955	10,740	59,337
Year ended 30 June 2011				
Opening net book amount	16,642	31,955	10,740	59,337
Acquisition of subsidiaries	4,496	–	–	4,496
Acquisition of business	2,453	–	–	2,453
Additions	190	7,044	–	7,234
Amortisation charge	(749)	(7,139)	–	(7,888)
Closing net book amount	23,032	31,860	10,740	65,632
At 30 June 2011				
Cost	25,326	69,737	10,740	105,803
Accumulated amortisation	(2,294)	(37,877)	–	(40,171)
Net book amount	23,032	31,860	10,740	65,632
Year ended 30 June 2012				
Opening net book amount	**23,032**	**31,860**	**10,740**	**65,632**
Acquisition of subsidiaries	**16,105**	**–**	**–**	**16,105**
Acquisition of business	**2,645**	**299**	**–**	**2,944**
Additions	**1,128**	**10,447**	**–**	**11,575**
Amortisation charge	**(1,616)**	**(7,458)**	**–**	**(9,074)**
Closing net book amount	**41,294**	**35,148**	**10,740**	**87,182**
At 30 June 2012				
Cost	**50,347**	**81,006**	**10,740**	**142,093**
Accumulated amortisation	**(9,053)**	**(45,858)**	**–**	**(54,911)**
Net book amount	**41,294**	**35,148**	**10,740**	**87,182**

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 2012, the Group held 231 purchased licences and 446 granted licences (2011: 231 purchased licences and 446 granted licences).

(a) Impairment tests for goodwill

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

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

	2012	2011
	$'000	$'000
Healthcare	**1,354**	1,355
Retirement living	**7,731**	5,229
Retirement village property funds	**300**	–
Investments	**29,189**	13,829
Personal financial services	**2,720**	2,619
	41,294	23,032

The recoverable amount of a CGU is determined based on a value-in-use calculation using cash flow projections based upon financial budgets approved by the directors, covering a four year period. Cash flows beyond the four year period commencing 1 July following balance date are extrapolated using estimated growth rates appropriate for the CGU.

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

The average discount rate of 6.30 percent (2011: 7.85 percent) applied to cash flow projections was equal to a five year government bond rate plus a risk margin appropriate to the operations of the CGU. A 3.00 percent growth rate (2011: 3.00 percent) was applied to cash flows beyond the four year period for which financial budgets were available.

(c) Impact of possible changes in key assumptions

It is recognised that actual time value of money may vary to what has been estimated. Based on this, it is concluded that any possible change in the discount rate of up to 12.00 percent per annum would not cause the recoverable amount of goodwill to fall below its carrying amount.

22 Non-current assets – Other non-current assets

	2012 $'000	2011 $'000
Borrowing arrangement costs	**143**	616

23 Current liabilities – Trade and other payables

	2012 $'000	2011 $'000
Trade payables	**19,683**	19,388
Risk equalisation trust fund payable	**5,076**	4,047
Accrued expenses	**41,319**	44,728
GST payable	**234**	530
Other payables	**590**	–
	66,902	68,693

(a) Trade payables

Trade payables are generally non-interest bearing and are on 30–90 day settlement terms.

(b) Fair value disclosures

Due to the short term nature of these trade and other payables, their carrying value is assumed to approximate their fair value.

(c) Risk exposure

Details of the Group's exposure to risk arising from current trade and other payables are set out in note 3.

24 Current liabilities – Interest bearing liabilities

	2012 $'000	2011 $'000
Unsecured		
Call deposits	**281,543**	12,478
Term deposits	**270,994**	57,345
Mortgage offset savings accounts	**35,152**	–
Retirement Village Investment Notes	**16,071**	29,275
Cash advance facility	**8,000**	–
Development finance loan	**12,642**	633
Loan payable to related entity	**2,800**	–
Total unsecured current borrowings	**627,202**	99,731

(a) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2012, this rate amounted to between nil percent and 4.50 percent (2011: between nil percent and 6.00 percent).

(b) Term deposits

The term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2012 ranging between 3.00 percent and 8.20 percent (2011: between 1.75 percent and 8.20 percent).

(c) Mortgage offset savings accounts

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

(d) Retirement Village Investment Notes

The 30 June 2011 balance represents the second issue of the Series 1 Retirement Village Investment Notes (RVIN) which matured on 30 November 2011, the first issue of the Series 2 RVIN which matured on 31 December 2011 and the second issue of the Series 2 RVIN which matured on 31 March 2012, all of which incurred interest at an annual fixed rate of 8.50 percent, plus the first issue of the Series 3 RVIN which matured on 31 March 2012 and the second issue of the Series 3 RVIN which matured on 30 June 2012, both of which incurred interest at an annual fixed rate of 8.00 percent.

The 30 June 2012 balance represents the first issue of Series 1 RVIN which mature on 30 November 2012 and the third issue of Series 3 RVIN which mature on 31 December 2012. Additional prospectuses will be issued prior to maturity to facilitate the raising of replacement funds to the extent that existing investors elect not to roll over their investments.

(e) Cash advance facility

The Group sourced revolving cash balance facility of $10 million from the bank for a term of one year ending 31 January 2013 of which $8 million has been drawn down. This facility bears variable interest which amounted to 5.28 percent as at 30 June 2012.

(f) Development finance loan

In December 2010, the Group sourced financing for the development of a retirement village site in Port Macquarie, New South Wales (Sienna Grange). The loan facility is up to $521,000 which will expire on 31 May 2013. At 30 June 2012, the balance of this loan amounted to $523,847 (2011: $632,500) bearing interest at 6.19 percent per annum (2011: 7.56 percent).

In the 2010 financial year, the Group sourced financing to fund the development of a retirement village site in Mornington, Victoria (Peninsula Grange Retirement Village). The loan facility is up to $19 million which will expire on 6 June 2013. At 30 June 2012, the balance of this loan amounted to $12,118,000 (2011: $6,177,000) bearing interest at 5.73 percent per annum (2011: 7.04 percent).

In December 2010, the Group sourced financing to fund the development of a residential development site in Cranbourne, Victoria. The loan facility is up to $5,000,000 which will expire on 30 November 2012. The balance of this loan was nil at 30 June 2012.

(g) Loan payable to related entity

The loan payable to related entity matures on 31 August 2012 and accrues interest on a monthly basis at the 90 day bank bill rate plus a margin of 1.00 percent. At 30 June 2012 this rate amounted to 5.34 percent.

(h) Risk exposures

Details of the Group's exposure to risk arising from current interest bearing liabilities are set out in note 3.

(i) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 28.

25 Current liabilities – Current tax liabilities

	2012	2011
	$'000	$'000
Income tax	**9,070**	6,793

26 Current liabilities – Provisions

	2012	2011
	$'000	$'000
Employee benefits	**11,820**	7,773
Outstanding claims	**47,608**	44,808
Other provisions	**3,565**	3,070
	62,993	55,651

(a) Outstanding claims provision

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

(b) Other provisions

Other provisions relate to capital maintenance, provision for legal fees and general provisions.

(c) Movements in provisions

Movements in the outstanding claims provision during the financial year is provided in note 42(c).

Movements in provisions during the financial year, other than the employee benefits and outstanding claims provisions, are set out below:

	2012	2011
	$'000	$'000
Balance at the beginning of the financial year	**3,070**	6,783
Additions from business combination	**1,641**	–
Amounts charged to/(reversed in) profit or loss	**(73)**	1,441
Payments during the year	**(1,073)**	(5,154)
Balance at the end of the financial year	**3,565**	3,070

27 Current liabilities – Other current liabilities

	2012 $'000	2011 $'000
Unearned income	**142,381**	92,468
Refundable lease deposits	**68,771**	64,466
Resident loan liabilities	**315,924**	247,174
Other	**9,143**	2,815
	536,219	406,923

(a) Unearned income

Unearned income represents health insurance premium revenue not yet recognised in the profit or loss.

(b) Refundable lease deposits

Refundable lease deposits are non-interest bearing and are repayable within 14 days of the resident's departure from the facility.

(c) Resident loan liabilities

Resident loan liabilities relate to residents who occupy the investment properties referred to in note 19. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value

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

(e) Risk exposures

Details of the Group's exposure to risk arising from other current liabilities is set out in note 3.

28 Non-current liabilities – Interest bearing liabilities

	2012 $'000	2011 $'000
Secured		
Lease liabilities	**18**	22
Total secured non-current borrowings	**18**	22
Unsecured		
Australian Unity Notes	**120,000**	120,000
Australian Unity Notes establishment costs	**(5,078)**	(6,332)
Development finance loan	**4,361**	9,222
Retirement Village Investment Notes	**45,709**	32,505
Subordinated capital notes	**25,000**	25,000
Term deposits	**11,233**	10,212
Total unsecured non-current borrowings	**201,225**	190,607
Total non-current borrowings	**201,243**	190,629

(a) Australian Unity Notes

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

Under the terms of the notes, Australian Unity Limited is required to maintain a Gearing Ratio of less than 45 percent as at 30 June and 31 December each year. The Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The Gearing Ratio is calculated based on the financial position of the Group, excluding Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited). As at 30 June 2012, the Gearing Ratio was 37.9 percent (2011: 36.6 percent).

Given the exposure to interest rate movements, the company has entered into arrangements to hedge the variable interest component of the majority of the notes. On 9 August 2011, the company swapped the variable interest component of $60 million of the notes at 4.65 percent per annum maturing on 14 April 2016. On 7 December 2011, the company swapped the variable interest rate of $30 million of the notes at 3.8092 percent per annum maturing on 14 January 2014.

(b) Development finance loan

In December 2010, the Group sourced financing to fund the development of a retirement village site in Vermont South, Victoria (Victoria Grange Retirement Village). The loan facility is up to $7.8 million which will expire on 5 December 2013. At 30 June 2012, the balance of this loan amounted to $4,361,000 (2011: $1,430,000) bearing interest at 5.79 percent per annum (2011: 7.16 percent).

(c) Retirement Village Investment Notes

The Retirement Village Investment Notes (RVIN) are debt obligations issued by the Group and are secured in the form of a registered security over specific assets. These assets are loans made by the Group to a related entity, Australian Unity Retirement Living Investments Limited, which have been utilised for the purpose of acquiring units in the Australian Unity Retirement Village Trust #1 (AURVT#1), the Australian Unity Retirement Village Trust #2 (AURVT#2) and for lending to Australian Unity Retirement Living Services Limited (AURLSL), a related entity, to expand its retirement living business.

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

The Series 1 RVIN are repayable to investors on five separate fixed maturity dates, being 30 November 2012, 2013, 2014, 2015 and 2016. Interest is payable at annual rates of 9.00 percent for the RVIN repayable in 2012, 8.25 percent for the RVIN repayable in 2013 and 2014, 8.75 percent for the RVIN repayable in 2015 and 8.50 percent for the RVIN repayable in 2016.

The Series 2 RVIN are repayable to investors on three separate fixed maturity dates, being 31 December 2014, 31 March 2015 and 31 December 2016. Interest is payable at annual rates of 8.25 percent, 8.00 percent and 8.50 percent respectively.

The Series 3 RVINs were issued under four separate prospectuses.

The first issue of Series 3 RVIN are repayable to investors on three separate maturity dates being 31 March 2014, 2015 and 2016. Interest is payable at annual fixed rates of 8.25 percent, 8.00 percent and 8.50 percent respectively.

The second issue of Series 3 RVIN are repayable on three separate maturity dates being 30 June 2014, 2015 and 2016. Interest is payable at annual fixed rates of 8.25 percent, 7.50 percent and 8.50 percent respectively.

The third issue of the Series 3 RVIN are repayable to investors on these separate maturity dates being 31 December 2012, 2014, 2016. Interest is payable at annual fixed rates of 8.00 percent, 8.25 percent and 8.50 percent respectively.

The fourth issue of Series 3 RVIN are repayable to investors on two separate maturity dates being 30 June 2014 and 2016. Interest is payable at annual fixed rates of 8.50 percent and 8.75 percent respectively.

(d) Subordinated capital notes

On 11 July 2008, the Group issued $25,000,000 of subordinated capital notes. The subordinated capital notes have a maturity of 10 years with a non-call five year period and incur a floating interest rate equal to the 90-day BBSW rate plus a margin of 4.90 percent per annum. After the non-call period, this rate increases to the 90-day BBSW rate plus a margin of 6.90 percent per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2012, the interest rate applicable to the quarter commencing 11 April 2012 was 9.14 percent (2011: 9.80 percent). The floating interest rate on these subordinated capital notes was hedged using an interest rate swap at 5.0675 percent per annum commencing on 19 July 2010 up to 11 July 2013.

(e) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2012 ranging between 3.00 percent and 8.20 percent (2011: between 3.00 percent and 8.20 percent).

(f) Fair value

The carrying amounts and fair values of interest bearing borrowings (current and non-current) at the end of the reporting period are:

	2012 Carrying amount $'000	2012 Fair value $'000	2011 Carrying amount $'000	2011 Fair value $'000
Australian Unity Notes	**120,000**	**123,000**	120,000	124,560
Australian Unity Notes establishment costs	**(5,078)**	**(5,078)**	(6,332)	(6,332)
Cash advance facility	**8,000**	**8,000**	–	–
Call deposits	**281,543**	**281,543**	12,478	12,478
Development finance loans	**17,003**	**16,517**	9,855	9,528
Lease liabilities	**18**	**18**	22	22
Loan payable to related entity	**2,800**	**2,800**	–	–
Mortgage offset savings accounts	**35,152**	**35,152**	–	–
Retirement Village Investment Notes	**61,780**	**60,882**	61,780	60,794
Subordinated capital notes	**25,000**	**27,349**	25,000	27,368
Term deposits	**282,227**	**280,307**	67,557	66,588
	828,445	**830,490**	290,360	295,006

(g) Risk exposures

Information about the Group's exposure to risk arising from borrowings is set out in note 3.

29 Non-current liabilities – Deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Cost adjustment on consolidation	**1,013**	1,013
Deferred acquisition costs	**29**	1,211
Fixed assets and investment properties	**34,944**	32,875
Other deductible items	**2,877**	380
Risk equalisation trust fund	**6,200**	5,461
Tax deferred	**2,522**	2,250
Unrealised gains	**9,138**	7,202
Total deferred tax liabilities	**56,723**	50,392
Movements:		
Balance at the beginning of the financial year	**50,392**	48,797
Charged to the profit or loss (note 8)	**3,098**	1,659
Other transfers	**3,233**	(64)
Balance at the end of the financial year	**56,723**	50,392

30 Non-current liabilities – Provisions

	2012 $'000	2011 $'000
Employee benefits	**2,190**	4,974
Outstanding claims	**801**	757
	2,991	5,731

31 Non-current liabilities – Other non-current liabilities

	2012 $'000	2011 $'000
Unearned income	**15,705**	–
Interest rate swaps	**3,550**	35
Other liabilities	**5,651**	915
	24,906	950

(a) Unearned income

Unearned income represents health insurance premium revenue not yet recognised in the profit or loss.

(b) Interest rate swaps

The Company entered into arrangements to hedge swap the variable interest component of the majority of the $120 million Australian Unity Notes (refer to note 28). On 9 August 2011, the Company swapped the variable interest component of $60 million of the notes at 4.65 percent per annum maturing on 14 April 2016. On 7 December 2011, the company swapped the variable interest rate of $30 million of the notes at 3.8092 percent per annum maturing on 14 January 2014.

A subsidiary company entered into an interest rate swap transaction to hedge exposures to fluctuations in interest rates in relation to the subordinated capital notes (refer to note 28). The subsidiary company swapped the variable interest component of the $25 million subordinated capital notes at 5.0675 percent per annum maturing on 11 July 2013.

32 Reserves and retained earnings

	2012 $'000	2011 $'000
(a) Reserves		
Asset revaluation reserve	**2,462**	2,462
Reserve for credit losses	**1,212**	13
Cash flow hedges reserve	**(2,486)**	–
	1,188	2,475
Movements:		
Asset revaluation reserve		
Balance at the beginning of the financial year	**2,462**	2,462
Balance at the end of the financial year	**2,462**	2,462
Reserve for credit losses		
Balance at the beginning of the financial year	**13**	4
Additions from business combination	**1,171**	–
Transfer from/(to) net profit	**(19)**	13
Transfer from retained earnings	**41**	–
Tax benefit/(expense)	**6**	(4)
Balance at the end of the financial year	**1,212**	13
Cash flow hedges reserve		
Balance at the beginning of the financial year	**–**	–
Revaluation	**(3,550)**	–
Tax benefit	**1,064**	–
Balance at the end of the financial year	**(2,486)**	–

(b) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of land and buildings used by the Group as owner-occupied property as described in note 1(z).

(ii) Reserve for credit losses

The reserve for credit losses is required under Prudential standards to cover risks inherent in the loan portfolios, as described in note 1(ad).

(iii) Cash flow hedges reserve

The cash flow hedges reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(i(ii)). The amounts are recognised in the profit or loss when the associated hedged transaction affects profit or loss.

(c) Retained earnings

Movements in retained earnings were as follows:

	2012 $'000	2011 $'000
Balance at the beginning of the financial year	**170,085**	145,630
Dividends from a subsidiary to a non-controlling interest	**(389)**	–
Transfer to reserve for credit losses	**(41)**	–
Other adjustment	**–**	(1,169)
Profit for the year	**22,231**	25,624
Balance at the end of the financial year	**191,886**	170,085

33 Non-controlling interest

	2012 $'000	2011 $'000
Non-controlling interest	**1,229**	3,713

The non-controlling interest is in connection with the 9.75 percent (2011: 30 percent) shareholding in a subsidiary by a related party which is not part of the consolidated entity.

34 Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 $'000	2011 $'000
Profit after income tax for the year	**22,332**	25,624
Depreciation and amortisation	**14,853**	14,152
Impairment provision	**2,615**	4,171
Financing charges	**–**	111
Investment gains	**(617)**	(2,680)
Fair value gains on investment property	**(8,999)**	(9,350)
Net loss on sale of non-current assets	**1,378**	93
Share of profits of associates	**(1,327)**	(2,640)
Business combination related expenses	**1,706**	345
Reserve for credit losses	**(19)**	9
Changes in operating assets and liabilities:		
Increase in trade and other receivables	**(9,227)**	(7,883)
Increase in inventories	**(37)**	(70)
Decrease/(increase) in loans and advances	**(436,539)**	10,225
Decrease in deferred tax assets	**2,270**	10,791
Decrease in other operating assets	**473**	1,276
Increase/(decrease) in trade and other payables	**(2,022)**	24,095
Increase in deposits liability	**526,887**	1,622
Increase in current tax liabilities	**2,277**	9,803
Increase in deferred tax liabilities	**6,331**	1,595
Increase/(decrease) in provisions	**4,602**	(2,987)
Increase in benefit fund policy liabilities	**7,656**	6,809
Increase in other operating liabilities	**66,646**	9,179
Changes in net operating assets due to business combination	**(77,778)**	–
Net cash inflow from operating activities	**123,461**	94,290

35 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 36.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 37.

(d) Transactions and balances with related parties

Transactions and balances between the Group and related parties were as follows:

> Dividends received from associates, $1,643,750 (2011: $3,926,429).

> In May 2012, the Group purchased 2,400,000 issued shares in a subsidiary from a related party for $5,088,000. The fair value of net assets acquired was $2,585,848 and the share purchase resulted in goodwill on acquisition of $2,502,152.

> Dividend from a subsidiary to a non-controlling interest, $389,000 (2011: $nil).

> Investment management fees charged by associates, $8,409,613 (2011: $6,839,782).

> Commission, director fees and occupancy costs charged to associates, $1,503,421 (2011: $926,108).

> Donations to a related charity organisation, $222,000 (2011: $280,000).

> Health insurance claims made by a related entity, $1,761,585 (2011: $nil).

> Rental income from related entity, $2,080,500 (2011: $2,029,500).

> Loans provided to related entities, $571,787 (2011: $2,710,362).

> Trade and other receivables from related entities as at 30 June 2012, $5,816,745 (2011: $3,370,023).

> Trade and other payables to related entities as at 30 June 2012, $444,014 (2011: $1,015,854).

> Loans receivable from associates as at 30 June 2012, $200,664 (2011: $203,171).

> Loans receivable from related entities as at 30 June 2012, $29,595,263 (2011: $28,168,763).

> Loans payable to related entity as at 30 June 2012, $2,800,000 (2011: $nil).

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

36 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Holding	Equity holding 2012 %	2011 %
Wholly-owned by the Parent entity				
Australian Unity Advice Pty Ltd (formerly Australian Unity Retirement Development No. 7 Pty Ltd)	Australia	Shares	**100**	100
Australian Unity Capital Management Limited	Australia	Shares	**100**	100
Australian Unity Dispensaries Friendly Society Limited	Australia	Shares	**100**	100
Australian Unity Personal Financial Services Limited	Australia	Shares	**100**	100
Australian Unity Finance Limited	Australia	Shares	**100**	100
Australian Unity Funds Management Limited	Australia	Shares	**100**	100
Australian Unity Group Services Proprietary Limited	Australia	Shares	**100**	100
Australian Unity Health Limited	Australia	Shares	**100**	100
Australian Unity Health Care Limited	Australia	Shares	**100**	100
Australian Unity Nominees Pty Ltd (trustee company)	Australia	Shares	**100**	100
Australian Unity Property Limited	Australia	Shares	**100**	100
Australian Unity Property Management Proprietary Limited	Australia	Shares	**100**	100
Australian Unity Property Syndicate (Finance) Pty Limited	Australia	Shares	**100**	100
Australian Unity Retail Network Proprietary Limited	Australia	Shares	**100**	100
Australian Unity Retirement Living Investments Limited	Australia	Shares	**100**	100
Australian Unity Retirement Living Services Limited	Australia	Shares	**100**	100
Australian Unity Staff Superannuation Pty Ltd (trustee company)	Australia	Shares	**100**	100
Australian Unity Strategic Holdings Pty Limited	Australia	Shares	**100**	100
Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited) ***	Australia	Shares	**100**	100
Grand United Corporate Health Limited	Australia	Shares	**100**	100
Remedy Healthcare Group Pty Ltd	Australia	Shares	**100**	100
ACN 006 778 114 Pty Ltd	Australia	Shares	**100**	100
ACN 085 266 986 Pty Ltd	Australia	Shares	**100**	100
ACN 092 219 068 Pty Ltd	Australia	Shares	**100**	100
ACN 101 805 305 Pty Ltd	Australia	Shares	**100**	100
Not wholly-owned by the Parent entity				
Australian Unity Aged Care Trust #1	Australia	Units	**100**	100
Australian Unity Aged Care Trust #2	Australia	Units	**100**	100
Australian Unity Aged Care Trust #3	Australia	Units	**100**	100
Australian Unity Aged Care Trust #4	Australia	Units	**100**	100
Australian Unity Aged Care Trust #5	Australia	Units	**100**	100
Australian Unity Aged Care Trust #6	Australia	Units	**100**	100
Australian Unity Bondi Trust	Australia	Units	**100**	100
Australian Unity Bowral Development Pty Ltd	Australia	Shares	**100**	100
Australian Unity Care Provider Holdings Pty Ltd	Australia	Shares	**100**	100
Australian Unity Care Services Pty Ltd****	Australia	Shares	**90.25**	70
Australian Unity Greenfields Pty Ltd	Australia	Shares	**100**	100
Australian Unity Cranbourne Development Trust	Australia	Units	**100**	100
Australian Unity Investment Bonds Limited	Australia	Shares	**100**	100
Australian Unity Investments Management Administration Pty Limited	Australia	Shares	**100**	100
Australian Unity Investments Trust	Australia	Units	**100**	100
Australian Unity Lilydale Development Trust	Australia	Units	**100**	100
Australian Unity Property Funds Management Limited	Australia	Shares	**100**	100
Australian Unity Property Investment Management Limited (formerly Investa Funds Management Limited)**	Australia	Shares	**100**	–
Australian Unity Retirement Development Management Pty Ltd	Australia	Shares	**100**	100
Australian Unity Retirement Development No. 1 Pty Ltd	Australia	Shares	**100**	100
Australian Unity Retirement Development No. 2 Pty Ltd	Australia	Shares	**100**	100
Australian Unity Aged Care Investments Pty Ltd (formerly Australian Unity Retirement Development No. 3 Pty Ltd)	Australia	Shares	**100**	100
Australian Unity Retirement Development No. 4 Pty Ltd	Australia	Shares	**100**	100
Australian Unity Retirement Development No. 5 Pty Ltd	Australia	Shares	**100**	100

Notes to the consolidated financial statements
For the year ended 30 June 2012

36 Subsidiaries (continued)

Name of entity	Country of incorporation	Holding	Equity holding 2012 %	2011 %
Australian Unity Retirement Development No. 6 Pty Ltd	Australia	Shares	**100**	100
Australian Unity Retirement Living Management Pty Ltd	Australia	Shares	**100**	100
Australian Unity Retirement Village Trust #1	Australia	Units	**100**	100
Australian Unity Retirement Village Trust #2	Australia	Units	**100**	100
Australian Unity Retirement Village Trust #5	Australia	Units	**100**	100
Australian Unity Retirement Village Trust #6	Australia	Units	**100**	100
Australian Unity Carlton Aged Care Trust (formerly Australian Unity Retirement Village Trust #7)	Australia	Units	**100**	100
Big Sky Financial Solutions Pty Ltd ***	Australia	Shares	**100**	–
Big Sky Financial Planning Pty Ltd ***	Australia	Shares	**100**	–
Campana Pty Ltd	Australia	Shares	**100**	100
Cash Enhanced Plus Internal Investment Trust	Australia	Units	**100**	100
Centennial Road Development Pty Ltd	Australia	Shares	**100**	100
Couhe Unit Trust	Australia	Units	**100**	100
Credit Enhanced Internal Investment Trust	Australia	Units	**100**	100
Diversified No. 1 Internal Investment Trust	Australia	Units	**100**	100
Funeral Plan Management Pty Ltd	Australia	Shares	**100**	100
Grand United RVO Pty Ltd	Australia	Shares	**100**	100
Greglea Village Management Pty Limited	Australia	Shares	**100**	100
High Yield Plus Internal Investment Trust	Australia	Units	**100**	100
Lifeplan Australia Friendly Society Limited	Australia	Shares	**100**	100
Lifeplan Travel Pty Ltd	Australia	Shares	**100**	100
Long Duration Internal Investment Trust	Australia	Units	**100**	100
Mortgages No. 1 Internal Investment Trust	Australia	Units	**100**	100
Other Securities Internal Investment Trust	Australia	Units	**100**	100
Retirement Management Services Pty Limited	Australia	Shares	**100**	100
Retirement Village Property Fund	Australia	Units	**100**	–
Short Term Securities Internal Investment Trust	Australia	Units	**100**	100
The Australian Unity Mornington Development Trust	Australia	Units	**100**	100
The Australian Unity Sienna Grange Development Trust	Australia	Units	**100**	100
The Australian Unity Victoria Grange Development Trust	Australia	Units	**100**	100
The Governor's Retirement Resort Pty Ltd	Australia	Shares	**100**	100
Willandra Village Management Pty Ltd	Australia	Shares	**100**	100
National Friendly Society Limited*	Australia	–	**–**	–

* Australian Unity Limited controls the composition of the board of National Friendly Society Limited and so controls the company, although no equity interest is held.

** Australian Unity Property Limited acquired control of Australian Unity Property Investment Management Limited on 30 September 2011. Refer to note 5 for further information.

*** Shareholdings in Lifeplan Australia Building Society Limited (LABS) were sold by Lifeplan Australia Friendly Society Limited, a wholly-owned subsidiary of the Group, to the Parent entity on 16 November 2011. On 1 March 2012, LABS merged with the business of Big Sky Credit Union Limited (BSCU) which included two wholly-owned subsidiaries, Big Sky Financial Solutions Pty Ltd and Big Sky Financial Planning Pty Ltd. LABS subsequently changed its name to Big Sky Building Society Limited. Refer to note 5 for further information.

**** Australian Unity Retirement Living Services Pty Ltd acquired a further 20.25 percent shareholding in Australian Unity Care Services Pty Ltd from Grand United Centenary Centre Limited, a related entity. Refer to note 35 for further information.

The Parent entity investment in the subsidiaries is stated at cost, in accordance with the accounting policy described in note 1(s).

In addition to the investments in associates (note 16) and subsidiaries, various entities in the Group invest in managed investment schemes for which the members of the Group act as the responsible entity. In determining whether such investments require to be consolidated as subsidiaries in the event of an equity holding exceeding 50 percent of the total equity of any such scheme, a distinction is drawn between those holdings which are beneficially owned by the Members of Australian Unity Limited and those which are beneficially owned by the policyholders of the benefit funds operated by subsidiaries in the Group even though both types of holding are legally owned by the Group. It is only when the holding beneficially owned by Members of Australian Unity Limited exceeds 50 percent of the total equity that the scheme is consolidated irrespective of whether a combined holding exceeds 50 percent of the total equity. This approach of distinguishing between legal and beneficial ownership relative to investments held by benefit funds parallels the requirement for responsible entities of managed investment schemes to act in the interests of the investors of those schemes irrespective of the legal ownership of or the ability to control the assets of the scheme.

Information on related party transactions is included in note 35.

37 Key management personnel disclosures

(a) Key management personnel compensation

	2012	2011
	$	$
Short term employee benefits	**5,431,207**	5,127,035
Post employment benefits	**351,380**	309,753
Long term benefits	**748,669**	1,453,088
	6,531,256	6,889,876

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

(b) Other transactions with key management personnel

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

In accordance with rule 5.15.1 of the Parent entity's constitution, the Parent entity has determined at its Annual General Meeting that the maximum aggregate annual amount of remuneration payable by the Parent entity to non-executive directors of the Parent entity as fees for their services as directors is $1,200,000 per financial year. The actual amounts paid to non-executive directors of the Parent entity excluding retirement allowances for the 2012 financial year amounted to $1,183,654 (2011: $1,200,000). Directors' remuneration includes superannuation contributions in accordance with the Superannuation Guarantee Legislation. Information relating to the Group's superannuation funds is set out in note1(j).

The Group has also set aside a provision for directors' retirement allowances. At 30 June 2012, this provision amounted to $485,722 (2011: $944,702). During the 2012 financial year, one director received a retirement payment from the provision for directors' retirement allowances of $550,000 (2011: $nil). There is no liability for retirement allowances in respect of directors appointed after the 2004 Annual General Meeting. The provision for directors' retirement allowances is included in the provision for employee entitlements.

During the 2012 financial year, Mr Warren French received an honorarium of $10,000 (2011: $30,000) in his capacity as Grand Secretary of the Grand United Order of Oddfellows, which was funded by the Parent entity.

During the 2011 financial year, Big Sky Building Society Limited (formerly Lifeplan Australia Building Society Limited, a wholly-owned subsidiary), advanced a $500,000 loan to Mr John Butler. The loan was for five years, bearing interest at 7.19 percent per annum fixed for three years. At 30 June 2012, the balance outstanding was $464,050 (2011: $467,046). There are no other loans to key management personnel at 30 June 2012 (2011: none).

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.

38 Commitments

(a) Capital commitments

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

	2012	2011
	$'000	$'000
Payable within one year:		
Investment property	**15,680**	9,455
Intangible assets	**747**	747
	16,427	10,202
Later than one year but not later than five years:		
Intangible assets	**–**	747
Total capital commitments	**16,427**	10,949

(b) Lease commitments: where a Group company 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:

	2012	2011
	$'000	$'000
Within one year	**2,432**	2,469
Later than one year but not later than five years	**8,717**	4,006
Later than five years	**404**	4,172
	11,553	10,647

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

38 Commitments (continued)

(c) Lease commitments: where a Group company is the lessor

Future minimum lease payments receivable under non-cancellable operating leases are as follows :

	2012 $'000	2011 $'000
Within one year	268	371
Later than one year and not later than five years	575	835
Later than five years	–	24
	843	1,230

These leases relate to commercial property owned or leased by the Group.

(d) 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.

	2012 $'000	2011 $'000
Irrevocable approved but undrawn loans	14,113	–
Revocable loans with balances available for redraw	34,986	–
Revocable undrawn lines of credit, credit cards and overdrafts	32,507	–
	81,606	–

39 Contingencies

Contingent liabilities

Contingent liabilities exist in relation to future anticipated calls on shares held by the Group in the associates, Wingate Asset Management Pty Limited, Seres Asset Management Limited and Altius Asset Management Pty Ltd.

As at 30 June 2012, the contingent liabilities are as follows:

> Wingate Asset Management Pty Limited amounted to $279,450 for 6,210,000 shares at 4.5 cents each (2011: $372,600 for 6,210,000 shares at 6 cents each);

> Seres Asset Management Limited amounted to $1,463,704 for 11,625,000 shares at 12.6 cents each (2011: $1,000,686 for 38,750,000 shares at 2.60 cents each); and

> Altius Asset Management Pty Ltd amounted to $276,675 for 2,324,998 shares at 11.9 cents each (2011: $1,243,874 for 2,324,998 shares at 53.5 cents each).

Guarantees

Guarantee for computer equipment

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

Bank guarantee

The Group has entered into bank guarantee arrangements totalling $8,191,607 (2011: $1,665,810) as part of its normal operations in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non performance of the Group.

Liquidity support scheme

Big Sky Building Society Limited (BSBS), a wholly-owned subsidiary of the Group, is a party to the Credit Union Financial Support Scheme (CUFSS). CUFSS is a voluntary scheme in which all credit unions who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each credit union's guarantee being $100. As a CUFSS member, BSBS:

> May be required to advance funds of up to 3 percent (excluding permanent loans) of total assets to another credit union requiring financial support;

> May be required to advance permanent loans of up to 0.2 percent of total assets per financial year to another credit union requiring financial support; and

> Agrees, in conjunction with other members, to fund the operating costs of CUFSS.

At 30 June 2012, no funding was required by and paid to CUFSS (2011: $nil).

40 Events occurring after the reporting period

After the end of the reporting period, a number of subsidiary companies declared and paid final ordinary dividends totalling $17,690,000 to Australian Unity Limited. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2012 and will be recognised in subsequent financial reports.

After the end of the reporting period, the directors agreed to subscribe shares in the wholly-owned subsidiaries as follows:

> 2,020,071 ordinary shares of $1 each in Australian Unity Funds Management Limited;

> 7,658,772 ordinary shares of $1 each in Australian Unity Retirement Living Investments Limited;

> 888,347 ordinary shares of $1 each in Australian Unity Retirement Living Services; and

> 276,675 ordinary shares of $1 each in Australian Unity Strategic Holdings Pty Ltd.

The board is not aware of any other matter or circumstance arising since 30 June 2012 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.

41 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:

	2012 $	2011 $
(a) Audit services		
Ernst & Young Australian firm		
Audit and review of financial statements and other audit work under the *Corporations Act 2001*	**1,541,500**	1,710,462
Audit of regulatory returns	**87,246**	118,971
Total remuneration for audit services	**1,628,746**	1,829,433
(b) Taxation and other services		
Ernst & Young Australian firm		
Tax compliance services, including review of income tax returns	**288,520**	222,125
Other taxation services	**468,976**	284,864
Other assurance services	**57,415**	36,980
Total remuneration for taxation and other services	**814,911**	543,969
Total auditors' remuneration	**2,443,657**	2,373,402

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

42 Health insurance

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

(a) Details of income and expenses

	2012 $'000	2011 $'000
Premium revenue	**646,457**	570,496
Claims expense	**(534,777)**	(474,475)
Net risk equalisation trust fund recoveries	**19,120**	26,047
State levies	**(3,647)**	(2,936)
Net claims incurred	**(519,304)**	(451,364)
Acquisition costs	**(41,238)**	(37,182)
Other underwriting expenses	**(2,948)**	(2,245)
	(44,186)	(39,427)
Underwriting result	**82,967**	79,705
Net investment revenue	**12,206**	8,496
Employee benefits expense	**(17,960)**	(15,701)
Other expenses from ordinary activities	**(20,433)**	(21,248)
Finance costs	**(3,175)**	(2,540)
	(29,362)	(30,993)
Profit before income tax	**53,605**	48,712
Income tax expense	**(15,905)**	(14,461)
Profit after income tax	**37,700**	34,251

42 Health insurance (continued)

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

	2012 $'000	2011 $'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	**6,401**	6,606
Net RETF raised during the year	**19,120**	26,047
Net RETF received during the year	**(19,697)**	(26,252)
Balance at the end of the financial year	**5,824**	6,401

(c) Outstanding claims provision

	2012 $'000	2011 $'000
Outstanding claims-central estimate of the expected present value of future payments for claims incurred	**43,216**	39,508
Risk margin	**3,418**	4,173
Claims handling costs	**974**	1,127
Gross outstanding claims liability	**47,608**	44,808
Movement in the gross outstanding claims provision		
Balance at the beginning of the financial year	**44,808**	43,908
Claims incurred during the year	**534,777**	474,475
Claims paid during the year	**(531,977)**	(473,575)
Balance at the end of the financial year	**47,608**	44,808
Current	**47,608**	44,808

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 7.7 percent (2011: 10.3 percent) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95 percent (2011: 95 percent). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

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

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

The weighted average expected term to settlement of claims from the end of the reporting period is estimated to be 2 months (2011: 2 months).

Impact of changes in key variables

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

	Movement in variable	**Profit/(loss) after tax $'000**	**Net assets $'000**
Central estimate	+5%	(1,513)	(1,513)
Central estimate	5%	1,513	1,513
Claims handling	+10%	(68)	(68)
Claims handling	10%	68	68

(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 2012 (2011: $nil) at a 75 percent (2011: 75 percent) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

43 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

	2012 $'000	2011 $'000
Life investment contract liabilities	595,967	601,900
Life insurance contract liabilities – guaranteed element	1,229,669	1,213,596
Life insurance contract liabilities – other	1,223	1,649
Unvested policyholder liabilities	26,856	28,913
Total policy liabilities	**1,853,715**	1,846,058
Expected to be realised within 12 months	225,453	230,141
Expected to be realised in more than 12 months	1,628,262	1,615,917
	1,853,715	1,846,058

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

	2012 $'000	2011 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	601,900	586,037
Increase/(decrease) recognised in the profit or loss	2,673	24,224
Premiums recognised as a change in contract liabilities	85,506	73,450
Claims recognised as a change in contract liabilities	(94,112)	(81,811)
Life investment contract liabilities at the end of the year	595,967	601,900
Life insurance contract liabilities		
Balance at the beginning of the financial year	1,215,244	1,207,295
Increase/(decrease) recognised in the profit or loss	15,648	7,949
Life investment contract liabilities at the end of the year	1,230,892	1,215,244
Unvested policyholder liabilities		
Balance at the beginning of the financial year	28,914	45,918
Increase/(decrease) recognised in the profit or loss	(2,058)	(17,004)
Unvested policyholder benefits liability at the end of the year	26,856	28,914
Net policy liabilities at the end of the financial year	1,853,715	1,846,058

(c) Analysis of policy liability revenue and expenses

	2012 $'000	2011 $'000
Revenue and other income		
Total life insurance and participating contract premium revenue	95,324	90,849
Reinsurance premium	(390)	(359)
Life insurance contract premium revenue	**94,934**	90,490
Interest income	3,897	6,956
Distribution income	73,886	76,598
Realised losses	(11,080)	(14,757)
Unrealised gains	26,760	41,160
Other income	209	(2,119)
Total revenue and other income	**188,606**	198,328
Expenses		
Total life insurance and participating contract claims expense	132,588	148,332
Life insurance contract claims expense	**132,588**	148,332
Policy maintenance expenses – life insurance contracts		
Commissions	10	(131)
Management fees	20,725	20,434
Other expenses	1,703	(10,139)
Movement in life insurance contract liabilities	14,648	7,949
Movement in unvested policyholder liabilities	(1,058)	(17,004)
Movement in investment contract liabilities	2,673	24,224
Total expenses	**171,289**	173,665

43 Benefit fund policy liabilities (continued)

(d) Actuarial methods and assumptions

The effective date of the actuarial financial condition report on policy liabilities and solvency reserves is 30 June 2012. The actuarial report was prepared by the appointed actuary Mr Richard Land BCom FIAA, Consulting Actuary 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:

Assurance Benefit Fund, Endowment and Funeral Fund – Funeral Fund (denoted as the Funeral Fund), Life Assurance Benefit Fund, Central Sick and Funeral Fund, Whole of Life Funeral Fund, Funeral and Ancillary Benefits Fund, Personal Risk Insurance Fund, Travel Protection Fund, and the 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 1.04 issued by the Australian Prudential Regulation Authority ("APRA") under the *Life Insurance Act 1995*.

For the Assurance Benefit Fund, Endowment and Funeral Fund, Life Assurance Benefit Fund, Central Sick and Funeral Fund, Funeral and Ancillary, Travel Protection and Whole of Life Funeral Funds, policy liabilities are valued using the projection method. Estimates of future cash flows (that is premium, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows using best estimate assumptions about the future. Allowance has been made for tax and fees where appropriate. The balance of the benefit fund represents unvested policyholder liabilities, which will ultimately be distributed to members or transferred to the management fund (depending on the benefit fund rules).

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2012 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Gross Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Assurance Benefit Fund	**Swap Rate**	**15**	**4.32%**	**1.80%**	**30.00%**	**1.76%**	**50% of ALT0507**
Endowment and Funeral Fund – Funeral Fund	**Swap Rate**	**20**	**4.20%**	**0.00%**	**0.00%**	**4.20%**	**50% of ALT0507**
Life Assurance Fund	**Swap Rate**	**12**	**4.18%**	**2.25%**	**30.00%**	**1.35%**	**50% of ALT0507**
Central Sick and Funeral Fund	**Swap Rate**	**11**	**4.14%**	**2.00%**	**0.00%**	**2.14%**	**50% of ALT0507**
Funeral and Ancillary	**Swap Rate**	**16**	**4.32%**	**2.00%**	**0.00%**	**2.32%**	**80% of ALT0507**
Travel Protection	**Swap Rate**	**13**	**4.23%**	**0.00%**	**0.00%**	**4.23%**	**85% of ALT0507**
Whole of Life Funeral	**Swap Rate**	**14**	**4.28%**	**1.50%**	**0.00%**	**2.78%**	**70% of ALT0507**

The key assumptions for the policy liability calculations for these defined benefit funds at 30 June 2011 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Gross Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Assurance Benefit Fund	Swap Rate	15	6.19%	1.80%	30.00%	3.07%	50% of ALT0507
Endowment and Funeral Fund – Funeral Fund	Swap Rate	18	6.12%	0.00%	0.00%	6.12%	50% of ALT0507
Life Assurance Fund	Swap Rate	14	6.15%	2.25%	30.00%	2.73%	50% of ALT0507
Central Sick and Funeral Fund	Swap Rate	11	6.04%	2.00%	0.00%	4.04%	50% of ALT0507
Funeral and Ancillary	Swap Rate	14	6.15%	2.00%	0.00%	4.15%	80% of ALT0507
Travel Protection	Swap Rate	13	6.11%	0.00%	0.00%	6.11%	85% of ALT0507
Whole of Life Funeral	Swap Rate	13	6.11%	1.50%	0.00%	4.61%	70% of ALT0507

Notes:
1 The mid swap rate corresponding to the mean liability term.
2 ALT0507: Australian Life Tables (Male and Female) 2005–2007.

The following assumptions also apply:

> For the Funeral and Ancillary Fund, the proportion married varies by age; and

> For the Funeral and Ancillary Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 2.5 percent (2011: 3.0 percent) per annum; and

> For the Travel Protection Fund, the proportion of claims (arising from each death) is 5.0 percent (2011: 5.5 percent) and the average claim amount is $1,152 (2011: $1,025) inflating at 2.5 percent (2011: 3.0 percent) per annum.

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

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

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

The last seven funds are referred to as defined contribution funeral funds. The remaining funds are referred to as defined contribution investment account funds.

The policy liabilities for benefit funds are determined in accordance with Prudential Standard LPS 1.04 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.

In addition to the above, for the Flexishield Bond Fund and the Community Bond Fund a small liability for early death risk is maintained.

As well, a deferred tax liability in respect of future termination bonuses is included in the policy liability for the Education Savings Plan.

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 additional death benefits was calculated assuming mortality and discounting. The liability for death benefits was then subjected to a minimum equal to the largest exposure to a single member in the fund. The minimum was adopted.

For the seven funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds.

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2012 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Gross Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Capital Guaranteed Funeral Bond (non-taxable)	**Swap Rate**	**8**	**3.97%**	**2.05%**	**0.00%**	**1.92%**	**105% of ALT0507**
Capital Guaranteed Funeral Bond (taxable)	**Swap Rate**	**10**	**4.09%**	**2.05%**	**30.00%**	**1.43%**	**115% of ALT0507**
Capital Secure Funeral Bond	**Swap Rate**	**6**	**3.79%**	**1.53%**	**0.00%**	**2.26%**	**100% of ALT0507**
Funeral Bond	**Swap Rate**	**8**	**3.97%**	**1.50%**	**0.00%**	**2.47%**	**90% of ALT0507**
Prepaid Funeral Fund	**Swap Rate**	**8**	**3.93%**	**1.50%**	**0.00%**	**2.43%**	**110% of ALT0507**
Funeral Fund No 2 (non-taxable)	**Swap Rate**	**8**	**3.97%**	**2.00%**	**0.00%**	**1.97%**	**115% of ALT0507**
Funeral Bond No 2 (taxable)	**Swap Rate**	**8**	**3.97%**	**2.00%**	**30.00%**	**1.38%**	**115% of ALT0507**
Tax Minimiser Funeral Fund	**Swap Rate**	**7**	**3.90%**	**1.50%**	**30.00%**	**1.68%**	**200% of ALT0507**

The key assumptions for the policy liability calculations for the funeral funds at 30 June 2011 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Gross Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Capital Guaranteed Funeral Bond (non-taxable)	Swap Rate	8	5.91%	2.05%	0.00%	3.86%	105% of ALT0507
Capital Guaranteed Funeral Bond (taxable)	Swap Rate	7	5.86%	2.05%	30.00%	2.67%	115% of ALT0507
Capital Secure Funeral Bond	Swap Rate	6	5.74%	1.53%	0.00%	4.21%	100% of ALT0507
Funeral Bond	Swap Rate	7	5.86%	1.50%	0.00%	4.36%	85% of ALT0507
Prepaid Funeral Fund	Swap Rate	7	5.86%	1.50%	0.00%	4.36%	110% of ALT0507
Funeral Fund No 2 (non-taxable)	Swap Rate	7	5.86%	2.00%	0.00%	3.86%	120% of ALT0507
Funeral Bond No 2 (taxable)	Swap Rate	7	5.86%	2.00%	30.00%	2.70%	120% of ALT0507
Tax Minimiser Funeral Fund	Swap Rate	5	5.63%	1.50%	30.00%	2.89%	200% of ALT0507

Notes
1 The mid swap rate corresponding to the mean guaranteed liability term.
2 ALT0507 refers to Australian Life Tables (Male and Female) 2005–2007.

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.

43 Benefit fund policy liabilities (continued)

As well, a deferred tax liability in respect of future termination bonuses is included in the policy liability for the Capital Guaranteed Funeral Bond (taxable), the Tax Minimiser Funeral Fund and Funeral Benefits Fund No. 2.

Taxation

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

Surrender values

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

Profit carriers

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

Restrictions on assets

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

Assets backing policy liabilities

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

Future participating benefits

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

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

Sensitivity analysis

The Group has no material sensitivity analysis to disclose. If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except as noted above for PRF. 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 2012. 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 PRF, 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 PRF, reasonable changes in assumptions will not impact the liability. Due to the small size of the fund, any changes in equity will not be significant for the Group.

Concentrations

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

Interest rate risk

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

Credit risk

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

(f) Solvency and capital adequacy information

Under the *Life Insurance Act 1995*, the Group is required to hold prudential reserves over and above their policy liabilities, as a buffer against adverse experience and poor investment returns.
The minimum level of reserves required to be held are specified by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS 2.04 and LPS 3.04. These standards have been met for all benefit funds as at 30 June 2012 and 2011.

For each benefit fund subject to a solvency requirement, the figures in note 44 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 44 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

44 Disaggregated information – Benefit funds

(a) Non-investment linked benefit funds

	Revenue			Expenses		Profit/(loss) for the year	
	Net Premium	Investment	Other	Claims	Other	Before Tax	After Tax
30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Accidental death benefits	**112**	**16**	**–**	**–**	**136**	**(8)**	**–**
Adult accident	**21**	**4**	**–**	**2**	**19**	**4**	**–**
Assurance benefit fund	**–**	**1,500**	**–**	**340**	**766**	**394**	**–**
Central sick and funeral fund	**–**	**970**	**–**	**293**	**677**	**–**	**–**
Endowment fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Funeral and ancillary benefits	**10**	**1,933**	**–**	**611**	**1,332**	**–**	**–**
Funeral fund	**–**	**1,566**	**–**	**431**	**1,135**	**–**	**–**
Life assurance fund	**–**	**1,937**	**–**	**261**	**1,237**	**439**	**–**
Personal risk fund	**18**	**14**	**–**	**–**	**187**	**(155)**	**–**
Student accident	**31**	**9**	**–**	**4**	**27**	**9**	**–**
Travel protection funeral	**47**	**81**	**–**	**15**	**75**	**38**	**–**
Whole of life funeral	**–**	**68**	**–**	**27**	**41**	**–**	**–**
Total non-investment linked benefit fund – Life insurance contracts	**239**	**8,098**	**–**	**1,984**	**5,632**	**721**	**–**
30 June 2011							
Accidental death benefits	112	91	–	–	130	73	–
Adult accident	14	21	–	2	22	11	–
Assurance benefit fund	–	675	–	180	319	176	–
Central sick and funeral fund	–	304	–	231	73	–	–
Endowment fund	–	17	–	863	(852)	6	–
Funeral and ancillary benefits	12	1,409	–	699	722	–	–
Funeral fund	–	659	–	387	272	–	–
Life assurance fund	–	632	–	257	323	52	–
Personal risk fund	80	18	–	15	173	(90)	–
Student accident	28	54	–	12	43	27	–
Travel protection funeral	102	47	–	17	86	46	–
Whole of life funeral	1	58	–	20	40	(1)	–
Total non-investment linked benefit fund – Life insurance contracts	349	3,985	–	2,683	1,351	300	–

Notes to the consolidated financial statements

For the year ended 30 June 2012

44 Disaggregated information – Benefit funds (continued)

	Assets		Liabilities		Equity	
	Investments	Other	Life insurance	Other	Equity	Coverage of Solvency Reserve
30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Accidental death benefits	**436**	**62**	**536**	**(38)**	**–**	**36**
Adult accident	**86**	**14**	**100**	**–**	**–**	**38**
Assurance benefit fund	**12,347**	**–**	**11,930**	**417**	**–**	**96**
Central sick and funeral fund	**6,603**	**–**	**6,587**	**16**	**–**	**89**
Endowment fund	**–**	**–**	**–**	**–**	**–**	**–**
Funeral and ancillary benefits	**14,237**	**–**	**14,170**	**67**	**–**	**99**
Funeral fund	**11,498**	**–**	**11,498**	**–**	**–**	**97**
Life assurance fund	**13,353**	**–**	**12,654**	**699**	**–**	**95**
Personal risk fund	**159**	**39**	**331**	**(133)**	**–**	**77**
Student accident	**215**	**37**	**256**	**(4)**	**–**	**32**
Travel protection funeral	**848**	**–**	**874**	**(26)**	**–**	**59**
Whole of life funeral	**755**	**–**	**620**	**135**	**–**	**92**
Total non-investment linked benefit fund – Life insurance contracts	**60,537**	**152**	**59,556**	**1,133**	**–**	
30 June 2011						
Accidental death benefits	716	136	732	120	–	48
Adult accident	179	12	181	10	–	30
Assurance benefit fund	11,694	42	11,333	403	–	82
Central sick and funeral fund	5,987	39	6,016	10	–	90
Funeral and ancillary benefits	13,173	1	13,070	104	–	95
Funeral fund	10,451	34	10,484	1	–	89
Life assurance fund	12,211	30	11,647	594	–	90
Personal risk fund	198	163	307	54	–	81
Student accident	412	30	429	13	–	31
Travel protection funeral	712	38	750	–	–	56
Whole of life funeral	686	–	668	18	–	79
Total non-investment linked benefit fund – Life insurance contracts	56,419	525	55,617	1,327	–	

(b) Investment linked benefit fund Life investment contracts with discretionary participating features

	Revenue			Expenses		Profit/(loss) for the year	
	Deposits	Investment	Other	Claims	Other	Before Tax	After Tax
30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Bonus accumulation	**764**	**8,714**	**–**	**27,022**	**(20,302)**	**2,758**	**–**
Bonus Bond no 1	**1,802**	**2,463**	**86**	**8,301**	**(4,092)**	**142**	**–**
Capital guaranteed bond	**356**	**7,684**	**–**	**12,605**	**(6,375)**	**1,810**	**–**
Capital guaranteed deferred annuity	**–**	**62**	**–**	**80**	**(20)**	**2**	**–**
Capital guaranteed funeral bond (non-taxable)	**132**	**2,499**	**–**	**3,476**	**(842)**	**(3)**	**–**
Capital guaranteed funeral bond (taxable)	**6,617**	**3,571**	**3**	**4,385**	**4,982**	**824**	**–**
Capital guaranteed mortgage bond	**125**	**1,678**	**–**	**4,618**	**(3,229)**	**414**	**–**
Capital secure funeral bond	**64**	**1,776**	**–**	**2,851**	**(1,010)**	**(1)**	**–**
Community bond	**871**	**4,104**	**45**	**8,707**	**(4,987)**	**1,300**	**–**
Education savings plan	**1,839**	**729**	**–**	**1,748**	**507**	**313**	**–**
Flexishield bond	**290**	**1,807**	**38**	**5,166**	**(3,632)**	**601**	**–**
Funeral Benefits no 2	**1,197**	**26,706**	**6**	**20,210**	**4,353**	**3,346**	**–**
Funeral Bond	**48**	**891**	**–**	**630**	**308**	**1**	**–**
Grand bonds assurance fund	**23**	**301**	**–**	**398**	**(147)**	**73**	**–**
Growth fund	**–**	**–**	**–**	**–**	**–**	**–**	**–**
NextGen investments capital guaranteed	**43,641**	**3,713**	**–**	**14,344**	**32,210**	**800**	**–**
Prepaid funeral	**5**	**753**	**–**	**699**	**59**	**–**	**–**
Tax minimiser funeral	**36,921**	**8,335**	**–**	**15,035**	**27,238**	**2,983**	**–**
Telecom rollover	**–**	**98**	**–**	**329**	**(239)**	**8**	**–**
Total investment linked benefit fund – Life investment contracts with discretionary participating features	**94,695**	**75,884**	**178**	**130,604**	**24,782**	**15,371**	**–**

30 June 2011							
Bonus accumulation	1,175	10,005	500	28,997	(20,454)	3,137	–
Bonus Bond no 1	1,754	2,933	154	12,171	(7,329)	(1)	–
Capital guaranteed bond	430	7,926	–	15,557	(9,109)	1,908	–
Capital guaranteed deferred annuity	–	80	–	79	(9)	10	–
Capital guaranteed funeral bond (non-taxable)	173	2,056	–	3,622	(1,378)	(15)	–
Capital guaranteed funeral bond (taxable)	6,652	2,536	–	3,951	4,771	466	–
Capital guaranteed mortgage bond	206	1,965	–	5,783	(4,139)	527	–
Capital secure funeral bond	76	1,506	–	3,452	(1,859)	(11)	–
Community bond	1,060	4,317	322	10,571	(6,264)	1,392	–
Education savings plan	1,906	685	–	2,122	346	123	–
Flexishield bond	377	2,501	99	5,876	(3,675)	776	–
Funeral Benefits no 2	1,626	21,196	31	22,095	(5,637)	6,395	–
Funeral Bond	70	950	–	474	546	–	–
Grand bonds assurance fund	18	322	–	447	(185)	78	–
Growth fund	–	5	–	110	(106)	1	–
NextGen investments capital guaranteed	18,806	2,894	278	14,950	6,225	803	–
Prepaid funeral	7	863	–	649	222	(1)	–
Tax minimiser funeral	55,807	5,122	604	14,557	46,139	837	–
Telecom rollover	–	111	5	190	(86)	12	–
Total investment linked benefit fund – Life investment contracts with discretionary participating features	90,143	67,973	1,993	145,653	(1,981)	16,437	–

44 Disaggregated information – Benefit funds (continued)

	Assets		Liabilities		Equity	
	Investments	Other	Life insurance	Other	Equity	Coverage of Solvency Reserve
30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Bonus accumulation	**191,536**	**–**	**191,761**	**(225)**	**–**	**100**
Bonus Bond no 1	**44,930**	**258**	**44,926**	**262**	**–**	**96**
Capital guaranteed bond	**138,929**	**1**	**136,973**	**1,957**	**–**	**99**
Capital guaranteed deferred annuity	**1,281**	**6**	**1,284**	**3**	**–**	**98**
Capital guaranteed funeral bond (non-taxable)	**44,843**	**460**	**45,234**	**69**	**–**	**100**
Capital guaranteed funeral bond (taxable)	**65,965**	**622**	**66,174**	**413**	**–**	**100**
Capital guaranteed mortgage bond	**32,676**	**–**	**32,392**	**284**	**–**	**98**
Capital secure funeral bond	**32,013**	**343**	**32,315**	**41**	**–**	**100**
Community bond	**70,638**	**303**	**69,946**	**995**	**–**	**98**
Education savings plan	**12,587**	**529**	**12,998**	**118**	**–**	**99**
Flexishield bond	**37,851**	**72**	**37,479**	**444**	**–**	**98**
Funeral Benefits no 2	**234,206**	**13,740**	**249,589**	**(1,643)**	**–**	**100**
Funeral Bond	**7,392**	**234**	**7,613**	**13**	**–**	**100**
Grand bonds assurance fund	**5,678**	**–**	**5,619**	**59**	**–**	**99**
Growth fund	**–**	**–**	**–**	**–**	**–**	**–**
NextGen investments capital guaranteed	**100,161**	**–**	**96,961**	**3,200**	**–**	**100**
Prepaid funeral	**6,256**	**225**	**6,476**	**5**	**–**	**100**
Tax minimiser funeral	**161,567**	**2,429**	**158,353**	**5,643**	**–**	**100**
Telecom rollover	**2,145**	**–**	**2,098**	**47**	**–**	**99**
Total investment linked benefit fund – Life investment contracts with discretionary participating features	**1,190,654**	**19,222**	**1,198,191**	**11,685**	**–**	
30 June 2011						
Bonus accumulation	212,066	5,617	213,549	4,134	–	100
Bonus Bond no 1	50,398	186	50,271	313	–	96
Capital guaranteed bond	146,435	811	145,148	2,098	–	99
Capital guaranteed deferred annuity	1,391	(2)	1,377	12	–	95
Capital guaranteed funeral bond (non-taxable)	46,731	75	46,685	121	–	100
Capital guaranteed funeral bond (taxable)	61,480	927	62,039	368	–	100
Capital guaranteed mortgage bond	36,270	208	35,929	549	–	99
Capital secure funeral bond	33,645	58	33,600	103	–	100
Community bond	77,122	343	75,795	1,670	–	99
Education savings plan	12,351	492	12,666	177	–	99
Flexishield bond	47,330	71	41,570	5,831	–	99
Funeral Benefits no 2	236,398	13,395	248,932	861	–	100
Funeral Bond	8,394	19	8,406	7	–	100
Grand bonds assurance fund	5,881	20	5,819	82	–	100
Growth fund	9	–	8	1	–	–
NextGen investments capital guaranteed	67,639	8	65,504	2,143	–	100
Prepaid funeral	7,388	14	7,304	98	–	100
Tax minimiser funeral	131,359	2,882	132,898	1,343	–	100
Telecom rollover	2,370	28	2,365	33	–	99
Total investment linked benefit fund – Life investment contracts with discretionary participating features	1,184,657	25,152	1,189,865	19,944	–	

(c) Investment linked benefit fund Investment contracts

30 June 2012	Revenue Net Premium $'000	Revenue Investment $'000	Revenue Other $'000	Expenses Claims $'000	Expenses Other $'000	Profit/(loss) for the year Before Tax $'000	Profit/(loss) for the year After Tax $'000
Balanced growth bond	–	(28)	–	–	127	(155)	–
Capital base	–	1,873	–	–	1,278	595	–
Conservative growth bond	–	581	–	–	449	132	–
Education bond long term portfolio	–	(183)	–	–	(99)	(84)	–
Education bond medium term portfolio	–	(3)	–	–	5	(8)	–
Education bond short term portfolio	–	7	–	–	6	1	–
Education savings plan	–	(359)	22	–	(1,054)	717	–
Flexigrowth	–	804	–	–	804	–	–
Growth investment	–	(20)	–	–	85	(105)	–
High growth bond	–	(106)	–	–	(211)	105	–
Income	–	997	2	–	999	–	–
Managed investment	–	1,241	–	–	1,193	48	–
NextGen investments	–	3,926	4	–	3,430	500	–
Select strategies	–	577	–	–	1,001	(424)	–
TaxSmart	–	545	–	–	396	149	–
Wealth builder	–	(371)	3	–	(122)	(246)	–
Total investment linked benefit fund – Investment contracts without discretionary participating features	–	9,481	31	–	8,287	1,225	–
30 June 2011							
Balanced growth bond	–	606	–	–	810	(204)	–
Capital base	–	1,553	(485)	–	563	505	–
Conservative growth bond	–	658	–	–	575	83	–
Education bond long term portfolio	–	35	–	–	87	(52)	–
Education bond medium term portfolio	–	55	–	–	44	11	–
Education bond short term portfolio	–	6	–	–	5	1	–
Education savings plan	–	3,792	(40)	–	3,721	31	–
Flexigrowth	–	1,127	–	–	1,128	(1)	–
Growth investment	–	1,736	(245)	–	1,021	470	–
High growth bond	–	(28)	–	–	79	(107)	–
Income	–	1,228	–	–	1,224	4	–
Managed investment	–	9,603	(859)	–	6,021	2,723	–
NextGen investments	–	5,259	(776)	–	3,157	1,326	–
Select strategies	–	10,887	(1,742)	–	6,399	2,746	–
TaxSmart	–	700	(10)	–	480	210	–
Wealth builder	–	783	42	–	645	180	–
Total investment linked benefit fund – Investment contracts without discretionary participating features	–	38,000	(4,115)	–	25,959	7,926	–

44 Disaggregated information – Benefit funds (continued)

	Assets		Liabilities		Equity
	Investments	Other	Life insurance	Other	Equity
30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balanced growth bond	**26,256**	**719**	**27,048**	**(73)**	**–**
Capital base	**41,168**	**8**	**40,537**	**639**	**–**
Conservative growth bond	**14,046**	**1**	**13,640**	**407**	**–**
Education bond long term portfolio	**4,858**	**204**	**5,230**	**(168)**	**–**
Education bond medium term portfolio	**1,201**	**16**	**1,227**	**(10)**	**–**
Education bond short term portfolio	**195**	**2**	**200**	**(3)**	**–**
Education savings plan	**68,982**	**4,179**	**69,816**	**3,345**	**–**
Flexigrowth	**14,836**	**–**	**14,668**	**168**	**–**
Growth investment	**23,420**	**934**	**24,200**	**154**	**–**
High growth bond	**3,323**	**206**	**3,419**	**110**	**–**
Income	**19,463**	**2**	**19,460**	**5**	**–**
Managed investment	**79,041**	**751**	**78,751**	**1,041**	**–**
NextGen investments	**140,923**	**819**	**140,107**	**1,635**	**–**
Select strategies	**134,002**	**5,005**	**139,319**	**(312)**	**–**
TaxSmart	**12,164**	**29**	**11,902**	**291**	**–**
Wealth builder	**6,233**	**197**	**6,444**	**(14)**	**–**
Total investment linked benefit fund – Investment contracts without discretionary participating features	**590,111**	**13,072**	**595,968**	**7,215**	**–**
30 June 2011					
Balanced growth bond	30,301	905	31,185	21	–
Capital base	46,637	6	45,500	1,143	–
Conservative growth bond	14,299	206	14,070	435	–
Education bond long term portfolio	6,000	339	6,303	36	–
Education bond medium term portfolio	1,458	46	1,474	30	–
Education bond short term portfolio	130	13	130	13	–
Education savings plan	64,046	5,354	66,906	2,494	–
Flexigrowth	20,161	101	18,237	2,025	–
Growth investment	26,376	881	27,008	249	–
High growth bond	3,961	310	4,227	44	–
Income	21,184	75	21,189	70	–
Managed investment	93,193	739	92,962	970	–
NextGen investments	93,773	160	91,033	2,900	–
Select strategies	151,052	10,001	160,266	787	–
TaxSmart	14,248	246	13,191	1,303	–
Wealth builder	6,845	58	6,896	7	–
Total investment linked benefit fund – Investment contracts without discretionary participating features	593,664	19,440	600,577	12,527	–

(d) Summarised information by investment type

30 June 2012	Revenue: Net Premium / Deposits $'000	Revenue: Investment $'000	Revenue: Other $'000	Expenses: Claims $'000	Expenses: Other $'000	Profit/(loss) for the year: Before Tax $'000	Profit/(loss) for the year: After Tax $'000
Non-investment linked benefit fund – Life insurance contracts	**239**	**8,098**	**–**	**1,984**	**5,632**	**721**	**–**
Investment linked benefit fund – Life investment contracts with discretionary participating features	**94,695**	**75,884**	**178**	**130,604**	**24,782**	**15,371**	**–**
Investment linked benefit fund – Investment contracts	**–**	**9,481**	**31**	**–**	**8,287**	**1,225**	**–**
Total	**94,934**	**93,463**	**209**	**132,588**	**38,701**	**17,317**	**–**
30 June 2011							
Non-investment linked benefit fund – Life insurance contracts	349	3,985	–	2,683	1,351	300	–
Investment linked benefit fund – Life investment contracts with discretionary participating features	90,143	67,973	1,993	145,653	(1,981)	16,437	–
Investment linked benefit fund – Investment contracts	–	38,000	(4,115)	–	25,959	7,926	–
Total	90,492	109,958	(2,122)	148,336	25,329	24,663	–

30 June 2012	Assets: Investments $'000	Assets: Other $'000	Liabilities: Life insurance $'000	Liabilities: Other $'000	Equity: Equity $'000
Non-investment linked benefit fund – Life insurance contracts	**60,537**	**152**	**59,556**	**1,133**	**–**
Investment linked benefit fund – Life investment contracts with discretionary participating features	**1,190,654**	**19,222**	**1,198,191**	**11,685**	**–**
Investment linked benefit fund – Investment contracts	**590,111**	**13,072**	**595,968**	**7,215**	**–**
Total	**1,841,302**	**32,446**	**1,853,715**	**20,033**	**–**
30 June 2011					
Non-investment linked benefit fund – Life insurance contracts	56,419	525	55,617	1,327	–
Investment linked benefit fund – Life investment contracts with discretionary participating features	1,184,657	25,152	1,189,865	19,944	–
Investment linked benefit fund – Investment contracts	593,664	19,440	600,577	12,527	–
Total	1,834,740	45,117	1,846,059	33,798	–

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.

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For the year ended 30 June 2012

45 Reconciliation of profit attributable to members of Australian Unity Limited

	2012		
	Attributable to members of Australian Unity Limited	Attributable to benefit fund policyholders	Consolidated Profit or Loss
	$'000	$'000	$'000
Revenue	845,669	-	845,669
Direct life insurance premium revenue	-	629	629
Outwards reinsurance expense	-	(390)	(390)
Deposits received – investment contracts with DPF*	-	94,695	94,695
Investment income	-	93,463	93,463
Other	-	209	209
Total revenue and other income	845,669	188,606	1,034,275
Life insurance claims expense	-	1,984	1,984
Benefits and withdrawals paid – investment contracts with DPF*	-	130,604	130,604
Distribution to policyholders	-	29,124	29,124
Expenses excluding finance costs	791,695	9,577	801,272
Total expenses, excluding finance costs	791,695	171,289	962,984
Finance costs	(33,129)	-	(33,129)
Share of net profits of associates	1,327	-	1,327
Profit before income tax	22,172	17,317	39,489
Income tax benefit/(expense)	160	(17,317)	(17,157)
Profit after income tax	22,332	-	22,332
Non-controlling interest	(101)	-	(101)
Profit after income tax and non-controlling interest	22,231	-	22,231

*DPF = Discretionary Participating Feature

	2011		
	Attributable to members of Australian Unity Limited	Attributable to benefit fund policyholders	Consolidated Profit or Loss
	$'000	$'000	$'000
Revenue	740,538	-	740,538
Direct life insurance premium revenue	-	708	708
Outwards reinsurance expense	-	(359)	(359)
Deposits received – investment contracts with DPF*	-	90,143	90,143
Investment income	-	109,958	109,958
Other	-	(2,122)	(2,122)
Total revenue and other income	740,538	198,328	938,866
Life insurance claims expense	-	2,683	2,683
Benefits and withdrawals paid – investment contracts with DPF*	-	145,653	145,653
Distribution to policyholders	-	20,550	20,550
Expenses excluding finance costs	698,738	4,779	703,517
Total expenses, excluding finance costs	698,738	173,665	872,403
Finance costs	(16,110)	-	(16,110)
Share of net profits of associates	2,075	-	2,075
Profit before income tax	27,765	24,663	52,428
Income tax benefit/(expense)	(2,141)	(24,663)	(26,804)
Profit after income tax	25,624	-	25,624
Non-controlling interest	-	-	-
Profit after income tax and non-controlling interest	25,624	-	25,624

*DPF = Discretionary Participating Feature

46 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. Refer to note 5 for business combination information related to this subsidiary.

(a) Financial performance summary

	2012 $'000	2011 $'000
Interest income	**17,124**	5,833
Interest expense	**(11,566)**	(4,629)
Net interest income	**5,558**	1,204
Non-interest income	**1,131**	103
Total income	**6,689**	1,307
Impairment gains/(losses) on loans and advances	**4**	(18)
Other operating expenses	**(4,934)**	(1,159)
Total expenses	**(4,930)**	(1,177)
Profit before income tax	**1,759**	130
Income tax expense	**(533)**	(19)
Profit after income tax attributable to the owners of Big Sky Building Society Limited	**1,226**	111
(b) Financial position summary		
Cash and cash equivalents	**14,177**	12,511
Financial assets at fair value through profit or loss	**36,674**	12,831
Held-to-maturity investments	**94,487**	-
Loans and advances	**505,436**	62,573
Other assets	**4,665**	144
Total assets	**655,439**	88,059
Interest bearing liabilities	**599,245**	82,035
Other liabilities	**8,511**	1,368
Total liabilities	**607,756**	83,403
Net assets	**47,683**	4,656
(c) Capital adequacy		
Reserves and retained earnings	**46,858**	4,577
Add/(less) regulatory prescribed adjustments	**(1,907)**	2,062
Regulatory capital base	**44,951**	6,639
Risk weighted exposures	**302,340**	37,023
Capital adequacy ratio (%) – company only (Level 1)	**14.87**	17.93
Capital adequacy ratio (%) –consolidated entity (Level 2), applicable to 2012 only	**13.94**	–
Prudential requirement (%)	**12.00**	12.00

47 Parent entity financial information

(a) Summary financial information

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

	2012 $'000	2011 $'000
Balance sheet		
Current assets	**23,060**	38,210
Non-current assets	**602,826**	545,213
Total assets	**625,886**	583,423
Current liabilities	**85,552**	109,981
Non-current liabilities	**147,845**	127,778
Total liabilities	**233,397**	237,759
Members' balances	**256,796**	215,220
Reserves	**(2,123)**	-
Retained earnings	**137,816**	130,444
Total equity	**392,489**	345,664
Profit/(loss) for the year	**7,372**	(4,973)
Total comprehensive income	**7,372**	(4,973)

(b) Guarantees entered into by the Parent entity

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

(c) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 30 June 2012 and 2011.

(d) Commitments entered into by the Parent entity

The Parent entity did not have any commitments as at 30 June 2012 and 2011.

Directors' declaration
30 June 2012

In the directors' opinion:

(a) the financial statements and notes set out on pages 59 to 126 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 2012 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 1; 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 the directors.

Glenn Barnes
Chairman

Rohan Mead
Group Managing Director & CEO

South Melbourne, 13 September 2012

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

Report on the financial report

We have audited the accompanying financial report of Australian Unity Limited, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Australian Unity Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Unity Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
13 September 2012

Australian Unity

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